



SOCIOECONOMIC REPORT 2006



NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY



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About the Cover

Fiscal and economic reforms since the start of the Arroyo administration helped improve investor confidence and push the economy to a growth rate of 5.4 percent in 2006.

By putting its fiscal house in order, government is also able to spend more on key sectors of the economy to create more opportunities for Filipinos. These include increased investments in roads, bridges, ICT and agriculture, as reflected in the photos.

Contents

<i>Acknowledgment</i>		<i>viii</i>
<i>Foreword</i>		<i>xii</i>
<i>Acronyms</i>		<i>xiii</i>
Introduction:	The Economy	1
	Sectoral Developments	2
	Fiscal Developments	3
	External Developments	4
	Price Developments	6
	Labor Developments	6
	Policy Directions and Economic Outlook	6
Chapter 1	Trade and Investment	8
	Entrepreneurship	8
	Investments	10
	Trade	12
	Information and Communications Technology (ICT)	17
Chapter 2	Agribusiness	22
Chapter 3	Environment and Natural Resources	34
Chapter 4	Housing Construction	44
	Providing Shelter Security	44
	Creating Jobs Through Housing Construction	48
Chapter 5	Tourism	50
	Market-Product Focus Approach	51
	Destination Focus	52
	Removing Barriers in Investment and Free Flow of Tourists	53
Chapter 6	Infrastructure	55
	Transportation	55
	Digital Infrastructure	61
Chapter 7	Fiscal Strength	65
Chapter 8	Financial Sector	70
Chapter 9	Labor	76
	Support for Employment Generation	78
	Employment Enhancement	78
	Enforcement of Labor Standards	80
	Employment Facilitation	80

Chapter 10	Energy Independence	82
	Increasing Oil and Gas Exploration	82
	Strengthening of the Philippine National Oil Company (PNOC)	82
	Pursuing the Development of Indigenous and Renewable Energy	83
	Expanding the Use of Natural Gas	84
	Developing Fuel Blends	84
	Forging Strategic Alliances	85
	Strengthening Energy Efficiency and Conservation Program	85
	Status of Legislative Bills	85
Chapter 11	Power Sector Reforms	88
	Address NPC Losses	88
	Strive to Reduce Electricity Rates	89
	Encourage Private Sector Participation	91
	Ensure Sufficient and Reliable Power Supply and System Efficiency Improvement	92
	Pursue Total Barangay Electrification	92
Chapter 12	Responding to the Basic Needs of the Poor	94
	Asset Reform	97
	Accessible and Affordable Essential Services: Health	98
	Protection of the Vulnerable	101
	Empowerment	104
Chapter 13	Automated Elections	109
	Modernize the Electoral System	109
Chapter 14	National Harmony: The Peace Process	111
	On Peacemaking and Peacekeeping	111
	On Peacebuilding and Conflict Prevention	113
Chapter 15	Peace and Order	115
	The Law Enforcement Pillar	115
	The Community Pillar	120
Chapter 16	Rule of Law	123
	The Courts Pillar	124
	The Prosecution Pillar	127
	The Corrections and Rehabilitation Pillar	128
Chapter 17	Education and Skills Development	131
	Early Childhood and Basic Education	131
	Technical Vocational Education and Training (TVET)	134
	Higher Education	135

Chapter 18	Science and Technology	140
	Knowledge Creation and Transfer	140
	Technology-Based Entrepreneurship	141
Chapter 19	Culture	144
Chapter 20	Anti-Corruption	148
	Implement Punitive Anti-Corruption Measures	148
	Implement Preventive Anti-Corruption Measures	150
	Promote Zero Tolerance for Corruption	152
Chapter 21	Bureaucratic Reforms	154
	Pursuing the Program on Rationalizing and Improving Public Service Delivery	154
Chapter 22	Defense Against Threats to National Security	161
	The Philippine Defense Reform (PDR)	161
	AFP Capability Upgrade	163
	Support to the Peace Process	166
	Anti-Terrorism Capability Enhancement	167
Chapter 23	Responsive Foreign Policy	170
	Promote and Attain Economic Security	170
	Preserve and Enhance National Security	171
	Protect Rights and Promote the Welfare of Filipinos Overseas	173
Chapter 24	Constitutional Reforms	177

Tables

A	2006-2007 GDP Growth for Selected Asian Countries (In Percent)	3
B	Aggregate Economic Performance	4
C	Growth Rate of Aggregate Economic Indicators (In Percent; At Constant 1985 Prices)	5
1.1	Lending Performance of Participating GFIs and GOCCs Under the Sulong Program (In Billion Pesos)	9
1.2	Total Investments: 2005 and 2006 (In Million Pesos)	11
1.3	Total Approved Investments by Industry: 2005-2006 (In Million Pesos)	11
1.4	Total Merchandise Exports (In Million US Dollars; Share of Total and Growth in Percent)	13
1.5	Services Exports 2005 and 2006 (In Million US Dollars; Growth in Percent)	16
1.6	ICT Services Workforce Performance	18
2.1	Growth Rates in Agriculture, Fishery and Forestry, 2005-2006 (In Percent)	23
2.2	Target and Actual Agribusiness Lands Developed, 2005-2006 (In Hectares)	23
2.3	Land Distribution Accomplishment in 2006 (In Hectares)	24
2.4	Cumulative Agribusiness Lands Developed, 2005-2006 (In Hectares)	25
2.5	Job Creation, 2005-2006	26
2.6	Employment Generated By Sector, 2005-2006	26
2.7	Employed Persons By Major Industry Group, 2005-2006 (In Thousands)	27
2.8	Employed Persons Wanting More Hours of Work (In '000)	27
2.9	Production Growth Rate in Agriculture, 2005-2006 (In Percent)	28
2.10	Hybrid Rice Adoption Rate (In Percent)	28
2.11	Volume of Production of Wage Goods, 2005-2006 (In '000 MT)	28
2.12	Average Consumer Price Index and Inflation Rate	29
2.13	Retail Price Index for Food in Metro Manila	29
2.14	Average Retail Prices of Wage Goods, 2005-2006 (In Php)	29
3.1	Summary of Major Accomplishments in the Environment and Natural Resources Sector	40-42
4.1	Comparison of Housing Targets vs. Accomplishment	46
4.2	Revised Definition of Housing Loan Ceilings/Packages	47
5.1	Tourism Performance	50
5.2	Tourist Arrivals in ASEAN Countries	51
5.3	Philippines' Top Tourist Markets by Country	51
6.1	Updates on the Status of High Priority Routes in the Nautical Highway System	56-58
6.2	Number of Telephone Subscribers Per Region	62
6.3	Teledensity Country Comparison	63
7.1	National Government Cash Operations (In Billion Pesos)	66
7.2	Consolidated Public Sector Position (In Billion Pesos)	68
9.1	Industry Tripartite Councils (ITCs)	79
9.3	Tripartite Industrial Peace Councils (TIPCs)	79
12.1	Targets vs. Accomplishments	105
15.1	Consensus Conducted for PNP and BJNP Personnel	116
15.2	Specialized Training Courses Conducted, 2006	116
15.3	Law Enforcement and Police Services Courses Conducted, 2006	117
15.4	Crime Rate, 2005-2006	118
15.5	Kidnap-for-Ransom, (KFR), 2005-2006	118
15.6	Illegal Drugs, 2005-2006	118

15.7	Bank Robberies, 2005-2006	119
15.8	Street Crimes, 2005-2006	119
15.9	Carnapping, 2005-2006	120
	Top Most Wanted Persons	
16.1	Summary Report of Cases from January to November 2006	125
16.2	Inmates Provided with Basic Needs, 2006	128
16.3	Inmates-Beneficiaries, 2006	129
18.1	Small Enterprise Technology Upgrading Program Accomplishment (Actual versus Target)	141
21.1	Status of Submission and Evaluation of Rationalization Plans	154

Boxes

2.1	Rice Self-Sufficiency in the Philippines: Benefits, Costs and Moving Forward	33
3.1	Sustainable Upland Development	43

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- Bases Conversion Development Authority
- Board of Investments
- Bureau of Agricultural Statistics
- Bureau of Customs
- Bureau of Internal Revenue
- Bureau of Small and Medium Enterprise Development
- Bureau of the Treasury
- Bureau of Working Conditions
- Cagayan Economic Zone Authority
- Career Executive Service Board
- Cebu Ports Authority
- Civil Aeronautics Board
- Civil Service Commission
- Commission on Audit
- Commission on Elections
- Commission on Higher Education
- Commission on Information and Communications Technology
- Commission on Population
- Cooperative Development Authority
- Council for the Welfare of Children
- Couples for Christ-Gawad Kalinga
- Department of Agrarian Reform
- Department of Agriculture
- 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 Justice
Department of Labor and Employment
Department of National Defense
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Department of Public Works and Highways
Department of Science and Technology
Department of Social Welfare and Development
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Department of Trade and Industry
Department of Transportation and Communications
Development Academy of the Philippines
Development Bank of the Philippines
Employers Confederation of the Philippines
Food Nutrition and Research Institute
Government Service Insurance System
Home Development Mutual Fund
Home Guaranty Corporation
Housing and Land Use Regulatory Board
Housing and Urban Development Coordinating Council
Information Technology and e-Commerce Council
Insurance Commission
Laguna Lake Development Authority
Land Bank of the Philippines
Land Registration Authority
Land Transportation Office
Land Transportation, Franchising and Regulatory Board
Light Rail Transit Authority
Local Water Utilities Administration
Mactan-Cebu International Airport Authority
Manila International Airport Authority
Maritime Industry Authority
Metro Manila Development Authority
Metropolitan Waterworks and Sewerage System
Mindanao Economic Development Council
National Anti-Poverty Commission
National Commission for Culture and the Arts
National Commission on Indigenous Peoples
National Commission on the Role of Filipino Women
National Computer Center
National Conciliation and Mediation Board
National Council on the Welfare of Disabled Persons

National Development Company
National Disaster Coordinating Council
National Electrification Administration
National Food Authority
National Home Mortgage Finance Corporation
National Housing Authority
National Labor Relations Commission
National Nutrition Council
National Power Corporation
National Statistical Coordination Board
National Statistics Office
National Telecommunications Commissions
National Transmission Corporation
National Wages and Productivity Commission
National Water Resources Board
National Youth Commission
North Luzon Railway Corporation
Occupational Safety and Health Center
Office of the Ombudsman
Office of the Presidential Adviser on the Peace Process
Overseas Workers Welfare Administration
PAWS Animal Rehabilitation Center
People's Credit and Finance Corporation
Philippine Health Insurance Corporation
Philippine Center on Transnational Crime
Philippine Council For Agriculture, Forestry and Natural Resources
Philippine Deposit Insurance Corporation
Philippine Economic Zone Authority
Philippine Information Agency
Philippine International Trading Corporation
Philippine National Oil Company
Philippine Overseas Employment Administration
Philippine Ports Authority
Philippine Sports Commission
Philippine Stock Exchange
Philippine Tourism Authority
PNOC-Exploration Corporation
Population Commission
Power Sector Assets and Liabilities Management
Presidential Agrarian Reform Council
Presidential Anti-Graft Commission
Professional Regulation Commission
Securities and Exchange Commission
Social Security System
Social Weather Station
Subic Bay Metropolitan Authority

Supreme Court of the Philippines
Tariff Commission
Technical Education and Skills Development Authority
Technology and Livelihood Resource Center
The Quedan and Rural Credit Guarantee Corporation
Toll Regulatory Board

Foreword

The Socioeconomic Report 2006 summarizes the government's achievements during the year to meet the goals and targets set in the Medium-Term Philippine Development Plan. It also spells out the outlook and policy directions for 2007.

NEDA gathered reports from various government agencies, processed the data and offered its analysis. This report highlights not just the government's accomplishments, the performance gaps and the areas still needing improvement as well.

A quick look at the economy in 2006 reveals that we are beginning to reap the gains of the government's fiscal and economic reforms. The economy grew 5.4 percent, faster than the previous year's 5.0 percent, driven mainly by higher agricultural output, higher exports, increased consumer spending and strong remittances from overseas Filipino workers. The surge in the services industry led by Business Process Outsourcing companies, coupled with higher foreign direct investments, likewise fueled the economy's growth. All these resulted in better investor confidence, as reflected by credit rating upgrades from Standard and Poor's, Fitch and the Japan Credit Rating Agency.

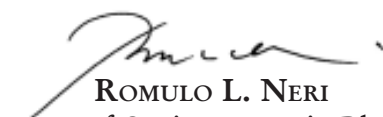
To help ensure that the benefits of growth are shared among all Filipinos, President Gloria Macapagal-Arroyo announced the creation of "super regions." These "super regions" are envisioned to spur locally-initiated development by focusing on their inherent strengths.

Despite these accomplishments, we continue to face numerous challenges; these include the persistently high unemployment and underemployment, regulatory capture in government and high oil prices in the international market, among others.

In response, the government in 2007 will spend more on new and improved infrastructure to pave the way to further growth, not just in urban centers, but in the countryside as well. It will likewise increase outlays on social services, such as education and health, to make sure that our gains are felt by the neediest citizens. The administration shall also push for greater liberalization in key sectors of the economy to promote greater competition and improved quality of services.

These efforts are not ends in themselves. All these are being done to enable more Filipinos to finally break out of the grinding poverty that has hounded them for generations.

We thank all agencies for providing inputs to this report. We look forward to greater cooperation in the coming years as we work together to build prosperity and upgrade the living standards of all Filipinos.



ROMULO L. NERI
Secretary of Socioeconomic Planning

Acronyms

A&D	alienable and disposable
A/Ps	accounts payable
ACMs	automated counting machines
ACT	Action for Conflict Transformation
ADB	Asian Development Bank
ADR	alternative dispute resolution
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
AFPDCC	AFP Doctrine Development Center
AFPMO	AFP Modernization Planning Office
AFP-OTCE	AFP-Office of the Chief Engineer
AFPWSSU	AFP Wide Service Support Unit
AFTA	ASEAN Free Trade Area
AGIA	Association of Government Internal Auditors
AICO	ASEAN Industrial Cooperation
AIDSOTF	Anti-Illegal Drugs Special Operations Task Force
AISP	ASEAN Integration System of Preferences
ALS	alternative learning systems
ANI	Action for Nutrition Improvement
APC	Asset Participation Certificate
APCSS	Asia Pacific Center for Security Studies
APJR	Action Program for Judicial Reform
APO	alleged political offenders
APs	accounts payable
ARC	agrarian reform community
ARF	Agrarian Reform Fund
ARF	ASEAN Regional Forum
ARH	adolescent reproductive health
ARMM	Autonomous Region in Muslim Mindanao
ASA	air service agreements
ADSDPP	Ancestral Domains Sustainable Development and Protection Plans
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
ASG	Abu Sayyaf Group
ASKI	Alay sa Kaunlaran sa Gitnang Luzon, Inc
ASTI	Advanced Science and Technology Institute
ASTI	Advanced Science Technology Institute
ASYCUDA	Automated System for Customs Data
ATN	assistance-to-nationals
ATO	Air Transportation Office
ATTF	Anti-Terrorism Task Force
AUSAID	Australian Government Overseas Aid Program
BAC	Bids and Awards Committee

BALS	Bureau of Alternative Learning System
BANG	Bawal na Gamot
BAP	Bucor's agriculture projects
BAS	Bureau of Agricultural Statistics
BCWF	Brighter Children, Wealthier Farmers
BDA	Bangsamoro Development Agency
BEAM	Basic Education Assistance to Mindanao
BEDC	Basic Entrepreneurship Development
BESE	big enterprise-small enterprise
BFAR	Bureau of Fisheries and Aquatic Resources
BFP	Bureau of Fire Protection
BI	Bureau of Immigration
BIN	Barangay Information Networks
BIR	Bureau of Internal Revenue
BJMP	Bureau of Jail Management and Penology
BMBE	Barangay Micro Business Enterprise
BME	Bureau of Madaris Education
BnB	Botika ng Barangay
BNFE	Bureau of Non-Formal Education
BNR	business name registration
BOC	Bureau of Customs
BOD	Biological Oxygen Demand
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
BSMED	Bureau of SME Development
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
BuCor	Bureau of Corrections
BWSA	Barangay Waterworks and Sanitation Association
CAAP	Civil Aviation Sector Authority of the Philippines
CAB	Civil Aeronautics Board
CAC	Coalition Against Corruption
CACO	Competency Assessment Certification Office
CAD	called to active duty
CADT	Certificate of Ancestral Domain Title
CALT	Certificate of Ancestral Land Title
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon
CAMIS	Court Administration Management Information System
CAP	Community Action Plan
CARD	Center for Agricultural and Reform Development
CARE	Courtesy, Action, Results and Example
CARHRIL	Comprehensive Agreement on Respect for Human Rights and International Humanitarian Law
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
CBRED	Capacity Building to Remove Barriers to Renewable Energy in the Philippines
CCAGG	Concerned Citizens of Abra for Good Governance
CCO	chemical control order
CDA	Cooperative Development Authority
CDAP	Comprehensive Delineation Action Plan
CDM	Clean Development Mechanism
CeC	community e-center
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
CESPES	Career Executive Service Performance Evaluation System
CEZ	Community Employment Zones
CFC	Couples for Christ
CHARMP	Cordillera Highland Agricultural Resource Management Project
CHED	Commission on Higher Education
CHEDIS	CHED-Information Systems
CIA	CARP-implementing agencies
CIAC	children involved in armed conflict
CIAP	Construction Industry Authority of the Philippines
CIB	Credit Information Bureau
CICT	Commission on Information and Communications Technology
CIDG	Criminal Investigation and Detection Group
CIDSS	Comprehensive and Integrated Delivery of Social Services
CIU	Crisis Intervention Unit
CIW	Correctional Institution for Women
ckt-km	circuit-kilometer
CLUP	Comprehensive Land Use Plan
CME	coco-methyl ester
CMMI	Capability Maturity Model Integration
CMP	Community Mortgage Program
CMT	Change Management Team
CMTS	cellular mobile telephone service
CNC	Certificate of Non-Coverage
CNG	compressed natural gas
CNS/ATM	Communications, Navigation, Surveillance/Air Traffic Management
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
COPS	Community Oriented Policy System
CP	Certificate of Precondition
CPES	contractor's performance evaluation system

CPSD	Consolidated Public Sector Deficit
CPI	consumer price index
CPIP	Credit Policy Improvement Program
CPLA	Cordillera People's Liberation Army
CPLIMS	Core Local Poverty Indicators Monitoring System
CPR	contraceptive prevalence rate
CPSD	Consolidated Public Sector Deficit
CRMP	Coastal Resource Management Project
CSC	Civil Service Commission
CSE	crime solution efficiency
CSR	Contraceptive Reliance Strategy
CSRT	Comprehensive Security Response to Terrorism
CTCBP	Counter-Terrorism Capacity Building
CTM	Communist Terrorist Movement
CVLs	computerized voters lists
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
DAC	Defense Acquisition Committee
DA-HFIDC	Department of Agriculture-Halal Food Industry Development Committee
DAI	digital accessibility index
DAP	Development Academy of the Philippines
DAR	Department of Agrarian Reform
DARAB	Department of Land Reform Adjudication Board
DBCC	Development Budget Coordinating Committee
DBGO	Deutsche Bank Real Estate Global Opportunities
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
DMIA	Diosdado Macapagal International Airport
DNA	Designated National Authority
DND	Department of National Defense
DO	Dissolved Oxygen
DOC	Documents of Compliance
DOC-SCS	Declaration on the Conduct of Parties in the South China Sea
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 Course
DPG	Defense Planning Guidance
DPUCSP	Development of Poor Urban Communities Sector Project
DPWH	Department of Public Works and Highways
DSAP	Drugstores Association of the Philippines
DSL	Digital Subscriber Lines
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
DTLs	Drug Testing Laboratories
DTOMIS	Drug Test Operations Management Information System
DU	Distribution Utilities
E-BESE	ECOP's-BESE
ECOP	Employers Confederation of the Philippines
e-Biz	e-Business
eBPLS	Electronic Business Permit Licensing System
EC	electric cooperative
ECARP	Every Child A Reader Program
ECC	Environmental Compliance Certificate
ECCD	Early Childhood Care and Development
ECP	Environmentally-Critical Project
EDC	Energy Development Corporation
EER	Efficiency and Effectiveness Review
EEZ	Exclusive Economic Zone
EHP	Early Harvest Program
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
ETEEAP	Expanded Tertiary Education Equivalency and Accreditation Program
EVAT	Expanded Value Added tax
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

FISH	Fisheries Involved for Sustainable Harvest
FITS	Farmers Information Technology Service
FITS	Farmers Information and Technology Services
FLW	Field Laboratory Works
FMD	Foot and Mouth Disease
FMR	Farm-to-Market Road
FNRI	Food and Nutrition Research Institute
FOSARV	Follow-on Search and Rescue Vessel Acquisition Project
FP	Family Planning
FPAN	Federation of PNP Accredited Non-government Organizations
FPIC	Free, Prior and Informed Consent
FPW	Framework Plan for Women
FRMP	Fisheries Resource Management Project
FSF	Financial Sector Forum
FSI	Foreign Service Institute
FS	feasibility study
FSP	Forestry Sector Project
FTI	Food Terminal Incorporated
FY	Fiscal Year
GAA	General Appropriations Act
GAD	Gender and Development
GAMABA	Gawad sa Manlilikha ng Bayan
GDP	Gross Domestic Product
Genco	Generation Companies
G-EPS	Government Electronic Procurement System
GF	International Gateway Facilities
GFI	Government Financial institution
GHGs	Green House Gases
GIP	Government Internship Program
GIR	Gross International Reserves
GIS	Geographic Information System
GITR	Global Information Technology Report
GK	Gawad Kalinga
GM	Grievances Machinery
GNP	Gross National Product
GOCC	Government Owned and Controlled Corporations
GPPB	Government Procurement Policy Board
GR	General Resolution
GREAT	Gender-Responsive Economic Actions for the Transformation of Women
GRP	Government of the Republic of the Philippines
GSIS	Government Service Insurance System
GVA	Gross Value Added
HB	House Bill
HDMF	Home Development Mutual Fund
HEI	Higher Education Institutions
HGC	Home Guaranty Corporation
HIV	Human Immunodeficiency Virus
HLURB	Housing and Land Use Regulation Board
HRISSP	Human Resource Information System Strategic Plan

HRMIS	Human Resource Management Information System
HSRT	High School Readiness Test
HUDCC	Housing and Urban Development Coordinating Council
HWG	Hazardous Waste Generators
IAC	Inter-Agency Committee
IACAT	Inter-Agency Council against Trafficking in Person
IAS	Internal Audit Service
IAS	International Accounting Standards
IAUs	Internal Audit Units
IBP	Integrated Bar of the Philippines
IC	Insurance Commission
ICAC	Independent Commission against Corruption
ICAM	Institute for Cultural and Arts Management
ICAO	International Civil Aviation Organization
ICC	Investment Coordination Council
ICDL	International Computer Driving License
ICPD	International Conference on Population Development
ICT	information and communications technology
ICTP	In-Country Training Program
IDAP	Integrity Development Action Plan
IDP	Internally-Displaced Person
IDR	Integrity Development Review
IEE	Initial Environmental Examination
IFC	Intercessors for Christ
IFC	International Finance Corporation
IFES	International Foundation for Electoral Systems
IGF	International Gateway Facilities
IIPA	International Intellectual Property Alliance
ILO	International Labor Organization
IOM	International Organization for Migration
IP	Indigenous Peoples
IPDL	Intellectual Property Digital Library
IPP	Independent Power Producers
IPP	Investments Priorities Plan
IPR	Intellectual Property Rights
IQuAME	Institutional Quality Assurance on Monitoring and Evaluation
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
IS	Irrigation System
ISM	International Safety Management
ISO	Internal Security Operations
ISP	Information System Plan
ISP	Internet Service Provider
ISSC	International Ships Security Certificates
ISSP	Information System Strategic Plan
ISTIV	Industrious, Systematic, Time-conscious, Innovative, and Strong Value for Work
IT	Information Technology
ITCs	Industry Tripartite Councils
ITECC	Information Technology and E-commerce Council

ITECC	Information Technology and Electronic Commerce Council
ITFP	Information Technology Foundation of the Philippines
ITU	International Telecommunications Union
IWG	Industry Working Groups
IWRM	Integrated Water Resource Management
IXC	Inter-Exchange Carriers
JAGS-CT	Jose Abad Santos-Glan-Sarangani Cooperation Triangle
JARD	Judicial Administrative Reforms and Decentralization
JASIG	Joint Agreement on Safety and Immunity Guarantee
JBIC	Japan Bank for International Cooperation
JDA	Joint Defense Assessment
JDA-PAIG	JDA Planning and Implementation Group
JI	Jemaah Islamiyah
JICA	Japan International Cooperation Agency
JOMSRE-SCS	Joint Maritime Scientific Research Expedition in the South China Sea
J SMP	Job-Skill Matching Program
JURIS	Judicial Reform Initiative Support
KALAH I	Kapit-Bisig Laban sa Kahirapan
KALAH I-CIDSS	Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services
KARZones	Kapit-Bisig Laban sa Kahirapan I Agrarian Reform Zones
KasH	Kasanayan at Hanapbuhay Program
KFR	Kidnap-For-Ransom
KIG	Kalayaan Islands Group
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
LELEDFI	Lino Ed. Lim Educational Development Foundation, Inc
LGU	Local Government Unit
LIAC	Local Inter-Agency Committees
LMC	Labor Management Councils
LOI	Letter of Instruction
LPRAP	Local Poverty Reduction Action Plan
LRA	Land Registration Authority
LTI	Land Tenure Improvement
LTO	Land Transportation Office
LUC	Local Universities and Colleges
LWUA	Local Water Utilities Authority
LYDC	Local Youth Development Councils
LYDP	Local Youth Development Plan
MAP	Minerals Action Plan
MAP	Microfinance Availment Plans
MAP	modified atmosphere packaging
MAPIO	Mindanao Area Police Intelligence Operations
MAR	multi-access radio
MAR	maximum allowable revenue
MARINA	Maritime Industry Authority

MBC	Makati Business Club
MBE	Molecular Beam Epitaxy
MBUSS	Mindanao Basic Urban Services Sector
MCLE	Mandatory Continuing Legal Education
MDG	Millennium Development Goals
MEDCO	Mindanao Economic Development Council
MFI	microfinance institutions
MFO	major final outputs
MHP	Minihydro Project
MHRB	medium and high-rise building
MIAA	Manila International Airport Authority
MICE	meetings, incentives, conventions and exhibitions
MILF	Moro Islamic Liberation Front
MMBFOE	Million Barrels of Fuel Oil Equivalent
MMDA	Metro Manila Development Authority
MMS	multimedia messaging service
MMSP	Metro Manila Skyway Project
MMUSP	Metro Manila Urban Services for the Poor Project
MNFGCs	Monitored Non-Financial Government Corporations
MOA	Memorandum of Agreement
MRDP	Mindanao Rural Development Program
MSC	Market Service Center
MSME	micro, small and medium enterprises
MTEF	Medium-Term Expenditure Framework
MTPDP	Medium-Term Philippine Development Plan
MTPIP	Medium-Term Public Investment Program
MVA	megavolt ampere
MVEA	Mine Viability and Environmental Assessment
MW	megawatt
MWCI	Manila Water Company Incorporated
MWSI	Maynilad Water Services Incorporated
MWSS	Metropolitan Waterworks and Sewerage System
MYCaPS	Multi-Year and Capability Planning System
NAC	National Amnesty Commission
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
NBP	New Bilibid Prison
NCAJ	National Council on the Administration of Justice
NCBTS	National Competency-Based Teaching Standards
NCC	National Computer Center
NCC	National Credit Council
NCCA	National Commission for Culture and the Arts
NCIP	National Commission on Indigenous Peoples
NCMB	National Conciliation and Mediation Board

NCR	National Capital Region
NCRFW	National Commission on the Role of Filipino Women
NDA	National Dairy Authority
NDC	National Development Company
NDCC	National Disaster Coordinating Council
NDF	National Democratic Front
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 agency
NGAS	New Government Accounting System
NGC	National Government Center
NGO	Non-government Organization
NGVPPT	Natural Gas Vehicle Program for Public Transport
NHA	National Housing Authority
NHIP	National Health Insurance Program
NHMF	National Home Mortgage Finance Corporation
NIA	National Irrigation Administration
NICS	National ICT Competency Standard
NIPAS	National Integrated Protected Areas System
NISP	National Internal Security Plan
NLEX	North Luzon Expressway
NLRC	National Labor Relations Commission
NLRC	North Luzon Railways Corporation
NLSF	National Livelihood Support Fund
NMEC	NDC-Maritime Equity Corporations
NNC	National Nutrition Council
NPA	non-performing asset
NPC	National Power Corporation
NPCC	National Price Coordinating Council
NPL	non-performing loan
NPTC	National Plan to Address Terrorism and its Consequences
NPUDC	National Peace Unification Development
NRMDC	Natural Resources Mineral Development Corporation
NSO	National Statistics Office
NSTP	National Science and Technology Plan
NTC	National Telecommunications Commission
NTC	National Cultural Treasures
NTESDP	National Technical and Skills Development Plan
NTP	Notices to Proceed
NVS	natural vegetative strips
NWAR	National Warrant of Arrest Registry System
NWIN	National Water Information Network
NWPC	National Wages and Productivity Commission
NWRB	National Water Resources Board

NWTF	Negros Women for Tomorrow Foundation
NYC	National Youth Commission
OAV	Overseas Absentee Voters
OBR	Organized Bus Route
OBU	Offshore Banking Units
OCD	Office of the Civil Defense
ODA	Official Development Assistance
ODS	ozone depleting substances
OFW	overseas Filipino worker
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
OPIF	Organizational Performance Indicators Framework
OSCA	Office for Senior Citizens' Affairs
OSND	Office of the Secretary of National Defense
OSSC	One-Stop Shop Committee
OSY	out-of-school youth
OTOP	One-Town-One-Product
OUSIC	Office of the Undersecretary for Internal Control
OWWA	Overseas Workers Welfare Administration
OWY	out-of-work youths
P/MWSU	Provincial/Municipal Water and Sanitation Unit
PA	protected areas
PACAP	The Philippines-Australia Community Assistance Program
PACER	Police Anti-Crime Emergency Response
PAGCOR	Philippine Amusement and Gaming Corporation
PAIRTF	Presidential Anti-Illegal Recruitment Task Force
PAMB	Protected Areas Management Board
PAO	Public Attorney's Office
PAP's	projects and programs
PARI	Philippine Association of Refrigerant Importers
PATROL	People's Action Team Responding Online
PBD	Philippine bidding documents
PBDC	Philippine Bomb Data Center
PCARRD	Philippine Council for Agriculture, Forestry and Natural Resources Research and Development
PCASTRD	Philippine Council for Advanced Science and Technology Research and Development
PCBs	polychlorinated biphenyls
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 office
PCO	Police Commissioned Officers
PCR	polymerase chain reaction
PDAF	Priority Development Areas Fund
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
PERA	Personal Equity Retirement Account
PESFA	Private Education Students Fund Assistance
PESO	Public Employment Service Office
PEZA	Philippine Economic Zone Authority
PFZ	poverty free zones
PHIC	Philippine Health Insurance Corporation
PhilHealth	Philippine Health Insurance Corporation
PHILJA	Philippine Judicial Academy
PHILSSA	Partnership of Philippine Support Service Agencies
PHIVOLCS	Philippine Institute of Volcanology and Seismology
PIC	Philippine Infrastructure Corporation
PIDS	Philippine Institute for Development Studies
PITC	Philippine International Trading Corporation
PMC	Project Monitoring Committees
PMO	Program Management Office
P/MWSU	Provincial/Municipal Water and Sanitation Unity
PNCO	Police Non-Commissioned Officers
PNOC	Philippine National Oil Company
PNP	Philippine National Police
PNP CLG	PNP Crime Laboratory Group
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
PPMP	Philippine Population Management Program
PPO	Parole and Probation Office
PPRA	Program Performance Review and Analysis
PPSC	Philippine Public Safety College
PPSJ	Philippine Province of the Society of Jesus
PPSM	Pagkain pasa sa Masa
PPTA	Preparatory Project Technical Assistance
PRRC	Pasig River Rehabilitation Commission
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Philippine Services Coalition
PSG	policies, standards and guidelines
PSW	President's Priority Program on Water

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
RATS	run after the smugglers
RCO	Revenue Collection Officer
RDC	Rehabilitation and Diagnostic Center
RELIEF	Reconciliation and Listing of Establishments
RF	radio frequency
RH	reproductive health
RICA	Revised Investment Company Act
RIPS	Revenue Integrity Protection Service
RKCG	Regional KALAH I Convergence Group
RNA	rapid needs assessment
RORO	roll-on/roll-off
ROW	right-of-way
RPMM	Rebolusyunaryong Partidong Manggagawa ng Mindanao
RRP	reverse repurchase
RRTS	Roll-On/Roll-Off Terminal System
RSCWC	Regional Sub-Committee on the Welfare of Children
RUS	Regional University System
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
SBIA	Subic Bay International Airport
SBIA	Subic Bay International Airport
SBM	School-Based Management
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
SER	Socioeconomic Report
SETUP	Small Enterprise Technology Upgrading Program
SFMA	Sustainable Forest Management Act
SHFC	Social Housing Finance Corporation
SHS	solar home systems
SLEX	South Luzon Expressway

SLIP	Skills/Livelihood and Investment Program
SLT	Schools of Living Traditions
SME	small and medium enterprise
SMS	short message service
SNPLP	Study-Now-Pay-Later Program
SOCO	Scene of the Crime Operation
SONA	State of the Nation Address
SPDA	Southern Philippine Development Authority
SPES	Special Program for Employment of Students
SPM	Strategic Planning Matrix
SPPR	State of the Philippine Population Report
SPUG	Small Power Utilities Group
SPVA	Special Purpose Vehicle Act
SRC	Seafarer's Registration Card
SRDP	self-reliant defense posture
SRRFPDP	Social Reform Related Feeder Ports Development Project
SSIS	Ship Safety Inspection System
SSL	Salary Standardization Law
SSS	Social Security System
STAR	Southern Tagalog Artillery road
STOA	Supplementary Toll reparation Agreement
STRACOMM	strategic communication
SUC	state universities and colleges
SULONG	SME Unified Lending Opportunities for National Growth
SUWCP	Street and Urban Working Children Program
SWAT-EOD	Special Weapons and Tactics-Emergency Operation Division
SWG	Special Working Group
SY	school year
T/L	transmission line
TA	technical assistance
TABA	Tamad, Abusado, Bastos, Ayaw Madisiplina
TB	Tuberculosis
TECHNICOM	Technology Incubation for Commercialization
TELOF	Telecommunications Office
TESDA	Technical Education and Skills Development Authority
TESDP	Technical Education and Skills Development Project
TEZ	Tourism Economic Zones
TEZA	Tourism Enterprise Zone Authority
TICAL	Thailand Income Contingent and Allowance Loan
TIPC	Tripartite Industrial Peace Council
TLC	third level champion
TLRC	Technology and Livelihood Resource Center
TOE	Table of Organization and Equipages
TOP	trial operation program
TOR	terms of reference
TOU	time-of-use
TPI	third party information
TransCo	Transmission Corporation
TSKI	Taytay sa Kauswagan, Inc

TSP	total suspended particulate
TVET	Technical and Vocational Education and Training
TWG	Technical Working Group
TWRG	Transmission Wheeling Rate Guideline
UCPB-CIIF	United Coconut Planters Bank-Coconut Industry Investment Fund
UDP	Upland Development Programme
ULWU	United Luisita Workers' Union
UN-ASPAA	United Nations and the American Society of Public Administration
UNCAC	United Nations Convention Against Corruption
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UP-MSI	University of the Philippines Marine Science Institute
UP-ISSI	University of the Philippines-Institute of Small Scale Industries
UP-NIP	University of the Philippines-National Institute of Physics
USAID	United States Agency for International Development
USGS	United States Geological Services
UTPRAS	Unified TVET Registration and Accreditation System
VAS	value-added service
VAWC	Violence Against Women and Children
VAWCC	VAW Coordinating Committee
VoIP	Voice over Internet Protocol
VPA	volunteer probation aides
VRIS	Voter Registration and Identification System
VRRs	Voters Registration Records
VSAT	Very Small Aperture Terminal
WAC	World Agroforestry Centre
WASCO	Water and Sanitation Coordinating Office
WB	World Bank
WEDC	women in especially difficult circumstances
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
YTC	Yongden Technologies Corporation

Introduction

The Economy

Still freshly settling into post-stabilization after having its resilience tested in 2005, the nation again faced critical crossroads in 2006. There were concerns about the government's commitment to keep its finances in order. There was the possibility of a worldwide recession as high international oil prices persisted. Apprehensions surfaced over whether the economy would fall back again into a boom-bust cycle. All in all, the economy proved to be resilient once more.

The government implemented reforms to increase revenues and prudently manage expenditures. This proved vital as the budget deficit was contained, leading to lower interest rates. Record levels of overseas remittances and increasing export earnings improved the country's credit outlook. These further attracted foreign portfolio and direct investments and boosted the peso's strength. Despite high oil prices, domestic inflation remained benign due to a rising peso. Likewise, effective monetary management kept excessive demand from building up in the system. With inflation in check, monetary authorities had more leeway to maintain interest rates.

Gross domestic product (GDP), at constant prices, expanded by 5.4 percent in 2006 while gross national product (GNP) grew by 6.2 percent as net factor income from abroad went up 15.4 percent due to the robust OFW remittances. Nonetheless, these were below the GDP and GNP Medium Term Plan targets of 6.3-7.3 percent and 6.5-7.5 percent, respectively. Growth was primarily driven by the agriculture, fishery, and forestry sector which exceeded the full year projection, as well

as by the services sector with significant expansions in all its subsectors. Agricultural output could have gone higher if not for the slowdown in the fourth quarter due to the super typhoons that ravaged the country. Based on NEDA's calculations¹, 4th quarter growth could have gone higher by 0.41 percentage point.

On the expenditure side, growth was driven domestically by strong personal and government consumption, and on the external side, the robust growth of exportables such as garments, semiconductors, electronic microcircuits, and finished electrical machinery due to demand from major trading partners of the country. Additionally, the easing of oil prices in the world market mitigated the pressure on inflation. These gains were further supported by the appreciation of the peso. Given the sound macroeconomic fundamentals, the Philippine economy was able to traverse 2006 with modest growth, though below the low-end Development Budget Coordination Committee (DBCC) projection by 0.1 percentage point.

¹ The simulation conducted by NEDA used the United Nations Commission for Latin America and the Caribbean (UNECLAC) methodology for disaster valuation.

SECTORAL DEVELOPMENTS

Within the government's conservative expectations, agriculture, fishery and forestry posted moderate growth (4.1%) despite the adverse impact of typhoons in the last quarter of the year. The expansion, however, falls short of the MTPDP target of 4.2-5.2 percent. Output gains were recorded by all subsectors except for poultry. Growth of the crops subsector was mainly driven by traditional crops - palay (5.0%), corn (15.8%) and high value commercial crops, particularly banana (8.0%) and sugarcane (7.8%). With the increases in the number of fatteners for hogs, livestock (2.6%) registered a tempered gain. In contrast, poultry contraction (-0.3%) was mainly caused by the avian flu scare, which hindered broiler production from commercial farms. Strong fishery output (5.9%) hinged on aquaculture and municipal fishing catch. Meanwhile, forestry production swelled (59.8%).

Industry production slowed down by 4.8 percent, falling below its MTPDP growth target of 7.2-8.2 percent, dragged by the lackluster performance of mining and quarrying (-6.0%). Gold and copper production, which accounted for about 30.6 percent of total gross value added was hampered by lower output from major mines including small-scale mines. Although small in share, chromium (27.5%), nickel (222.3%) and other metallic minerals (32.1%) showed noteworthy expansion. Despite weaker growth (4.4%) in the fourth quarter, the manufacturing sector grew at a relatively stable pace in 2006 (5.4%). Contributors to growth include basic metal industries (33.5%), metal industries (10.6%), leather and leather products (7.7%), food (6.7%), products of petroleum and coal (6.7%), beverages (4.3%), and other manufactures (16.9%). On the other hand, construction recovered (4.6%) on the back of increased public construction spending, which posted double digit growth (13.3%). With the passage of the supplemental budget in October 2006, public construction strengthened further to 15.4 percent in the

last quarter. Meanwhile, private construction declined by 2.9 percent despite the uptick in the property sector. Utilities registered a gain of 6.4 percent due to accelerated growth of electricity and gas (6.2%) and water (8.5%).

Services (6.3%) remained strong, accounting for almost half of the domestic output. Nevertheless, its performance fell below the MTPDP target of 6.5-7.5 percent. Although slower than last year, growth in the transportation, communication and storage sector remained strong (6.7%). The communication sector (9.1%) still contributed significantly as new products were introduced and firms intensified their marketing efforts in light of innovations and tougher industry competition. Meanwhile, despite the challenges stemming from the high oil prices at the start of the year, the transport and storage sector managed to grow faster (3.9%), on account of the recovery of the land transport sector.

Buoyed by the expansion in retail trade (6.2%), the trade sector remained stable (5.5%). The lower inflation and all-time high OFW remittances boosted the purchasing power of consumers. Meanwhile, the finance sector grew at a respectable rate of 9.5 percent in 2006 with the nonbank financial sector posting a hefty growth of 22.1 percent. Non-interest income-based activities, from trading as well as from trust businesses, buoyed the banking system. Moreover, loans to financial institutions, real estate and business services increased by 27.0 percent, supporting signs of a boom in these sectors. The thriving Unit Investment Trust Fund (UITF) business continued to grow during the year despite the sell-offs in May as the sector adopted sounder trading practices with a more developed capital market.

Moreover, the country's improving fiscal position is seen to lure more foreign portfolio investment and hence, demand for local financial services. Ownership of dwellings and real estate remained bullish and further strengthened (5.8%) as interest rates continue to drop. Bank lending to this sector also noticeably increased as demand for property

from the OFW and BPO sectors continued to surge. Furthermore, employment in the sector showed an 8.6 percent increase in 2006 compared to 6.5 percent employment growth in 2005. Private services likewise continued to gain from the BPO boom in the country and the rise of domestic tourism, with business (14.2%) and personal services (8.0%) expanding.

On the demand side, private consumption expenditure picked up by 5.5 percent growth in real terms, on the back of improved employment and boosted in part by OFW remittances. Higher spending on food and transportation were observed as consumer sentiment remained largely upbeat throughout the year with inflation slowing to 6.2 percent. Government consumption likewise improved to 5.7 percent with the passage of the supplemental budget in the fourth quarter.

Overall investment expenditure rose by 2.1 percent. The improved fiscal situation allowed the government to boost public construction spending, which compensated for the sluggish performance of private construction. Durable equipment spending, on the other hand, was still low although significant growth was registered in sugarmill machinery (878.0%), mining and construction machinery (8.4%), and transport equipment (28.7%), among others.

Meanwhile, the country's merchandise exports grew by 12.9 percent in real terms, due to surging intraregional trade with China and the rest of Asia including Japan. Exports to the EU, particularly to the Netherlands and

Germany, fared well while those to the US continued to grow despite its cooling economy. Exports of services also performed well, up by 7.7 percent. These services were driven by insurance and the continued influx of IT-enabled services such as contact centers, medical transcription, and software development, among others.

FISCAL DEVELOPMENTS

The government remained committed to the reforms pursued in the past two years, with a renewed focus on administrative measures that would support past legislation. To discourage revenue leakage, the government intensified its campaign by filing cases against tax evaders, smugglers, and corrupt bureaucrats within the Department of Finance and its attached agencies. In addition to the computerization program and awareness campaign by the Bureau of Internal Revenue (BIR), the Bureau of Customs (BoC) acquired x-ray equipment to enhance collection in ports, check corruption and for security reasons. Furthermore the BoC through the World Bank implemented a new automated customs management system designed to improve data collection and facilitate the cargo shipment process.

The following combined to narrow the budget deficit way past the target level: (a) the implementation of the provision in the RVAT law that raised the value-added tax from 10 percent to 12 percent starting February 2006; (b), the privatization proceeds from the

TABLE A. 2006-2007 GDP GROWTH FOR SELECTED ASIAN COUNTRIES

Country	2005	2006
Philippines	5.0	5.4
Indonesia	5.3	5.5
Malaysia	5.2	5.9
Thailand	4.5	5.0

Sources: National Statistical Coordination Board, National Economic and Social Development Board (Thailand), BPS-Statistic Indonesia, Department of Statistics (Malaysia)

TABLE B. AGGREGATE ECONOMIC PERFORMANCE
(In Percent)

Indicators	2005 Actual	MTPDP Target	2006 Actual
Gross National Product, growth rate (%)	5.6	6.5-7.5	6.2a/
Gross Domestic Product, growth rate (%)	5.06.3-7.3	5.4a/	
Investment/nominal GDP (%)	15.1	28.0	14.8
Inflation rate (%)	7.6	4.0-5.0	6.2
91-day T-bill rate (%)	6.358	7.5-8.5	5.337
Fiscal balance (% of GDP)	-2.7	-2.9	-1.1
Consolidated public sector fiscal position (% of GDP)	-1.9	-5.3	0.2b/
Exports of goods, growth rate(%)	3.8	10.0	14.6
Imports of goods, growth rate(%)	8.0	11.0	10.6
Current Account Balance (US\$ Mn)	1,984.0	1,029.0	5,022.0
(% of GDP) c/	2.0	1.0	4.3
Poverty Incidence (% of families)	-	22.93-23.95	24.4d/
Unemployment rate (%) - old definition	11.3	11.6	11.0
- new definition	7.8e/	-	7.9
Memo items:Dubai oil prices, average (US\$/bbl)	49.32	29.17	61.48
P\$ Exchange rate	55.09	55.0-57.0	51.31

a/ as of January 2007

b/ preliminary

c/ as computed by the BSP

d/ based on the 2003 official poverty estimates

e/ average of April, July, October Labor Force Surveys

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

sale of government assets, nontax revenues exceeding target levels; and (c) the nonpassage of the national government budget that effectively limited expenditures.

Consequently, the consolidated public sector position improved as the monitored government corporations were able to limit their respective deficits while local government units, social security institutions and government financial institutions recorded surpluses.

The government's firm commitment towards fiscal consolidation continued to show positive results. The consolidated public sector balance (CPSB) was estimated to have reached a surplus of about 0.2 percent of GDP in 2006 from a high deficit level of 5.5 percent in 2002. This translates to a primary surplus of 4.1 percent of GDP in 2006. In tandem with steady real GDP growth and peso appreciation, the nonfinancial public debt/GDP ratio fell

from 100.8 percent in 2003 to 86.3 percent in 2005 and probably below 80 percent in 2006 (note: data for 2006 has yet to be released by DBM). The improved fiscal scenario eased the pressure off the government, leading to lower borrowings in 2006.

EXTERNAL DEVELOPMENTS

Once again the country benefited from trade liberalization policies. This trend continued in 2006 as the government continued to push for improved trade relations with Japan, Saudi Arabia, Korea, Australia, New Zealand, and within the ASEAN region.

Full year exports expanded beyond the target growth rate in 2006, with electronic products such as semiconductors, office equipment, telecommunications, control and instrumentation, medical and industrial instrumentation, and automotive electronics

TABLE C. GROWTH RATE OF AGGREGATE ECONOMIC INDICATORS
(In Percent; At Constant 1985 Prices)

Indicators	2005 Actual a/	MTPDP Target	2006 Actual b/
Gross National Product	5.6	6.5-7.5	6.2
Gross Domestic Product	5.0	6.3-7.3	5.4 a/
Net Factor Income from Abroad	15.1	28.0	14.8
Production	7.6	4.0-5.0	6.2
91-day T-bill rate (%)	6.358	7.5-8.5	5.337
Agriculture, Fishery and Forestry	1.8	4.2-5.2	1.8
Industry	4.9	7.2-8.2	4.8
Mining and quarrying	9.3	15.0-16.0	-6.0
Manufacturing	5.6	6.1-7.1	5.4
Construction	0.9	12.5-13.5	4.6
Utilities	2.5	4.3-5.3	6.4
Services	6.4	6.5-7.5	6.3
Transportation, Communication & Storage	7.2	10.0-11.0	6.7
Trade	5.6	6.2-7.2	5.5
Finance	13.6	6.5-7.5	9.5
Other Dwellings and Real Estate	5.4	5.0-6.0	5.8
Private Services	5.5	6.5-7.5	6.8
Government Services	1.9	2.5-3.5	3.9
Expenditures			
Personal Consumption	4.9	5.0-6.0	5.5
Government Consumption	4.0	3.4-4.4	5.7
Capital Formation	-6.0	11.4-13.2	2.1
Fixed Capital	-3.9	11.8-13.2	0.6
Construction	-0.9	11.8-12.8	2.8
Public	-4.6	14.9-15.9	13.3
Private	1.2	10.0-11.0	-2.9
Exports	4.2	13.0-14.0	12.1
Imports	2.4	14.5-15.5	2.6

a/ as of May 2006

b/ as of January 2007

leading the way. Garments, mineral products, and agrobased product shipments also increased as the country took advantage of increasing demand from China, the recovery of the Japanese economy, and the peaking of the US economy.

However, this did not translate to more imports. The significant decline in imports of power generating and specialized machines, office and EDP machines, and iron and steel weighed down total imports. As a result, the trade deficit narrowed from 2005. This, combined with a huge transfer of inflows, most notably from OFWs, boosted the current account into a surplus of US\$5 billion.

Consequently, this helped the country achieve a balance of payments (BOP) surplus of almost US\$3.8 billion, 56.4 percent higher than in 2005. It further increased reserves to almost US\$23 billion, equivalent of 4.3 months' worth of imports of goods and services.

The BOP surplus is partly attributed to the strong surge in OFW remittances, which grew by 19.4 percent to US\$12.8 billion in 2006. The rise in remittances is credited to the continued preference for Filipino workers by host countries as well as the improved financial services made available by banks and nonbank remittance channels.

Also accounted in the BOP are the foreign direct investments (FDI) which posted net inflows of US\$2.3 billion in 2006. On the other hand, net inflows of foreign portfolio investments (FPI) amounted to US\$2.6 billion in 2006, 24 percent higher than the US\$2.1 billion FPI inflows in 2005. Furthermore, FDI and FPI inflows were bolstered by positive investor sentiment because of strong economic fundamentals, credit outlook upgrades, and the strengthening of the Peso. The country's gross international reserves (GIR) posted an all-time high of US\$23 billion as of end-December 2006, exceeding the 2006 target by US\$1 billion. In terms of reserve adequacy, the end-year GIR level could cover about 4.6 months of imports of goods and payments of services and income.

PRICE DEVELOPMENTS

Notwithstanding the VAT adjustment and higher oil prices, inflation has been on a downward trend, falling to 6.2 percent in 2006 from 7.6 percent in 2005. Due to developments in the inflation trend and expectations of a manageable inflation environment, the Bangko Sentral ng Pilipinas (BSP) kept a steady hand on monetary policy settings, leaving unchanged throughout 2006 the 7.5 percent for the overnight reverse repurchase (RRP) rate and 9.75 percent for the overnight RP rate. With a view to spur business activity, the BSP also revived the tiering scheme on banks' placements with BSP in order to encourage banks to use excess funds for lending.

LABOR DEVELOPMENTS

Labor market conditions in 2006 closely resembled 2005 in a number of indicators. The unemployment rate was slightly up from the previous year by 0.1 percentage points and reflected conscious interventions in job programs. However, a concern on the underemployment rate surfaced, indicating the desire for higher pay.

Net employment creation, mostly of salaried jobs than unpaid work, continues to lag Plan targets, only employing an additional 650,000 workers vis-à-vis the targeted 1.26-1.53 million workers.

Compliance with labor standards also missed the Plan target in 2006, although the year was generally peaceful in terms of labor-employer relations and strike prevention. Workers were able to get a wage increase starting in the second half of 2006 even as the issue of legislated wages emerged and stalled in Congress. Government's employment facilitation strategy through the protection of OFWs contributed to all-time records of both monthly remittances and deployment levels that helped prop up the real economy.

Nonetheless, the employment level went up by 2.0 percent for the full year 2006. The employment rate for agricultural and services workers increased by 1.6 and 3.1 percent, respectively while declining by 0.4 percent in the industry sector. Further improvements were observed in the January 2007 round of the Labor Force Survey (LFS) where total employment grew by 4.7 percent. Employment in the industry sector recovered by 2.1 percent, of which manufacturing registered an increment of 2.3 percent. Employment in the services sector remained robust with 9.4 percent growth, while that of agriculture declined by 0.3 percent.

POLICY DIRECTIONS AND ECONOMIC OUTLOOK

A brisk economy is expected in 2007 given the positive developments in macroeconomic fundamentals. The relatively strong peso has helped tame inflation in 2006 and is expected to be carried forward in 2007. Interestingly, the impact of a likely global electronics downturn might not affect Philippine exports, as semiconductor sales to computer and auto companies can make up for weaker demand from cell phone manufacturers.

The 2007 growth outlook will depend primarily on how the downside risks in both external and domestic fronts affect the economy. On the external front, although the US market is showing signs of slowing down, the current upturn in Europe and Japan are all positive factors, which would help to underpin the Philippines' export performance going forward. Domestically, the national elections for 2007 may create a certain level of tension. Notwithstanding, certain key factors are likely to provide some upside support to growth. With the macroeconomic reforms already in place, and given the government's

commitment to sustain them, the expected 2007 budget is seen to generate some growth momentum and investment interest in the economy. But it is essential that all of these be followed through with microeconomic reforms to increase industries' competitiveness. Hence, there is an urgent need to implement microeconomic reforms in the areas of airlines, ports, shipping, telecommunications and power. The infrastructure projects in the super regions must likewise be fasttracked to further stimulate economic activities in the countryside.

Chapter 1

Trade and Investment

Entrepreneurship, investments and trade posted positive performances in 2006. Loans to micro, small and medium enterprises (MSMEs) under the SME Unified Lending Opportunities for National Growth (SULONG) Program increased by 2.6 percent in 2006 and total approved foreign direct investments (FDIs) rose by 73.7 percent. Total merchandise exports grew by 13.9 percent and earnings from exports of services by 19.4 percent, allowing total exports revenues to exceed US\$50 billion in 2006.

ASSESSMENT

ENTREPRENEURSHIP

Provide credit, technology and marketing support for three million MSMEs

The government's initiative to enhance the SULONG Program resulted in a 2.6 percent increase in loans granted to MSMEs in 2006. The Program released a total of PhP32.4 billion to 14,284 MSMEs, which is 2.9 percent short of the 2006 target set in the 2004-2010 Medium Term Philippine Development Plan (MTPDP). Following the SULONG formula for jobs supported¹, the Program was able to support 405,070 jobs in 2006. The Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) continued to provide the largest financing support to MSMEs (Table 1.1). The LBP released 48.9 percent more than its

commitment for 2006 but 1.2 percent less than its loan releases in 2005. On the other hand, the DBP released loans amounting to PhP11.1 billion, or 1.5 percent higher than its PhP10.9 billion target for the year, and 5.3 percent more than the PhP10.5 billion released in 2005.

Meanwhile, there are now 1,027 cities and provinces benefiting from skills and entrepreneurial training, advocacy, promotional and product development activities under the One-Town-One-Product (OTOP) Program. In 2006, various activities of the OTOP Program developed 1,960 new, and assisted 5,968 existing MSMEs in the regions and provinces which, in turn, generated 70,609 jobs. OTOP products were sold in 1,129 market outlets and 130 *Pasalubong* Counters nationwide, bringing in PhP1.81 billion in domestic sales. Ten regions have started exporting their products to the world, realizing total export sales of US\$92.23 million.

¹ Jobs supported is derived from the ratio PhP80,000 average loan size = one job generated

**TABLE 1.1 LENDING PERFORMANCE OF PARTICIPATING GFIs AND GOCCs
UNDER THE SULONG PROGRAM
(In Billion Pesos)**

GFI/GOCC	GFI/GOCC Commitment in 2006	Actual Performance 2005	2006	Growth Rate (%)	% to Target
Land Bank of the Philippines (LBP)	10.89	17.43	16.21	-1.22	148.85
Development Bank of the Philippines (DBP)	10.89	10.49	11.05	5.34	101.47
Small Business Guarantee and Finance Corp. (SBGFC)	4.32	2.94	3.44 ^{b/}	17.01	86.46
Philippine Export-Import Credit Agency (PHILEXIM)	1.73	0.15	0.2	33.33	11.56
Quedan and Rural Credit Guarantee Corp. (QUEDANCOR)	4.01	0.56	1.13 ^{a/b/}	NA	28.18
National Livelihood Support Fund (NLSF)	1.15	0.03	0.06 ^{b/}	100	5.22
Social Security System (SSS)	0.40	NA	0.3	NA	75.00
TOTAL	33.39	31.60	32.41	2.61	97.06

^{a/} - as of November 2006 only

^{b/} - does not include microfinancing

Sources: Small Business Guarantee Finance Corporation, Department of Trade and Industry

Local government units (LGUs) remained the main source of financing of OTOP participants, who were referred to the SULONG Program for financial support when necessary. The signing of 459 Memoranda of Agreement (MOAs) with various OTOP Partners further enhanced LGU support to the OTOP Program. However, SMEs participating in the OTOP Program continue to find difficulty accessing financing due to voluminous documentary and stringent lending requirements (e.g., concrete business plan, positive net worth, financial statements, real estate/chattel mortgage certificates) of government financial institutions.

Empower existing SMEs to generate additional employment through increased lending and the promotion of Big Brother-Small Brother Program

To enhance the capacities of small enterprises to partner with big enterprises, 199 training programs on furniture and builders' woodworks, gifts and housewares, fine jewelry, footwear and leather goods were conducted. These benefited 4,086 participants coming mostly from the rural areas and composed of employees, owners and members of microenterprises, self-help groups,

cooperatives, and government and nongovernment organizations (NGOs), among others. The Department of Trade and Industry (DTI) provided high-grade computers and digital instruction materials to 60 of its SME Centers and commissioned the preparation of a primer that would provide guidelines on how to organize, manage and run an SME Center.

To increase the capacity of rural and cooperative banks to engage in the syndication and packaging of medium to long-term loans, the DBP sustained advocacy and capacity-building activities, encouraging participation of accredited rural and cooperative banks in lending to SMEs through its wholesale facility. The eight operational business assistance centers conducted regular trimedia information campaigns to increase SME access to information on business opportunities and other relevant data.

Tap returning OFWs as sources of capital

The DTI participated as an exhibitor and forum speaker in the *Go-Negosyo* for OFWs and *balikbayans*. The investment promotion program of the Foreign Trade Service Corps identified potential and prospective investors, including overseas Filipino investors, and provided investment advice and counseling.

Eight financial literacy campaigns were launched in different regions in 2006 to promote savings and investments among OFWs and their beneficiaries. These informed the target participants of opportunities offered by alternative uses of remittances, such as savings, investments in financial instruments, and other business ventures available with the non-banking sector.

Provide an environment conducive to MSME development

The Department of Finance (DOF) simplified documentation requirements for the registration of barangay micro business enterprises (BMBEs) with assets of PhP300,000 or less. This is in relation to their availment of tax incentives under Republic Act (RA) No. 9178 (BMBEs Act of 2002) through the issuance of Department Order No. 31-05.

Proposed amendments to the Magna Carta for Small Enterprises (RA 6977 as amended by RA 8289) are still under review by Congress. The Small and Medium Enterprise Development Council is reviewing the proposal of the Bangko Sentral ng Pilipinas (BSP) to consider banks' wholesale microfinance loans as eligible compliance to the mandatory allocation of credit resources for SMEs under the law.

INVESTMENTS

The country's investment promotion agencies approved PhP357 billion worth of investments in 2006, or 54.4 percent more than the PhP231.2 billion recorded in 2005. FDI approvals surged to PhP165.9 billion, a remarkable 73.9 percent increase from the PhP95.8 billion approved in 2005 (Table 1.2). This was due to sustained foreign investors' interest in the manufacturing and services sectors as well as fresh pledges in agriculture. Major commitments were made in the manufacture of glass and ICT-related products as well as in wholesale and retail trading (by a

fast food chain), communications, finance and real estate. In the agriculture sector, significant investments have been planned in growing Cavendish bananas in Davao del Sur. Korea, the United States (US), Japan, China, Netherlands, United Kingdom, Singapore and British Virgin Islands were the leading sources of FDIs.

Meanwhile, actual FDIs as recorded by the BSP's balance of payments show an increase of 26.5 percent from US\$1.85 billion in 2005 to US\$2.35 billion. In peso terms, the net flows in 2006 reached PhP120.8 billion which is equivalent to a year-on-year growth of 18.2 percent.

Investment pledges from Filipino investors also improved substantially with PhP191.1 billion worth of investments in 2006, up by 41.1 percent from the PhP135.4 billion reported in 2005. Approved investments in power generation reached PhP43.5 billion, followed by communications with PhP36.3 billion.

More than 40 percent of total investment commitments went to manufacturing in 2006, with pledges reaching PhP152 billion, 1.2 percent higher from the previous year. Commitments in electricity and communications were also substantial, comprising about 26 percent of total investments committed. Investment commitments in private services almost doubled from last year's level of PhP15.3 billion to PhP29.1 billion. Agriculture, mining and information and communications technology (ICT), which are among the 11 priority areas for investment promotion identified under the MTPDP, registered increases of 514.4 percent, 94.7 percent and 58.2 percent, respectively. The number of jobs to be generated from investment commitments in 2006 is projected to reach 156,178, an 18.3 percent increase from the estimated 132,043 jobs generated from investments approved in 2005.

TABLE 1.2 TOTAL INVESTMENTS, 2005 AND 2006
(In Million Pesos)

Agency	Total		Filipino Nationals		Foreign Nationals	
	2005	2006	2005	2006	2005	2006
BOI	163,879	187,616	120,082	151,059	43,797	36,557
PEZA	62,761	83,761	12,919	31,423	49,842	52,338
SBMA	1,484	72,933	646	4,032	839	68,902
CDC	3,110	12,693	1,781	4,609	1,329	8,083
TOTAL	231,234	357,003	135,428	191,123	95,807	165,880

Source: National Statistical Coordination Board (NSCB)

TABLE 1.3 TOTAL APPROVED INVESTMENTS BY INDUSTRY, 2005 AND 2006
(In Million Pesos)

Industry	2005	2006
Agriculture	771	4,734
Mining	8,294	16,147
Manufacturing	150,161	151,984
Electricity	21,659	45,403
Gas	269	-
Water	-	-
Construction	83	3,858
Trade	357	26,332
Transportation	22,172	3,531
Storage	26	35
Communications	2,080	47,042
Finance and Real Estate	10,020	28,833
Services	15,344	29,105
TOTAL	231,234	357,003

Source: NSCB

Draw up a more focused incentives package with focus on priority areas

The government continued to promote investments in the priority areas identified under the 2004-2010 MTPDP through the 2006 Investment Priorities Plan as well as various activities and programs under the DTI's Business Development Program. In the automotive sector, training was conducted on improving production processes to address industry value chain gaps. The country participated in various activities in Taiwan, such as SemiTech Taipei 2006, the 14th RP-

Taiwan Joint Economic Conference and the Taipei Summit to strengthen cooperation and business relationships between the Philippine and Taiwanese electronics industries, promote Philippine capabilities in electronics-related services, and identify investment opportunities, among others.

The Public-Private Task Force for the Development of Globally Competitive Philippine Service Industries developed the private sector-led and government-enabled strategic framework and national policies for the continued development and promotion of three priority sectors, namely, health and

wellness, information technology-enabled services, and logistics.

The healthcare and wellness sector received a boost with the November 2006 approval of Philippine Economic Zone Authority (PEZA) Resolution No. 06-512, which sets the registration guidelines for medical tourism parks/centers and locator-enterprises therein, and Resolution No. 06-513, which sets the registration guidelines for retirement parks/centers and facilities/enterprises. With these resolutions, investments in medical tourism are expected to take off since investments can now be registered with the PEZA or, where applicable, the Board of Investments (BOI) for incentives. The “Study on a Strategy Framework for the Health and Wellness and Retirement Sector,” which identified issues and gaps in the sector and provided strategies for its development, was also completed in 2006.

Outbound missions to India, Japan, China, Taiwan, Europe, and the US were organized to attract foreign investments in the country. As a result, at least 20 new investment leads were generated, 10 companies expressed investment interest, and nine others confirmed investment prospects. To spur investments in the countryside, eight domestic roadshows were conducted in Davao City, Isabela, Cagayan de Oro, Baguio City, Cagayan North, Caraga (Butuan City), Region 9 (Zamboanga City), and Region 6 (Iloilo City and Kalibo). These resulted in the generation of some 84 investment leads, with prospective investments of PhP74.1 billion.

Simplify registration procedures

Executive Order (EO) No. 557 establishing the Anti-Red Tape Task Force was issued to reduce red tape in all government agencies, particularly in registration and licensing procedures, thereby reducing transactions costs and contributing to the competitiveness of industries. For its part, the DTI simplified its business registration procedures, established satellite business centers in the prime cities of Metro Manila,

thereby reducing the processing period, as well as waiving the fees for cement and copper export clearance applications. To facilitate transactions at the local level, the handbook on “Streamlining of Business Registration in LGUs” was completed to assist local governments in simplifying their registration procedures, particularly for MSMEs. This encouraged the MSMEs to formalize their businesses.

In addition, EO 587 establishing the Philippine Business Registry was issued to create a seamless transactional environment for business registration and development across the application systems of various government agencies as well as facilitate procedures for securing the necessary permits for starting private businesses.

TRADE

Maximize exports and investment opportunities offered by trade agreements

Philippine merchandise exports to the Association of South East Asian Nations (ASEAN) amounted to US\$8.1 billion in 2006, which is 13.7 percent more than the value of exports in 2005. Despite the increase, the proportion of exports to the ASEAN to total Philippine exports remained at about 17.3 percent in both years.

Meanwhile, merchandise imports from the ASEAN, mostly inputs to production such as semiconductors, machinery, transport equipment and parts, amounted to US\$10.2 billion in 2006, or 19.8 percent of total imports during the period. This was a 15.1 percent increase from the US\$8.9 billion (18.7 percent of total imports) imports from the ASEAN in 2005.

The increase in merchandise trade is a sign that Filipinos are taking advantage of the opportunities created by trade liberalization under the ASEAN Free Trade Area agreement. The Philippines continued to liberalize trade with the ASEAN in 2006, with the issuance of EOs that aimed to: (a) implement the 2006-2010 Common

TABLE 1.4 TOTAL MERCHANDISE EXPORTS, 2005 AND 2006
(In Million US Dollars; Share of Total and Growth in Percent)

Commodity	2006	% Share	2005	% Share	% Growth
I. TRADITIONAL EXPORTS	25,502.30	54.29	23,388.51	56.69	9.04
1. Semiconductors	22,193.70	47.24	20,207.31	48.98	9.83
2. Garments & Textiles	2,755.42	5.87	2,473.91	6.00	11.38
3. Machinery & Transport Equipment	553.18	1.18	707.29	1.71	-21.79
II. REVENUE STREAMS	12,971.96	27.61	11,970.34	29.02	8.37
1. Wearables (Excl. Garments)	273.23	0.58	252.16	0.61	8.35
2. Food	1,439.08	3.06	1,306.08	3.17	10.18
3. Motor Parts	2,046.36	4.36	1,894.59	4.59	8.01
4. Home Furnishings, Houseware, Garden Articles	429.10	0.91	463.44	1.12	-7.41
5. Marine Products (Incl. Seaweeds and Carrageenan)	455.09	0.97	416.23	1.01	9.34
6. Giftware, Holiday Décor	143.37	0.31	144.86	0.35	-1.03
7. Construction Materials	950.51	2.02	331.53	0.80	186.71
8. Organic Products	84.11	0.18	70.03	0.17	20.10
9. IT Manufactures	7,151.12	15.22	7,091.43	17.19	0.84
III. OTHERS	8,503.46	18.10	5,895.83	14.29	44.23
1. Petroleum Products	971.02	2.07	705.64	1.71	37.61
2. Metal Manufactures	341.36	0.73	165.18	0.40	106.66
3. Coconut Products	583.90	1.24	664.16	1.61	-12.08
4. Others	6,607.18	14.06	4,360.85	10.57	51.51
TOTAL	46,977.72	100.00	41,254.68	100.00	13.87

Source: Bureau of Export Trade Promotion

Effective Preferential Tariff (CEPT) schedule of 44 agricultural products that were moved from the CEPT Sensitive List to the CEPT Inclusion List (CEPT-IL); (b) eliminate tariffs on certain products to fully comply with the ASEAN target of having 60 percent of the CEPT-IL at zero duty; (c) and implement commitments under the ASEAN Industrial Cooperation scheme, among others. The list of products for accelerated liberalization under Phase 2 of the ASEAN Priority Integration Sectors was also finalized.

The Philippines also carried on with efforts to forge trade relations with the rest of the world. In 2006, the country signed the Japan-Philippines Economic Partnership Agreement and a Memorandum of Understanding on Bilateral Trade and Investment Cooperation with the Kingdom of Saudi Arabia. As a member of the ASEAN, the Philippines signed the Agreement on Trade

in Goods under the ASEAN-Korea Framework Agreement on Comprehensive Economic Cooperation. The country also continued to participate in negotiations for the ASEAN-Australia-New Zealand Free Trade Area (FTA) and began implementation of the Early Harvest Program and the first package of tariff concessions under the Normal Track of the ASEAN-China FTA. Moreover, the Philippines also continued to participate in multilateral trade negotiations under the World Trade Organization in an effort to conclude the Doha Development Round.

Pursue a market-driven strategy that will link our supply capacity closer to the high-impact markets

Exports of products covered under the revenue streams grew by 8.4 percent from just under US\$12.0 billion in 2005 to almost

US\$13.0 billion in 2006 (Table 1.4). Although traditional exports increased slightly more than exports of the revenue streams and continue to account for the bulk of total exports, the positive performance of the revenue streams indicates emerging diversification towards nontraditional exports. Notable increases during the year were recorded for construction materials (186.7%), organic products (20.1%), food (10.2%), marine products (9.3%), wearables excluding garments (8.4%), and motor parts (8.0%).

Philippine products were promoted intensively abroad in 2006. Market promotion efforts in the US focused on organic and natural products as well as ICT services, with the ICT Mission to the US giving the Philippines exposure to the yet-untapped Florida market. Meanwhile, food and electronics garnered much attention in Asia. About US\$3.0 million worth of business proposals were generated for fresh mangoes and bananas and a deal has been secured to distribute Philippine virgin coconut oil in China. Participation in the Taipei International Food Show and the Thaifex (World of Food Asia) generated sales of US\$2.5 million and US\$2.8 million, respectively. Philippine electronic goods and services generated US\$6.2 million worth of sales at the CommunicAsia ICT trade fair in Singapore and continued to attract interest in Japan.

Philippine construction materials took the spotlight in the Middle East when these were showcased in the Big 5, the most important annual gathering for the building and construction industries in the region, and in INDEX Dubai 2006, where US\$6.7 million worth of sales were generated. In Europe, wearables, furniture and holiday décor, among others, were promoted. Participation in the Salone Internazionale del Mobile generated total negotiated sales of US\$10.5 million and numerous inquiries for distributorship not only in Italy but in other European Union (EU) member countries as well.

In addition to participation in international trade fairs and missions, promotion efforts were also undertaken locally.

The “Manila Now” event showcasing home furnishings attracted 775 foreign buyers from 69 countries as well as 795 local trade buyers. The DTI, in coordination with the Clark Development Corporation and Subic Bay Metropolitan Authority, continued to promote export and logistics activities in Central Luzon. A roadmap identifying potential investment areas and activities in the logistics sector is in the works.

Simplify export/import procedures

In order to reduce the cost and procedures on export transactions with government, the President issued the following:

- EO 554 directing all departments, bureaus, commissions, agencies and instrumentalities, including government-owned and/or controlled corporations, to eliminate fees and charges imposed on export clearances, inspections, permits, certificates and other documentation requirements, except those imposed by specific laws, and to streamline documentation procedures;
- Memorandum Order 228 directing all government agencies to enhance Philippine competitiveness by freezing the issuance of additional administrative requirements and implementing e-Governance in the course of streamlining procedures;
- EO 589 exempting exporters joining trade fairs, exhibitions, selling missions, negotiations, conferences and seminars abroad from payment of travel tax, provided that they are duly endorsed by the DTI or the Confederation of Philippine Exporters; and
- Administrative Order No. 155 appointing the DTI Secretary as “Export Enforcer” and empowering him to act in behalf of the President on decisions reached by the Export Development Council (EDC). The order also directed the Secretary to: (a) implement measures to lower the cost of

doing business for exporters in cooperation with all government agencies under the executive branch; (b) report on such implementation; and (c) exercise the EDC mandate of imposing sanctions on any government agency or officer or employee thereof, or private sector entity impeding the efficient exportation of Philippine goods.

The establishment of the Automated Export Declaration System (AEDS) for electronics exports was successfully completed in Southern Tagalog (Calabarzon) and Metro Cebu. Efforts to roll out the AEDS to the motor vehicle parts manufacturing sector, as well as to Mactan, Subic and Clark, are ongoing.

The DTI is also in the process of acquiring the necessary hardware to develop an electronic business facilitation platform that would facilitate business matching and export transactions. It has also established a new One-Stop Export Documentation Center (OSEDCC) in Bataan. Operations in all nine OSEDCCs have been computerized, making it possible for these to process export documents at 20 minutes per transaction, and also double as help desks for exporters.

However, the DTI and PEZA have yet to make progress towards the establishment of a holistic center for electronics business and export facilitation or the issuance of a legal instrument to streamline the export process for semiconductors and finished electronic products.

The Bureau of Customs (BOC) continued to implement the e-Customs Project, which aims to automate major BOC processes as well as achieve the ASEAN-wide Single Window for processing trade transactions. Under this project, the BOC in 2006 completed the development of its information website, updated the Customs Computer Center (now the Customs ICT Center), and trained various stakeholders on the relevant features of the program. A Memorandum of Understanding between the BOC and the Department of Agriculture (DA)

was signed in December to harness cooperation between the two agencies in reducing transaction costs for compliance with sanitary and phytosanitary rules and regulations of the DA and cargo clearance regulations of BOC involving importation of agricultural and fishery products.

The BOC also signed a MOA with the Philippine National Police (PNP), PEZA and the Semiconductor and Electronics Industry Association of the Philippines, Inc. (SEIPI) in October 2006. The MOA aims to develop and implement an automated system for processing export permit applications of ecozone export producer enterprises, especially those belonging to the electronics sector, and for the importation of chemicals and other materials. The system shall be primarily used by the PNP in the control of chemical imports and monitoring of export business permits to safeguard public health and safety.

The BOC also launched the Trade Facilitation and Customs Reform component of the EU-assisted Trade-Related Technical Assistance (TRTA) Program in February 2006. Through this undertaking, the BOC will acquire the needed technology and knowhow to reduce the average clearance times for in- and out-bound cargoes as well as improve the revenue collection, technical and management capacity of the bureau. The BOC implemented the Non-Intrusive Container Inspection System Project with the issuance of EO 592 in December, providing for the use of container X-ray machines in place of actual physical examination of containers.

Maintain existing and develop more competitive export products and services and diversify markets

Based on preliminary data, the Philippines met the US\$50 billion target for export earnings in 2006 under the MTPDP. Total merchandise exports grew by 13.87 percent to US\$46.98 billion in 2006 from US\$41.25 billion in 2005 (Table 1.4). Earnings from exports of services in 2006 amounted to US\$5.40 billion, 19.40 percent

TABLE 1.5 SERVICES EXPORTS, 2005 AND 2006
(In Million US Dollars; Growth in Percent)

Commodity	2006 ^{p/}	2005	% Growth
Transportation	1,059	962	10.08%
Travel	2,543	2,265	12.27%
Communications	575	522	10.15%
Construction	69	66	4.55%
Insurance	30	17	76.47%
Finance	101	53	90.57%
Computer and information	95	89	6.74%
Royalties and license fees	6	6	0.00%
Other business services	898	525	71.05%
Personal, cultural and recreational	27	20	35.00%
Government services	0	0	n/a
TOTAL	5,403	4,525	19.40%

p/ - Preliminary data

Source: Bangko Sentral ng Pilipinas

higher than the US\$4.53 billion earned in 2005 (Table 1.5). The increase in services exports was due mainly to the positive performances in the travel, transportation, communications and other business services sectors.

Along with efforts to market Philippine products abroad, the government also exerted efforts to assist the private sector in ensuring that their products meet buyer expectations in terms of quality. A total of 125 training sessions and seminars were held to orient the public on standards and conformance for both agricultural and industrial goods.

The DTI and DA, with support from the EU, are working to improve knowledge of and compliance with EU requirements for electronic, coconut and fishery products, which should boost Philippine exports to the EU. The TRTA Program is also set to review the testing proficiency of Philippine laboratories, strengthen inspection and enforcement measures, develop a risk assessment and management system, and conduct training on Good Manufacturing Practices and Hazard Analysis and Critical Control Points, among others.

During the year, only 520 Philippine National Standards (PNS) or 52 percent of

the target of 1,000 PNS were developed. These include the PNS for tomato, carrot and taro leaves, as well as the Code for Hygienic Practices for the Sale of Fresh Agriculture and Fisheries Products in Markets and Authorized Outlets. To date, there is a total of 5,525 PNS, 77 percent of which are harmonized with international standards. PNS on halal food are currently being developed alongside international accreditation of local manufacturers so that the Philippines would be able to tap into the sizeable halal export market.

In addition to the improvement of products and product standards, the Philippine government in cooperation with the private sector also sought to address other issues related to Philippine competitiveness. The National Competitiveness Summit, held in October 2006, gave rise to an Action Agenda that would address concerns on human resources, access to financing, infrastructure and energy costs, among others. The summit also resulted in the establishment of the National Competitiveness Council, which is tasked to oversee the implementation of the Action Agenda and mobilize public-private partnership resources for this purpose.

The government also continued to boost the competitiveness of Philippine

products by reducing the costs of their inputs. In May 2006, the President issued EO 527 temporarily reducing tariffs on crude and refined petroleum products based on certain triggers indexed to international oil prices; and EO 528, which allows all BOI-registered new and expanding enterprises, whether export or domestic-oriented, to import capital equipment and spare parts and accessories thereof at zero duty.

EO 488 was also issued to eliminate the duty on components, parts and accessories for the manufacture of completely built-up units for the assembly or manufacture of hybrid, electric, flexible fuel and compressed natural gas vehicles by qualified Motor Vehicle Development Program participants. The Order also sought to promote the efficient use of fuel in the transport sector. Likewise, EO 574 implementing the Philippine tariff program for 2006-2010 was also issued.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

Government and the private sector continued to partner closely to ensure an attractive business environment for investors in the Philippine ICT industry. The partnership has helped to further improve the knowledge and skills of the Philippine labor force and at the same time has provided more opportunities for employment.

The Philippine ICT industry continues to flourish, making the country one of the fastest emerging global player in e-services. The industry already generated 278,769 jobs by the second quarter of 2006, compared with the 162,250 jobs in 2005. While majority of the e-services facilities are located in Metro Manila, other regional cities such as Baguio, Bacolod, Cagayan de Oro, Cebu, Clark (Angeles City), Dagupan, Davao, Dumaguete, Lipa and Iloilo are now being promoted and developed. To achieve the goals and sustain the rapid growth of this sector, the Philippine government offered significant fiscal and nonfiscal incentives to further attract

FDIs as included in the 2006 Investment Priorities Plan.

Among the e-services, customer contact centers comprise the fastest growing ICT subsector in the country with a total of 85,000 seats or about 145,000 fulltime employees by the second quarter of 2006. There is a total of 112 customer contact centers nationwide. The business process outsourcing (BPO) has brought into the country the non-core functions (i.e., back-office operations, financial, HR and administrative) of multinational corporations such as Caltex, HSBC, Citibank. A total of 30,500 fulltime jobs were generated, also by the second quarter of 2006.

Software development services made its mark in the ICT industry as a high value sector due to its highly talented workforce. As of the second quarter of 2006, a total of 500 software development companies were established employing a total of 79,469 IT professionals. To further strengthen this industry, a roadmap entitled 2010 Fly High Program was launched by the Philippine Software Industry Association.

By the second quarter of 2006, the country already had about 5,000 animators and 70 animation studios. Notable creations of Philippine-based companies that have been highly recognized and recommended worldwide include Tom & Jerry, The Jetsons, Adams Family, Scooby Doo, The Mask, Dragonball Z, Lilo & Stitch, The Incredibles, Dexter Laboratories, and Power Puff Girls.

While relatively new in the ICT industry, there are now around 100 medical transcription (MT) companies providing jobs to about 8,500 MT professionals (second quarter of 2006) with the US as the major client. The passage of the Health Insurance Portability and Accountability Act (HIPAA Law) paved the way for the provision of transcription services, which focused on converting dictated medical records into electronic data. The high accuracy rate of 98 to 99 percent with turnaround time of 12 to 24 hours has made the Philippines a preferred option for outsourced MT requirements.

TABLE 1.6 ICT SERVICES WORKFORCE PERFORMANCE²

Services	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	As of Q2	Actual	Projected	Projected	Projected
Customer Contact Center	64,000	112,000	145,000	218,000	262,000	301,000	331,000
Back Office	15,000	22,500	30,500	61,000	110,000	187,000	299,000
Medical Transcription	3,000	5,000	8,500	17,000	34,000	68,000	122,000
Legal Transcription	300	450	1,500	1,013	1,519	2,126	2,764
Other Data Trans	2,000	3,000	4,000	6,000	8,000	10,000	13,000
Animation	2,800	4,000	5,000	10,000	17,000	27,000	41,000
SW Devt (Export)	10,000	12,000	79,469	22,000	33,000	50,000	75,000
Engineering Design	2,000	2,800	3,800	6,000	10,000	15,000	21,000
Digital Content	200	500	1,000	2,000	4,000	8,000	16,000
Workforce	99,300	162,250	278,769	343,013	479,519	668,126	920,764
Revenues in US \$ M	\$ 1,474	\$ 2,419	\$ 3,627	\$ 4,992	\$ 6,769	\$ 9,130	\$ 12,199
Investments PhP' M	8,074	11,000	15,400	20,020	24,024	31,231	40,601

The market for the legal transcription (LT) is still relatively small in the country, with the total of 1,500 employed LT professionals in nine LT firms. Another new area that the country is trying to penetrate is engineering design. There are already 24 companies with 3,800 fulltime engineers in the Philippines.

More Competitive Investment Packages

The formulation of measures to improve the policy environment for doing business in the country demonstrates the government's strong support of the ICT industry. Aside from the fiscal incentives available for ICT and ICT-enabled services investments, guidelines on personal data protection in ICT were issued. The guidelines encourage private entities to adopt privacy policies and protect personal data within the ambit of the e-Commerce Act. It likewise provides for the processing of all types of personal data by Licensee Companies.

Improved ICT Manpower

A factor that attracts investors in the country is the large pool of highly skilled labor

force of 29 million, which include ICT-literate English-speaking knowledge workers. The relatively low wages, notably the second-lowest hourly wage for offshoring professionals next to India, have also contributed in making the country a major player in the industry. Aside from this, Filipino animators are more preferred over other animators in the world because of their inherent creativity and impressive technical skills particularly in 2D and 3D animation, interactive gaming for PC and console gaming, medical animation, visualization and e-learning courses.

To further strengthen the availability of knowledge workers, the Technical Education Skills Development Authority (TESDA) established a call center "finishing school" to help around 100,000 aspiring workers land jobs in the booming industry. There are also 15 schools established in the country to meet the increasing demand for skilled medical transcriptionists.

Moreover, the Commission on Information and Communications Technology (CICT), Commission on Higher Education (CHED) and the TESDA, together with private training institutions, created the Workforce Mobilization Program to ensure a

² The number of workforce indicated pertains to the actual fulltime employees per services 2006 data available is up to Second Quarter of 2006 only as provided by Board of Investments.

suitable match between available jobs and quality workers. At present, a review of the existing curriculum is being conducted in consultation with the private sector to come up with relevant course outlines that will help improve the competency skills of graduates.

Foreign business chambers have also initiated related programs such as the “English is Cool” Advocacy Program of the European Chamber of Commerce of the Philippines (ECCP) and the “Promoting English Proficiency” (PEP) Program of the American Chamber of Commerce in the Philippines.

As a result, the increasing global demand for local e-services has helped reverse the brain drain phenomenon by providing employment and above-average compensation to thousands of workers around the country.

Conduct ICT Investment Promotions and Foreign Missions

The House of Representatives Committee on ICT has launched an initiative dubbed “overseas global outsourcing”. This is a new marketing strategy that aims to tap Filipino managers based in the United States to convince American companies to outsource their back office needs here in exchange for financial incentives.

In addition, the first Philippines Animation Film Festival (PAFF) was launched to recognize the potential of Philippine animation companies and to showcase world-class Filipino talent and drum up support for the PAFF. In that event, locally-produced animated films and productions were previewed to promote the Philippines as the destination of choice in global animation outsourcing and to showcase original content production intended for domestic and international markets.

Legislative Actions/Recommendations

To develop ICT and the knowledge economy, President Gloria-Macapagal Arroyo introduced the Philippine Cyber Corridor to further boost ICT hubs in key cities by

improving interconnection, creating partnerships with the private sector, and improving human capital, among others. This initiative is also expected to strengthen the capability of these hubs in providing ICT-related services to foreign and domestic companies intending to outsource their operations.

POLICY DIRECTIONS FOR 2007

ENTREPRENEURSHIP

For 2007, government efforts to support three million micro entrepreneurs and small and medium enterprises by providing credit, technology and marketing assistance shall be strengthened and the SME Development Plan shall continue to be implemented. Target loan releases by financing institutions under the SULONG Program for 2007 has been readjusted to PhP32.29 billion by the SULONG Program Committee to exclude micro financing which will be under a separate financing program. The Committee shall help further simplify documentary and collateral requirements of participating lending institutions to improve access of micro and small enterprises to credit. The creation of a Credit Information Bureau shall be pushed to assist entrepreneurs avail of loans from banks.

INVESTMENTS

Although investments are expected to continue to increase in 2007, the levels are not comparable with other countries in the region. The Asian Development Outlook 2007 reports that, in 2006, the Philippines ranked sixth among ASEAN members in terms of FDI inflows, accounting for only three percent of total ASEAN FDI inflows. It is thus important that the country improve its infrastructure facilities, quality of human resources, security, and the overall business environment to strengthen its competitiveness and attract more investments.

There is also a need to break free from policies that distort competition because these result in high costs of doing business, which deters investments and job creation. In this regard, the government will focus on five strategic measures to address these concerns, namely: (a) make food plentiful at reasonable prices to make labor cost globally competitive; (b) reduce the cost of doing business by implementing policy reforms in sectors affected by regulatory capture, notably the power, airline, ports, shipping, telecommunications sectors; (c) modernize physical infrastructure and logistics system at least cost to ensure efficient movement of goods and people; (d) mobilize and disseminate knowledge to upgrade technologies and increase the people's productivity; and (e) rationalize bureaucracy and reduce red tape in all government agencies to reduce transaction costs.

TRADE

Exports are expected to grow by about 11.0 percent in 2007, only slightly higher than the previous target of 10.5 percent, due to dampened demand in the US and global electronics markets as well as continued strength of the Philippine peso against the US dollar.

However, the government and the private sector are already exploring ways to help exporters stay competitive in the face of these emerging challenges. A PhP280 million Export Promotion Fund has been established to finance the promotion and development of Philippine exports. Moreover, measures to facilitate transport and further lower fees and costs for exporters, among others, are being considered. Promotion efforts are also being stepped up, with participation in trade fairs and missions in the US, Europe, Japan, China, and the Middle East in the works. Aside from deepening ties with existing trade partners, Philippine exporters are also looking to expand trade in newer markets such as Eastern Europe.

Meanwhile, the BOC aims to carry on with the implementation of the e-Customs

Project and the TRTA Program. As of January 2007, systems integration/user acceptance testing, nationwide distribution of information materials, delivery of hardware/software/network infrastructure to ports nationwide, among others, are ongoing. The BOC will also pursue other initiatives towards setting up the National Single Window under the memoranda that it signed with the DA, PEZA, PNP and SEIPI.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

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 terms of the required legislative actions to promote ICT, the following bills pending in Congress and various programs/projects will likewise be pursued in 2007:

- *Department of Information and Communications Technology (DICT) Bill.* The proposed law will establish a department-level agency responsible for the promotion and development of ICT in the country. The creation of the DICT would also ensure the formulation and focused execution of ICT development programs/projects;
- *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. In particular, the bill includes measures on internet pornography by strengthening its detection, investigation and prosecution capability, and anti-spam measures for communication devices such as mobile phones; and
- *Convergence Bill.* The bill seeks to establish a policy framework that would allow

multiple services (i.e., telecommunications, broadcast media, IT, electronic commerce, etc.) to be carried in the same physical network.

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

- *National ICT Skills Development Plan.* The plan will serve as a blueprint in managing the deployment of ICT professionals in the industry;
- *National ICT Certification Program.* This program will ensure that the country is able to produce a pool of quality IT Certified Filipino workers;
- *Capability Maturity Model Integration (CMMI) – Model for Software Process Improvement Project.* This will be undertaken to cover the assessment and enhancement of NCC's software development process in compliance with the international standards on CMMI levels of maturity; and
- *Ensuring universal access to ICT.* All citizens must have access to basic government services, information, and quality education through the use of appropriate and affordable ICT technologies. The government is committed to ensure universal access to ICT, and will prioritize programs to benefit marginalized sectors and underserved areas. Under this are initiatives such as the Community e-Center Program, Low Cost Computing, National Broadband Plan, and the Last Mile Initiative.

Chapter 2

Agribusiness

Government, in line with the agribusiness approach espoused in the 2004-2010 Medium-Term Philippine Development Plan (MTPDP), continued to boost the agriculture sector, raise incomes and reduce poverty in the rural sector. Agribusiness is a holistic approach to agriculture that looks at the entire cycle, including postproduction initiatives, value-adding processes, and marketing and logistical support, aside from the usual production support to farmers. Extra attention is given to commodities that prove to be more competitive and of high-value. Within the Plan period, two major goals aligned with the Ten Point Agenda were identified: (a) development of at least two million hectares of new land for agribusiness to contribute two million out of the ten million jobs targeted by 2010; and (b) making food plentiful at competitive prices and reducing the cost of priority “wage goods” such as rice, sugar, vegetables, poultry, pork and fish as well as other important non-wage goods such as corn.

The sector performed better in 2006 compared to previous years. It narrowly missed the growth targets set in the MTPDP. Performance of the sector hit 4.1 percent from 1.8 percent in 2005, barely missing the low-end MTPDP target of 4.2 percent. On a per goal basis, the development of agribusiness lands did not meet its MTPDP targets on its second year. Correspondingly, job generation proved to be difficult with the decreasing number of jobs created for the sector. Efforts to make wage goods affordable to the public likewise posed a challenge to government as retail prices continued to pick up even with an upsurge of production.

In general, majority of sector agencies’ targets were not met. Results show that only a little more than half and barely half of the targets for two major goals earlier cited were met. These accomplishments are detailed in the accompanying performance matrix.

The sector, however, proved to be resilient amid shocks and severe weather disturbances (four major typhoons occurred during the last four months of 2006 alone). The fisheries sector, particularly the seaweed subsector, has been a consistent good performer. Nonetheless, additional steps need to be taken to assist the sector in achieving set targets. These include: (a) strengthening the convergence mechanism among the rural development agencies (i.e., Departments of Agriculture, Agrarian Reform and Environment and Natural Resources) for agribusiness lands, including uplands development; and (b) increasing focus and resources to develop Mindanao as the country’s agrofisheiy export zone, among others.

ASSESSMENT

Goal 1: Develop at least two million hectares of new land for agribusiness

Overall agriculture performance in 2006 improved from 2005 with gross value added in agriculture posting a 4.1 percent growth rate (Table 2.1). This, however, is slightly lower than the conservative MTPDP target of 4.2 percent. Agriculture grew because of good performance of the crops, livestock and fisheries subsectors as the volume and value of production increased, thereby compensating for the contraction in the poultry subsector. The forestry subsector likewise contributed to the growth in the sector, with increased log production from industrial tree plantations. On a per goal basis, however, targets for goals 1 and 2 were not met.

Total agribusiness lands developed in 2006 posted a 68 percent accomplishment rate, an 11 percent improvement from the 2005 figure of 57 percent (Table 2.2). While a total of 317,327 hectares of lands were developed, this was still below the 463,756 hectares target set by the Department of Agriculture (DA). Agribusiness lands development involved the maximization of the use and transformation into productive agribusiness enterprises of the following: underused farmlands, idle and marginal lands, as well as idle offshore and inland bodies of water. The fisheries subsector posted the highest accomplishment for lands developed at 115 percent. The rest were short of the targets set.

**TABLE 2.1 GROWTH RATES IN AGRICULTURE, FISHERY AND FORESTRY, 2005-2006
(In Percent)**

Sub-sector	2005 Actual	2006 MTPDP Target	Actual
Agriculture, fishery, forestry	1.8	4.2-5.2	4.1
Crops	0.7		3.9
Livestock	2.4		2.6
Poultry	0.2		-0.3
Fisheries	6.0		5.9
Forestry	-31.3		59.8

Source: NSCB

**TABLE 2.2 TARGET AND ACTUAL AGRIBUSINESS LANDS DEVELOPED, 2005-2006
(In Hectares)**

COMMODITY	2005	2006		% Change (05-06)	Developed Areas vs. 2006 Target (%)
		Target	Developed		
COCONUT	78,903	240,389	123,360	56	51
MAJOR HIGH VALUE CROPS	61,275	145,003	121,137	98	84
SUGAR	13	-	630	4,746	-
CORN	43,542	51,783	48,754	12	94
ABACA	8,589	13,024	9,206	7	71
LIVESTOCK	1,581	3,219	2,351	49	73
FISHERIES	8,765	10,339	11,890	36	115
TOTAL	202,668	463,756	317,327	57	68

* Areas planted for crops, planted with forage for cattle grazing, stocked with animals for livestock and seeded with fingerlings/propagules for fisheries and seaweeds production.

Source: DA

In terms of actual hectares developed, coconut, high value crops and corn were the major contributors with a total of 293,251 hectares. Coconut constituted 39 percent or 123,360 hectares of total lands developed in 2006. This, however, is only 51 percent of the target for the commodity for the said year. Coconut lands developed through intercropping with corn, banana and gmelina, among other crops, contributed 64,187 hectares while 52,802 hectares were developed for new planting and replanting to counteract the decline due to massive cutting and land conversion (see Annex 2). Lands developed through diversification with ruminants totaled to 6,370 hectares.

Meanwhile, 38 percent of the total lands developed were planted to high-value crops. This indicates efforts to improve diversification as more lands are increasingly being devoted to high value commercial crops. Accordingly, accomplishments in terms of lands developed for the production of pineapple (1042%), watermelon (636%), rubber (136%), ginger (121%) and vegetables (129%) in 2006 were very significant, based on the targets set for the year. It must be clarified, however, that at the farm level, there is no clear indication of the extent of diversification of cultivated crops as well as incomes.

Among the major crops, areas developed for corn were highest at 94 percent of the target, followed by abaca at 71 percent. In the case of fisheries in which total lands developed reached 115 percent of the target, highest accomplishments were from *bangus* at 182 percent, followed by tilapia and seaweeds at 93 and 74 percent, respectively.

With regard to geographic location, majority of these newly developed lands are in Region 12, which accounts for 44,319.51 hectares or 14 percent of the total lands developed. Majority of these lands were devoted to commodities such as coconut (29%), banana (15%), rubber (10%), and corn (13%). It should be noted that Region 12 is one of the top producers of banana and rubber in the country.

Fundamental to agribusiness lands development is land distribution. In 2006, accomplishment was at 98 percent, of which DAR contribution is 96 percent and DENR, 100 percent (Table 2.3). In addition, leasehold operations performance was at 118 percent of target and agrarian cases resolution at 107 percent. Seventy-three new agrarian reform communities (ARCs) have also been established. Nevertheless, the completion of land distribution by 2008 as stipulated in the MTPDP appears to be in serious jeopardy. Land distribution balance of DAR was

TABLE 2.3 LAND DISTRIBUTION ACCOMPLISHMENT IN 2006*
(In Hectares)

Program/Activity	Target	Accomplishment		Cum as of 2006
			%	
Land Distribution				
DAR				
Area distributed	130,000	125,175	96%	3,820,954
Farmer beneficiaries (FBs) (No)				2,123,326
DENR				
Public A&D	119,000	119,112	100%	1,720,187
ISF/CBFM				1,269,411 **
FBs (No)		118,962		1,952,226
Total CARP	249,000	244,287	98%	6,937,140
FBs (No)		118,962		4,075,552

* Partial and Preliminary

** Based on original scope of ISF/CBFM Areas

Source: PARC Secretariat

reestimated and nearly doubled from the end-2005 figure of 732,578 hectares to the end-2006 figure of 1,337,538 hectares. An acceleration of land distribution and the possibility of extending this completion deadline should be considered.

Accomplishments in the North Luzon Agribusiness Quadrangle Super Region contributed to the development of at least two million hectares of new land for agribusiness. Investments for irrigation have commenced, with a total of PhP11 billion programmed for the rehabilitation and completion of the following: (a) Agno River Integrated Irrigation Project; (b) Banaoang Pump Irrigation Project; and (c) Casecnan Multi-Purpose Irrigation and Power Project (Irrigation Component). The Casecnan project is 75 percent finished as of 2006 while all other projects posted lower levels of accomplishment. In addition, construction of three national roads connecting major agriculture production areas were also started during the year. These are Mt Data-Bontoc and Bontoc-Banaue roads as part of Halsema Highway, and the Bontoc-Tabuk-Tuguegarao road.

To harness the full potential of Mindanao as an agribusiness hub, particularly as the country's main agrofishery export zone, Southern Mindanao is being developed as a halal food production area. The President issued Memorandum Order No. 201 on December 23, 2006 mandating relevant

government agencies to harmonize all programs related to halal trade in order to ensure compliance with international standards. These agencies are the Departments of Trade and Industry (DTI), Agriculture (DA), Science and Technology (DOST), Health (DOH), Tourism (DOT), and the Office of Muslim Affairs (OMA). In addition, the Mindanao Halal Authority, Inc. (MINHA) was launched as the forerunner of halal initiatives in the South Cotabato-Cotabato Province-Cotabato City-Sultan Kudarat-Sarangani-General Santos City (SOCCSKSARGEN, Region 12) region. A major issue encountered regarding halal products certification is that despite the presence of a number of certifiers in the country, there is not a single, internationally-recognized certifying authority in the Philippines. This is one of the reasons why countries are adamant about importing halal-certified products from the Philippines.

Table 2.4 shows that about 500,000 hectares or 25 percent of the medium-term target for agribusiness lands have been developed in the past two years. To date, at least 33 percent should have been covered. Thus, to meet the 2010 target, more than 1.5 million hectares would have to be developed in the next four years, or approximately 381,851 hectares per year. While the fisheries sector continues to display exemplary performance, extra effort must be exerted for

TABLE 2.4 CUMULATIVE AGRIBUSINESS LANDS DEVELOPED, 2005-2006
(In Hectares)

	2005	2006	CUMULATIVE	6-YEAR TARGETS	ACCOMPLISHMENT TO DATE (%)
All lands	202,668	317,327	519,995	2,047,400	25.40
Coconut	78,903	123,360	202,263	1,350,000	14.98
Major High Value Crops	61,275	121,137	182,412	292,690	62.32
Sugar	13	630	643	20,410	3.15
Corn	43,542	48,754	92,296	280,250	32.93
Abaca	8,589	9,206	17,795	50,390	35.31
Livestock	1,581	2,351	3,932	45,200	8.70
Fisheries	8,765	11,890	20,655	17,210	120.02

Source: DA and MTPDP 2004-2010

coconut and livestock, whose accomplishments fell at 14 and 8 percent, respectively. The reasons cited for the generally low accomplishment for goal 1 include: (a) constrained access to credit facilities; (b) slow implementation of infrastructure support; (c) inadequate presence of market linkages; (d) limited participation of stakeholders; and (e) inadequate funds.

Measures necessary to contribute two out of the ten million jobs targeted as a legacy by 2010.

In terms of job creation, the DA reported a total of 577,363 jobs¹ created in 2006, which is 83 percent of the target for the year (Table 2.5). This is an increase by 260,072 jobs from the previous year's level of 313,291 jobs generated. Among the subsectors, the coconut subsector posted the highest, which added 125,036 jobs.

On the other hand, incremental employment² in the sector slowed down as there were only 187,000 additional persons employed which is 61,000 less than the previous year's level of 248,000 (Table 2.6). Nonetheless, labor force statistics show that total number of employed persons in the sector increased with employment growing by 187,000 from 11.628 million in 2005 to 11.815 million in 2006 (Table 2.7).

Underemployment figures, however, show that the sector accounted for 45 percent of the total number of employed persons wanting more hours of work (Table 2.8). The average number of underemployed persons in the sector is high (average increment of 291,000 in 2006) compared to total underemployed (average increment of 685,000 in 2006) in all sectors. While more jobs were created for the sector, the workers may still desire longer work hours to derive additional income. The quality of agricultural employment, therefore, needs to be addressed.

TABLE 2.5 JOBS CREATION, 2005-2006

YEAR	TARGET	ACCOMPLISHMENT%	ACCOMPLISHMENT%	CHANGE (05-06)
2005	521,093	313,291	60	
2006	697,721	577,363	83	84

Source: DA

TABLE 2.6 EMPLOYMENT GENERATED BY SECTOR, 2005-2006

SECTOR	LEVEL		PERCENT SHARE	
	2006	2005	2006	2005
Agriculture	187,000	248,000	28.8	35.4
Industry	(18,000)	26,000	-2.8	3.7
Services	482,000	427,000	74.2	61.0
Total	650,000	700,000	100.0	100.0

Source: NSO-LFS

Note: Details may not add up to totals due to rounding.

¹ Job is considered an activity that a person does for a living. In agriculture, 1 job is equal to 90 man days in crop production or an additional 25 heads in swine production.

² Employed/employment refers to persons aged 15 years old and above who, during the reference week, are reported either: (a) at work even for an hour; or, (b) with job/business even though not at work because of temporary illness/injury, vacation or other leave of absence, bad weather, strike/labor dispute, or other reasons. Likewise, persons who are expected to report for work or start operation of a farm or business enterprise within two weeks from the date of the enumerator's visit, are considered employed.

TABLE 2.7 EMPLOYED PERSONS BY MAJOR INDUSTRY GROUP, 2005-2006
(In Thousands)

SECTOR	2006	2005	PERCENT SHARE	
			2006	2005
Agriculture	11,815	11,628	35.8	36.0
Industry	5,006	5,024	15.2	15.5
Services	16,143	15,661	49.0	48.5
Total	32,963	32,313	100.0	100.0

Source: NSO-LFS
Note: Details may not add up to totals due to rounding.

TABLE 2.8 EMPLOYED PERSONS WANTING MORE HOURS OF WORK
(In '000)

Major Industry Group					2005-2006 Increment
	Average	%	Average	%	
Philippines	7,470	100.00	6,785	100.00	685
Agriculture	3,398	45.48	3,107	45.79	291
Industry	1,185	15.86	1,098	16.18	87
Services	2,888	38.66	2,581	38.03	307

Source: NSO-LFS
Notes: The NSO has not yet released the updates of the LFS results covering years 2000 to present affected by the new 2000-based Census of Population and Housing projection
*Underemployed includes all employed persons who desire to have additional hours of work in their present job or in an additional job, or to have a new job with longer working hours. Further classified whether visibly (working <40 hrs/week) or invisibly underemployed (working >40hrs/week).

Goal 2: Make food plentiful at competitive prices by reducing the cost of priority “wage goods” such as rice, sugar, vegetables, poultry, pork and fish and other important nonwage goods such as corn.

Agricultural output for 2006 appears to show that “food was made plentiful”. The sector posted a 4.86 percent output growth in 2006, an improvement from last year’s 1.37 percent contraction (Table 2.9). The fishery subsector remained the highest gainer at 5.95 percent because of increased seaweeds production, improved foreign demand and improvements in coastal and fisheries resources management activities. The crops subsector’s performance was likewise upbeat despite the fourth quarter typhoons that devastated farmlands. Growth was also buoyed by higher outputs in palay, coconut, sugarcane, banana, pineapple, and rubber due to good weather in the earlier months of the year, sustained use of

hybrid and good quality seeds, and greater demand for these agricultural crops.

Table 2.10 shows an increase in the adoption rate of hybrid seeds, rising by 20 percent during the dry season in 2006. Meanwhile, higher value of production was also observed for livestock with a 2.48 percent growth, led by the increase in hog production as well as production in commercial carabao and cattle farms. However, a contraction of 0.39 percent was posted by the poultry subsector. This was brought about by a decrease in production of chicken and duck meat as well as duck eggs by commercial farms due to typhoons. Moreover, a shift in consumption was triggered by threats of possible contamination with Avian influenza (AVI) virus especially during the first nine months of 2006. The government has been successful in keeping the country AVI-free during the year. However, instead of expanding production to fill the supply gap, it focused more on the prevention of AVI.

TABLE 2.9 PRODUCTION GROWTH RATE IN AGRICULTURE, 2005-2006
(In Percent)

Sub-Sector	2005	2006	POINT DIFFERENCE
Agriculture	-1.37	4.86	6.24
Agriculture Crops	-1.90	4.99	6.89
Livestock	2.34	2.48	0.14
Poultry	0.03	-0.39	-0.41
Fishery	6.00	5.95	-0.05

Source: BAS

TABLE 2.10 HYBRID RICE ADOPTION RATE
(In Percent)

Year	Dry Season	Wet Season
2004	7	7
2005	12	10
2006	20	-

Source: PhilRice

For wage goods, positive production gains were evident only for rice, corn, pork, *bangus* and *tilapia*. Sugar, vegetables and chicken, on the other hand, showed lower production levels for the year (Table 2.11). Annex 2 shows production figures of other agricultural commodities.

Overall inflation rate slowed down to 6.2 percent from 7.6 percent (Table 2.12) as food items posted lower rates of price increase than “all items” in the consumer basket of goods (Table 2.13).

TABLE 2.11 VOLUME OF PRODUCTION OF WAGE GOODS, 2005-2006
(In '000 MT)

WAGE GOODS	2005	2006	GROWTH RATE (%)
Palay	14,603.01	15,327.00	4.96
Corn	5,253.77	6,082.00	15.76
Sugar*	2,151.00	2,138.00	(0.60)
Vegetables	1,223.88	1,201.65	(1.82)
Chicken	1,238.35	1,205.95	(2.62)
Pork	1,761.79	1,840.37	4.46
Bangus	289.10	316.29	9.41
Tilapia	163.00	202.04	23.95

*By crop year
Source: DA and SRA

TABLE 2.12 AVERAGE CONSUMER PRICE INDEX AND INFLATION RATE

Group	2004	2005	2006	Inflation Rate (%)	
				2005	2006
All Items	120.6	129.8	137.9	7.63	6.24
Food, beverages and tobacco	116.3	123.8	130.6	6.45	5.49

Source: NSCB

**TABLE 2.13 RETAIL PRICE INDEX FOR FOOD IN METRO MANILA
(At Constant 1978 Prices)**

Year	Food		All Items	
	RPI	% Change	RPI	% Change
2006	1237.20	8.36	1256.00	7.97
2005	1141.70	6.30	1163.30	7.47
2004	1074.00	-	1082.40	-

Source: NSCB

However, much work still needs to be done to make these wage goods more affordable. Table 2.14 shows that except for pork and *bangus*, all goods posted price increases in 2006, particularly in vegetables where a double-digit price change has been reported.

Meanwhile, hunger incidence remains high, affecting 2.9 million families by the third quarter of 2006, notwithstanding improved production levels as well as a decrease in inflation. The incidence of hunger declined

in Metro Manila from 15 percent in June to 12.8 percent in September, but rose in the rest of the country. For the rest of Luzon, the increase was from 10 percent to 14.7 percent; in the Visayas, from 17.7 percent to 19.7 percent; and in Mindanao, from 17.3 percent to 21.3 percent. Chapter 12 on Basic Needs expounds on the initiatives of the government to reduce the number of severely hungry families through the formulation of the Accelerated Hunger Mitigation Plan (AHMP).

**TABLE 2.14 AVERAGE RETAIL PRICES OF WAGE GOODS, 2005-2006
(In PhP)**

WAGE GOODS	2005	2006	% CHANGE
Rice	21.28	22.00	3.4
Corn White	15.25	15.72	3.1
Yellow	14.30	14.65	2.4
Vegetables (average)	36.90	41.18	11.6
Chicken	101.04	103.09	2.0
Pork (ave. ham; liempo)	141.71	139.7	-1.4
Bangus	81.06	79.56	-1.9
Tilapia	70.02	70.14	0.2

Source: BAS

The sector's performance may be attributed to a number of measures made possible by line agencies involved in rural development. Investments to improve farm productivity have been made to rehabilitate irrigation systems which reached a total service area of 56,146 hectares compared with the 26,679-hectare target. This, however, is 49 percent lower than the 2005 accomplishment of 110,865 hectares. In terms of new service areas, only 26 percent (6,136 hectares of the 23,525 hectares targeted) was irrigated. This is again 42 percent short compared to the previous year's accomplishment of 10,539 hectares. These new irrigation facilities, however, are potentially multicommodity, meaning nonrice crops can also be serviced. Communal irrigation projects covering 10,788 hectares were likewise reported.

On the other hand, support for the fishery sector was strengthened with the construction of five municipal fish ports: Pamalian, Ganassi; Manglad, Maddela in Quirino; Carles fishland; and Danao Fishport and Pamarawan Fishport in Bulacan. These fishports comprised 166 percent of the year's target. Four regional fishports were likewise constructed (Iloilo, Lucena, Zamboanga and Davao Fishports), but it fell short of the seven fishports targeted for the year.

Efforts were undertaken to improve the effectiveness, adequacy and efficiency of the agricultural sector's transport and logistical support system for both farm inputs and produce to meet regional standards especially for agricultural and fishery food. Infrastructure projects such as farm-to-market roads and tramlines, as well as the roll-on-roll-off (RORO) ferries were implemented. Transport of produce was facilitated through the construction of 83 km of farm-to-market roads, although this is merely 42 percent of the 198-km target. In addition, the rehabilitation of four tramlines and construction of a new system were carried out as alternative modes of transport for produce from hard-to-reach areas.

Postharvest facilities were also constructed and established. A total of four

cold storage facilities in selected wet markets in Metro Manila (Batasan Hills, Balara, Baseco and Marikina markets) as well as a packing house in Benguet were constructed, doubling the target of cold storage facilities for the year. The construction of 27 units of warehouses/seed storage facilities was also accomplished although this is just 10 percent of the 273 targeted facilities for the year.

New strategies to reduce the cost of wage goods were likewise devised. Alternative market outlets as well as barangay food terminals were established in Metro Manila and Quezon (North Triangle Central Bus Terminal, Alabang Food Terminal, Benguet Producers Mart and Central Buying Station in Sariaya) to provide stalls to farmers/cooperative producers for wholesale and retail selling of agrifishery products. The "Food Lane Project" has also accredited 59 trucks to deliver agricultural commodities to markets immediately. The *Huwarang Palengke* Project is now being expanded into the *Huwarang Palengke* Program, which aims to lower food prices and simplify the food supply chain through decentralization at the barangay level, improved technology at the production and marketing levels, and improved access to primary commodities.

Research and development in the sector has also played a vital role. The Department of Science and Technology-Philippine Council for Agriculture and Natural Resources Research and Development (DOST-PCARRD) accomplished most of its measurable output targets for 2006. Notable are the One-Stop Information Shop for Matured Technology, wherein technologies were developed to improve the production and postharvest processes for corn, banana, mango, sweet potato, coconut, soybean, vegetables, bamboo, cutflowers and ornamental plants, among others. Meanwhile, the Techno Gabay Program (TGP), PCARRD's banner program for technology promotion, continued to provide technology information and services. In particular, its Enhancing the Farmers' Information and Technology Services (FITS) project, through *Magsasaka Siyentistas* (MS),

provided resource persons for technology clinics and cross-farm visits during the period.

As of December 2006, there were 202 active TGP-FITS centers that served around 101,000 TGP client- farmers, 200 LGUs and other FITS host agencies, as well as 14 consortia and around 78 partners/member agencies. Provincial and Municipal/City Agricultural Offices of the LGUs hosted 73 percent of the centers. Chapter 16 (Science and Technology) provides additional details on accomplishments and the corresponding policy directions for science and technology.

Meanwhile, the provision of credit to the sector likewise played a crucial part in the development of agribusiness lands. The government aims to increase the flow of credit to the agricultural sector by providing farm-credit facilities and financing programs to small farmers and fisherfolk. In this regard, the Land Bank of the Philippines (LBP) released PhP23.8 billion in agricultural production loans in 2006 which is about 101.9 percent more than its total target of PhP23.4 billion for the same year. Moreover, the Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) facilitated the release of PhP3.6 billion in loans and guarantee assistance nationwide. About 91 percent (PhP3.3 billion) of the releases was channeled through the Corporation's direct lending window while around 8 percent or PhP328 million was disbursed through the guarantee mode. In terms of commodity/project financed, more than PhP1 billion or 32 percent was released for agri-fishery related livelihood projects; 23 percent or PhP826.4 million for livestock and poultry; 21 percent or PhP749.8 million for grains and more than PhP800 million for high value crops, fisheries and other commodities. By area, Luzon accounted for the biggest share with 45 percent or PhP1.609 billion of the total releases, followed by Mindanao with 32 percent or PhP1.171 billion and Visayas with 23 percent or PhP847 million.

PROSPECTS AND POLICY DIRECTIONS FOR 2007

In 2007, the sector is expected to grow in gross value added terms by 3.9 percent. Fisheries will continue to be a major contributor to the sector's growth with the further expansion of production areas for *bangus*, seaweeds and *tilapia*, and the revival of the shrimp industry through the cultivation of Pacific white shrimp. *Palay* and corn are expected to post 1.4 and 7.9 percent increases, respectively, within the first semester. Likewise, the production uptrend for sugar is likely to continue given the implementation of the Biofuels Act, which calls for the development of 110,000 hectares of sugar lands for ethanol production. Banana, mango, pineapple, papaya, vegetable and rubber productions are likewise expected to increase with improved access to domestic and international markets, expanded area planted and new technology adopted.

There is thus the need for strategic reforms and more definitive efforts in the following areas:

- **Operationalization and strengthening of DA-DAR-DENR convergence.** Concerned rural development and oversight agencies should exert efforts to ensure systematic management of sector and agency performance and initiatives. One such initiative is the the DA-DAR-DENR Convergence Initiative towards Sustainable Rural Development, a strategic approach to agribusiness development and job generation. In line with this, the involved agencies may need to review their outputs and initiatives in terms of their strategic contribution to sectoral goals.
- **Develop further the coconut subsector through the dividends from the Coconut Industry Investment Fund (CIIF).** The coconut industry may be further developed through the accrued cash dividends from the CIIF block of San

Miguel Corporation (SMC) shares amounting to at least PhP700 million. This is in light of the dismal accomplishment of the coconut subsector in terms of agribusiness lands developed (51%) and jobs generated (48%) in 2006 despite having the biggest source of targeted land for agribusiness (52%). The CIIF may be used to finance the Coconut Agribusiness Development Program and other legally permissible activities benefiting coconut farmers.

- **Make Mindanao the country's main agrofisheiy export zone.** The DTI, in cooperation with the Office of Muslim Affairs, should facilitate the creation of a single halal products certifying authority in the country to increase recognition of local exports by Islamic countries.
- **Review of CARP extension.** The completion of land distribution, even on an extended deadline scenario, must be reviewed. This should consider sustained provision of the necessary support services, to preserve and enhance the gains already accomplished under the Program. It may be noted that a ten-year extension of land distribution under CARP has been approved at the level of the Presidential Agrarian Reform Council - Executive Committee. Numerous studies show that over the last 18 years, the program has yielded positive results in terms of enhanced investments and productivity in the covered areas. However, the uncertainty hovering over the still-to-be-covered areas

had adverse impacts in terms of withheld investments and decollateralization of land.

- **Review of rice self-sufficiency policy.** The DA plans to pursue rice self-sufficiency and achieve a 98 percent level of sufficiency by 2010. This requires drastic and calibrated increases in the level of support in the following areas: irrigation, postharvest, farm inputs and credit. This, however, should be considered vis-à-vis the preliminary results of an ongoing study entitled *Philippines: Agriculture Public Expenditure Review (AgPER)* (refer to Box 2.1) showing that welfare losses outweighed welfare gains during the country's implementation of the policy in 2000-2005. A review of the policy is therefore necessary. Support to the rice sector should be contingent on priority given to the following to minimize losses: (a) decoupling of NFA's regulatory and trade functions to minimize the agency's billion peso operational costs equivalent to 0.4 percent of the GDP in 2006, as well as delegating the latter function to the private sector while retaining the task of regulating the rice market; (b) construction of small-scale commodity-neutral irrigation systems, as well as rehabilitation of major systems; and (c) investment in growth-enhancing support services such as market information systems, rural roads, postharvest facilities and R&D, which will encourage crop diversification and enable the sector to follow the dictates of a free and productive market.

BOX 2.1 Rice Self-Sufficiency in the Philippines: Benefits, Costs and Moving Forward

The Agriculture and Fisheries Modernization Act (AFMA; RA 8435) defines food security as the “policy, objective, plan, and strategy of meeting the food requirements of the present and future generations of Filipino in substantial quantity, ensuring the availability/accessibility and affordability of food to all, either through local production or importation or both based on the country’s existing and potential resource endowments and related production advantages, and consistent with the overall national development objectives and policies”. On the other hand, food self-sufficiency refers to the degree in which domestic food production is adequate to meet the country’s food requirements. It is not equivalent to food security if the elements of affordability and timely logistical access are not present. Thus, it is possible to be self-sufficient in food, such as rice, without attaining full food or rice security. The policy of food or rice self-sufficiency may undermine food security if this leads to the erosion of purchasing power of consumers or the affordability of food items or both.

Preliminary findings of an ongoing study entitled *Philippines: Agriculture Public Expenditure Review (AgPER)*¹ suggest two distinct possible annual gains of the government’s rice self-sufficiency policy during 2000-2005: (a) producers gain due to higher palay prices estimated at PhP14.2 billion per year; and (b) budget (taxpayers) gain due to additional income from rice import tariffs which could have amounted to PhP6.8 billion per year, but negated by the tax subsidy for NFA as there has been just a reallocation of budget transfer from one pocket (DBM) to another (Customs Bureau/DOF).

However, the study further reported that the benefits of the rice policy do not trickle down to the poor as the welfare gains have been outweighed by overwhelming welfare losses, with an average annual net loss reaching PhP50 billion in 2000-2005, or PhP300 billion (representing 1.2% of the total GDP) for the whole period. The estimated annual losses in 2000-2005 are disaggregated into: (a) producer loss of PhP1.3 billion due to decreased producer efficiency caused by the artificial attraction of inputs and production factors to rice production at the expense of other crops; (b) consumer loss of about PhP64.3 billion due to excessive expenditure for rice that would not be the case if the world rice market was tapped; and (c) consumer loss of PhP7.2 billion per year due to reduced consumption, which would not be the case at world market prices.

To minimize these losses, support to the rice sector should be contingent on priority given to the following: (a) decoupling of NFA’s regulatory and trade functions to minimize the agency’s billion peso operational costs (this amounted to 0.4% of the GDP in 2006) as well as delegating the latter function to the private sector while retaining the task of regulating the rice market; (b) construction of small-scale commodity-neutral irrigation systems, as well as rehabilitation of major systems; and (c) investment on growth-enhancing support services (such as market information systems, rural roads; postharvest facilities and R&D) which will encourage crop diversification and enable the sector to follow the dictates of a free and productive market.

¹ A study commissioned by the Department of Budget and Management and the World Bank as an input to the Paper on Budget Strategy

Chapter 3

Environment and Natural Resources

This chapter assesses the performance of the Environment and Natural Resources sector along five major thrusts supporting the President's 10-Point Agenda and the Medium-Term Philippine Development Plan (MTPDP) 2004-2010. The review yielded mixed results with sustained to modest performance in most activities but with observable lags in some key commitments. As in the previous year, performance was analyzed on the basis of actual accomplishments in 2006 vis-à-vis the minimum annual deliverables if medium-term commitments were spread equally over six years (equal annual target) covering the Plan period. Table 3.1 presents performance in some of these key activities as a more detailed discussion of accomplishments per thematic thrust is provided below.

ASSESSMENT

Thrust 1. Sustainable and more productive utilization of natural resources to promote investments and entrepreneurship

Establishment of a permanent forest line through the delineation of 3,007 kilometers (km) of forestland was undertaken by putting up 679 major and 3,900 minor monuments. This, in turn, facilitated government efforts to increase access to land resources with the issuance of 122,076 patents to qualified beneficiaries covering 119,000 hectares of alienable and disposable (A&D) lands. Furthermore, assessment of 349,045 hectares of forestlands was also undertaken to determine suitability for agriculture, agroforestry, ecotourism and other related uses. All these provide the basis for the issuance of Community-Based Forest Management Agreements (CBFMAs), Industrial Forest Management Agreements, wildlife permits, as well as the establishment of wildlife farms.

A land survey was also conducted as the densification of the Philippine Reference

System (PRS) '92 reference points, where 162 1st and 2nd order Geodetic Control Points (GCPs) were established in 44 provinces, and 1,245 3rd and 4th order GCPs in 80 barangays.

Survey and mapping of the country's continental shelves, sealanes, ports and harbors, including the 200 nautical mile Exclusive Economic Zone (EEZ) were likewise undertaken consistent with the country's commitment to the UN Convention on the Law of the Sea (UNCLOS). The EEZ is important in the delimitation of the country's water boundaries, the utilization and exploration of living and nonliving marine resources, and the conduct of scientific researches within the archipelago. A total of 64,305 sq. km. of EEZ, ports and harbors of Manila Bay; and the 1,260 sq. km. for the North-South Sealanes covering Batangas-Mindoro-Marinduque-Masbate-Sulu Sea was surveyed. In addition, an inventory of 74 hectares of foreshore areas and patrimonial properties was undertaken to provide a basis for the issuance of permits/lease contracts for

development activities. The creation of Foreshore Management Units (FMUs) under the Land Management Bureau of DENR was also pursued to strengthen the management of foreshore areas.

Pursuant to the country's commitment to the UN Framework Convention on Climate Change, the DENR registered seven projects on renewable sources of energy and waste to energy to the Clean Development Mechanism (CDM) Executive Board. With this, the Philippines was ranked ninth globally and third in Asia in terms of number of CDM projects registered at the CDM Board. The seven projects are expected to generate an average annual Certified Emission Reduction (CER) equivalent 240,303 metric tons (mt) of carbon dioxide.

The government partnered with the private sector, LGUs and other stakeholders to promote 40 ecologically sustainable technologies consisting, among others, of bamboo propagation and plantation management, vermicomposting, tiger grass production, and mangrove plantation and management. Various forms of advocacy materials were utilized such as print media, trainings/lectures, exhibits and broadcast and demonstration areas. These technologies seek to encourage the production of good quality planting materials for reforestation and tree planting, as well as supporting wood and nonwood based industries.

Finally, to further enhance the environment for investment, the Philippine Environmental Impact Statement (EIS) system was streamlined reducing the average processing of Environmental Compliance Certificate (ECC) applications in environmentally critical areas (ECAs) from 30 to 26 days. From January to November 2006, DENR Regional Offices issued 2,863 ECCs with an investment cost of PhP431 billion, while the DENR Central office issued ECCs to 12 environmentally-critical projects with an investment cost of PhP19 billion.

Thrust 2. Promote sustainable mining that adheres to the principles of sustainable development: economic growth, environmental protection and social equity

The country's mineral wealth properly if utilized offers vast economic and social potentials by generating foreign investments and local employment. However, accomplishments in this area have been sluggish. Most activities are still at the exploration and assessment stage, as well as in the remediation and rehabilitation of abandoned mines. While these activities are deemed important, more needs to be done to further develop the mining industry.

A total of 20 mining projects were developed in 2006, generating investments amounting to US\$108 million and 1,540 direct and indirect employment. This brings total investment generated in mining since 2005 to US\$223 million or a meager four percent of the medium-term commitment. The same is true for employment, which only generated 5,410 jobs, or a meager two percent. These low levels of accomplishments, however, are expected to pick up as the current phase of work progresses from exploration to actual resource extraction, which would lead to ancillary sources of employment.

The Natural Resource Mining and Development Corporation (NRMDC) has initiated refinements in the terms of references for the expected bidding out of the Diwalwal Project by 2007. To encourage investment inflows, the country actively participated in the following mining fora: (a) 11th Indaba/African Mining conference in South Africa; (b) the 74th Convention of the Prospectors and Developers Association of Canada; and (c) the Asia Mining Congress 2006 in Singapore. As part of the commitment to the Indaba/African conference in South Africa, the Philippines also hosted the reciprocal visit of African government leaders and mining executives. These fora provide avenues to attract foreign investment in mining.

Along with the promotion of investment programs, the negative impact of

past mining activities was also addressed through the remediation or rehabilitation of the seven identified priority abandoned mines. Also undertaken were the environmental and geohazard review of the mineral areas of the Philippine Pyrite Corporation in Bagacay, Samar; the rapid environmental assessment of the Basay Mines in Negros Oriental; and the field assessment in Marcopper Corporation in Marinduque.

Thrust 3. Focus and strengthen the protection of vulnerable and ecologically fragile areas, especially watersheds and areas where biodiversity is threatened

The protection of critical ecosystems was relentlessly pursued in collaboration with various stakeholders through policy and on-ground activities. Accomplishments in this thrust generally indicate modest performance except for notable shortfalls in activities related to reforestation and the proclamation of protected areas.

Policy initiatives undertaken during the year include: (a) proclamation of the *Rasa Island Wildlife Sanctuary* (Proclamation 1000 dated February 15, 2006) and *Tubbataha Reefs Natural Park* (Proclamation 1126 dated August 23, 2006); (b) issuance of Executive Order 578 Establishing the National Biodiversity Policy Nationwide, particularly in the Sulu Sulawesi Marine Ecosystem (SSME) and the Verde Island Passage Marine Corridor (identified as the “Center of the Center of Marine Shorefish Diversity in the World”); and (c) issuance of EO 553 Adopting the Integrated Coastal Management Approach to Ensure the Sustainable Development of the Country’s Coastal and Marine Environment. These initiatives were intended to provide a conducive policy environment to sustainably manage critical biodiversity areas in the country, particularly in the coastal and marine ecosystems.

Furthermore, institutional collaboration to protect, monitor and undertake surveillance of coastal areas nationwide was continued among 14 coastal

alliance members formed in 2005 involving the DENR, Department of Agriculture-Bureau of Fisheries and Aquatic Resources (DA-BFAR), Department of the Interior and Local Government (DILG), Philippine National Police (PNP)-Maritime Command, and the Philippine Coast Guard (PCG).

LGUs, as development partners on ground activities, were given technical assistance in the establishment of 437 hectares of mangrove plantations as well as in the preparation of Coastal Environment Profiles, which identified a total of 192 investment sites. On the other hand, DA-BFAR assisted in the establishment of 35 marine sanctuaries while 151 wetlands (includes coral reef, lakes, freshwater swamps and marshes and brackish ponds) were closely monitored and managed to prevent the entry of the bird flu virus.

Similarly, partnerships to protect 8.8 million hectares of untenured forestlands among government agencies, the military, LGUs, nongovernment organizations (NGOs), people’s organizations (POs), the business and religious sectors yielded positive results with the reported confiscation of illegal cut and transported forest products amounting to an estimated PhP54 million. Reforestation activities were undertaken but to a limited extent as only up to 1,612 hectares within the 140 critical watersheds were covered.

Thrust 4. Create a healthier environment for the population

Significant efforts were undertaken to improve the quality of air and water. However, reach and demonstrated impact were very limited. Partnerships with other stakeholders particularly LGUs, NGOs and industry groups are deemed vital in sustaining achievements as well as in further broadening the conduct of key activities in this area.

The drive against air pollution in urban centers indicated remarkable success with 12 stations reporting reductions in total suspended particulates (TSP) level by at least 20 percent as targeted for the year. Valenzuela, which consistently exceeded the TSP level for

the previous years, achieved a 37 percent reduction attributed to the extensive monitoring and closure of three pollutive firms in the area. Metro Manila, however, only achieved a modest 12 percent reduction in TSP, which is lower than the previous year's accomplishment of 14 percent. Relative to these, the Governing Board for the Metro Manila Airshed was institutionalized to facilitate coordination in the implementation of various projects aimed at improving air quality in the area.

Meanwhile, to further help improve air quality, the Green Philippine Highways Program (GHP) was pursued, which involved planting ornamentals and trees along major highways nationwide covering a stretch of 4,112 km. Similarly, urban greening through roadside planting and the establishment of mini forests were undertaken.

Meanwhile, the condition of 13 out of 19 river bodies monitored for the year showed modest improvement with indications of reduced biological oxygen demand (BOD) and increased dissolved oxygen (DO) levels. Ten of these rivers are already within the DENR set standards. This is a result of the inspection conducted on industries and commercial establishments, as well as through close coordination with LGUs and other stakeholders. For water quality monitoring, 33 principal rivers were classified according to their most suitable use, while 27 bathing beaches were monitored to provide the necessary information required by developers, particularly beach resort owners and LGUs for appropriate management action.

Regulation and close monitoring of toxic and hazardous wastes drew significant attention. The registration of Hazardous Waste Generators (HWGs), which included 1,081 establishments, hospitals and companies subject to Chemical Control Order (CCO), increased and exceeded targets for the year. This performance holds true with the monitoring of treatment, storage and disposal (TSD) facilities of hazardous wastes.

Similarly, a significant reduction in the country's consumption of Ozone-Depleting Substances (ODS) was noted with importation registering only 681 mt, which is way below the 1,500 mt quota set for the year. However, solid waste persists as a cause of pollution in land, air and water. The closure of open and controlled dumpsites continue to lag as there remains 693 and 388 open and controlled dumpsites, respectively, that should have been closed by February 2006 and converted to sanitary landfills.

Groundwater assessment was conducted in 61 LGUs, exceeding the target by 19 percent for the year. Implementation of "Tap Watch Program" was likewise remarkable with 50 percent of the medium-term target for the Program already completed in only two years. However, provision of potable water in priority 212 "waterless" areas of Metro Manila fell short of the year's target with only 33,961 households/families in 52 waterless areas covered by the service. Similarly, only 115 out of the 633 priority waterless municipalities outside Metro Manila have been covered by the President's Priority Program on Water (P3W) and water supply projects of Local Water Utilities Authority (LWUA) and DILG. Cumulative accomplishment stands at a low 18 percent which leave doubts on whether targets for the medium term will be achievable. This may partly be attributed to the slow progress made in the assessment of nine critical areas identified in the 1998 Master Plan Study on Water Resources, which have so far covered, so far, only Metro Manila and Cebu.

To promote the integrated development of water resources, the National Integrated Water and Resources Management (IWRM) Plans Framework was completed in December 2006, which included a study on raw water pricing. Furthermore, in line with the Plan's strategy to maintain and sustain data collection and database for water resources, a Memorandum of Agreement among the NWRB, DILG and other concerned agencies was forged on the development of a knowledge portal for water supply and sanitation.

Meanwhile, EO 510 provided for the creation of the River Basin Control Office (RBCO) and drafting of an Integrated River Basin Management and Development Framework Plan (IRBMD).

Thrust 5. Mitigate the occurrence of natural disasters to prevent the loss of lives and properties

Activities under this thrust continued to lag with only a few regions having completed geohazard mapping and with only a few municipalities being extended technical assistance to cope with geohazards, which include flooding in disaster-prone areas. Nevertheless, support to LGUs through geohazard assessment activities was extended to 486 municipalities in Leyte, Biliran, Surigao del Norte and Siargao in Surigao del Sur to generate information that will be used for physical framework and land use planning, as well as in identifying disaster preparedness, management and mitigation measures. Identification of resettlement sites for those devastated by landslides and mudslides in Ginsaugon, Southern Leyte and Albay were also pursued while 38 municipalities were provided with technical assistance in cleanup operations.

Structural measures undertaken together with stakeholders include completion of the Mt. Pinatubo Hazard Urgent Mitigation Project Phase II; construction and rehabilitation of about 129,386 linear meters of drainage facilities by the Department of Public Works and Highways (DPWH); and declogging/desilting/dredging/improvement of about 3,355 km of drainage facilities by the Metro Manila Development Authority (MMDA). Five other projects related to flood management were undertaken, three of which were delayed due to problems on right-of-way (ROW) and insufficient funds to cover payment of lots already acquired or were yet to be acquired.

PRIORITY PROGRAM FOR 2007

Thrust 1. Sustainable and more productive utilization of natural resources to promote investments and entrepreneurship

- Fasttrack the delineation of forest boundaries, the cadastral survey of municipalities, and inventory of foreshore areas to promote investment and job generation;
- Facilitate the survey and mapping of the country's continental shelves, sealanes, ports and harbors, including the 200 nautical mile EEZ in order to tap the full potentials of marine resources, as well as strengthen the government's ability to police territorial waters; and
- Push for the passage of the Land Administration Reform Bill in the new Congress

Thrust 2. Promote sustainable mining that adheres to the principles of sustainable development, economic growth, environmental protection and social equity

- Facilitate the assessment and rehabilitation of abandoned and inactive mine areas, particularly the Consolidated Mines, Basay Mining Corporation and Bagacay Mines; and
- Fully implement the Minerals Action Plan to actualize commitments to sustainable mining activities

Thrust 3. Focus and strengthen the protection of vulnerable and ecologically fragile areas, especially watersheds and areas where biodiversity is threatened

- Fully operationalize EO 606 to promote Sustainable Upland Development;
- Facilitate and intensify reforestation efforts, particularly along the major river systems;
- Sustain the conservation of protected areas particularly for areas with potential for ecotourism; and

- Rehabilitate Tacklong and Tandog Island National Marine Reserve

Thrust 4. Create a healthier environment for the population

- Expand support to LGU capacity development for various ENRM devolved functions, i.e. forest, coastal, solid waste management; and
- Intensify regulatory measures to sustain reductions in TSP (air) in major urban centers and BOD (water) in major river systems.

Thrust 5. Mitigate the occurrence of natural disasters to prevent the loss of lives and properties

- Expand and fasttrack geohazard mapping activities; and
- Fasttrack processing/implementation of structural measures.

TABLE 3.1 SUMMARY OF MAJOR ACCOMPLISHMENTS IN THE ENVIRONMENT AND NATURAL RESOURCES SECTOR

Box 3.1 Sustainable Upland Development

Guiding Principle. The operationalization of the country's sustainable upland development (SUD) strategy at the local level shall be consistent with the principles of Sustainable Forest Management (SFM), adopting primarily the Community Based Forest Management (CBFM) strategy in community mobilization and land use planning, delivery of basic social services extension services, forest protection and resource management, rural infrastructure, and development of local enterprises and livelihood activities. Furthermore, the implementation of SUD shall also be based on the following:

1. Co-management: the principle of institutionalizing mutual cooperation and collaborative partnership between national and local government institutions, as well as local communities, in the performance and implementation of legally-mandated responsibilities, roles and functions in the development and management of uplands;
2. Convergence: the concept of integration, complementation and maximization of institutional, technical, financial and human resources of all key stakeholders in the upland areas, especially among national and local government agencies; and
3. Participatory Governance: the process of directly capacitating and fully involving local government units (LGUs) and communities in the whole process of formulating, planning, implementing and monitoring development activities and programs in the uplands.

Scope and Coverage. The sustainable development of the uplands shall encompass and cover lands that are classified as forestlands, including allowable zones within protected areas. Key activities will include, but not limited to,

- Identification and review of convergence and impact of key programs and interventions provided by national and local agencies, including donor-assisted projects and programs to upland communities and areas;
- Review and assessment of the effectiveness and efficiency of key national and local agencies in the implementation and performance of their mandates in the uplands;
- Review and assessment of the consistency and applicability of existing national implementing policies, guidelines and programs in addressing the needs and conditions of upland areas and communities;
- Identification, formulation, development and recommendation of specific programs of action and interventions to support the sustainable development of upland areas and communities; and
- Identification of key policy returns and recommendations to strengthen the delivery and effectiveness of programs and initiatives in the uplands.

Institutional Arrangement. To oversee the implementation of SUD, a Steering Committee to be chaired by the Department of Environment and Natural Resources (DENR) will be created with the following agencies as members: Department of Agriculture (DA), Department of Agrarian Reform (DAR), Department of Interior and Local Government (DILG), and the Presidential Adviser on Agrarian Reform. The heads of various national LGU Leagues (Provinces, Cities, Municipalities, and the Liga ng mga Barangays) will also be encouraged to join the meetings of the committee, as parallel structures will also be established at the local level.

Source: Executive Order No. 606 (Pursuing Sustainable Upland Development Anchoring on Food, Wood and Non-wood Security and Economic Productivity and Providing the Mechanisms for its Implementation and for Other Purposes, 27 February 2007).

Chapter 4

Housing Construction

In 2006, the housing construction sector continued its multi-stakeholder efforts to attain the goals of the Medium-Term Philippine Development Plan (MTPDP) 2004–2010 and the Millennium Development Goals (MDGs). Accomplishments were made in shelter security through innovative approaches, job creation in housing construction, and improvement in the lives of informal settlers. Guided by the Strong Republic Housing Program strategic framework, the housing sector's interventions were anchored on a multistakeholder/tripartite, market-based, private sector and LGU-led reforms and approaches to meet the goals of: (a) job generation; (b) shelter security of the different housing market segments; and (c) improving the lives of slum dwellers. The sector worked to help decongest Metro Manila by developing housing communities outside the metropolis in line with the President's 10-point Agenda.

The government's housing efforts for the next three years will focus on the bottom 40 percent of households who have less access to formal housing assistance. Providing poor and vulnerable households with affordable socialized housing, either through efficient production of housing units for ownership or rental, or through sustainable housing finance, will be prioritized.

ASSESSMENT

PROVIDING SHELTER SECURITY

Provision of Direct Housing

The housing sector addressed growing housing needs by providing a total of 106,327

households with security of tenure in 2006. This translates to a 64 percent accomplishment against the MTPDP target of 166,136 units compared with 97.64 percent accomplishment rate in 2005.

Socialized housing¹ was provided to 82,114 households belonging to the bottom 30 percent through the various programs of the National Housing Authority (NHA), Social Housing Finance Corporation (SHFC), National Home Mortgage Finance Corporation (NHMFC), Home Development Mutual Fund (HDMF), Government Service Insurance System (GSIS) and the Development Bank of the Philippines (DBP) vis-à-vis the target of 125,371 units or an accomplishment of 65.50 percent. This accomplishment rate is lower than the 91.91 percent accomplishment rate in 2005.

¹ House and lot packages costing below PhP300,000

Low cost housing², on the other hand, was made available to 24,213 low-salaried government and private sector employees through the home lending programs of HDMF and Social Security System (SSS). This represents an accomplishment rate of 59.40 (2006 target was 40,765 units), which is lower than the 111.46 percent accomplishment. The lower accomplishment rate was affected by the shift in focus and priority of key shelter agencies on the Northrail and Southrail Resettlement Projects.

The aggregate accomplishment of 106,327 was 35.44 percent of the State of the Nation Address (SONA) target of 300,000 households provided with security of tenure for the year. The SONA has targeted 1.2 million housing units for the four-year period or 300,000 units per year.

Under the land tenure for the urban poor, security of tenure was provided to 19,978 families while 462.37 hectares of public lands were declared through Presidential Proclamations as alienable and disposable (A&D) for socialized housing purposes and relocation projects.

The Community Mortgage Program (CMP) administered by the NHMFC, which provides security of tenure to poor households through land acquisition, site development and distribution of lots, serviced 13,822 informal settler families with mortgage take-outs amounting to PhP739 million.

To provide poor urban families outside Metro Manila with access to land tenure, affordable shelter, basic community infrastructure and facilities, and livelihood and microenterprise opportunities, the Housing and Urban Development Coordinating Council (HUDCC) and DBP implemented the Asian Development Bank (ADB)-assisted Development of the Poor Urban Sector Communities Project (DPUSCP). In 2006, it approved subprojects in Angeles City and Victorias City under its site development and secure tenure component. It also provided subloans to various microfinance institutions

(MFIs), the Center for Agricultural and Rural Development, Enterprise Bank, Inc. and Taytay sa Kauswagan, Inc. amounting to PhP75 million. The project, however, recorded a low loan disbursement rate of 5.25 percent as of November 2006 in the three years of project implementation. The project was constrained by the slow approval of pipeline subprojects under the Site Development and Secure Tenure Component because of: (a) unresolved land ownership issues within the proposed LGU project sites; (b) changes in the political leadership and development priorities of local governments and interest rates under the project; and (c) the conflicting resulting end-user rates with the government's policy of subsidized interest rate for socialized housing.

The government is also fasttracking the implementation of the Metro Manila Urban Services for the Poor (MMUSP) Project. The MMUSP is a relending facility/window for Metro Manila LGUs to undertake the same interventions as those of the DPUSCP. The pilot project sites for the proposed MMUSP include the following: (a) National Government Center (NGC) in Quezon City; (b) National Bilibid Prisons in Muntinlupa; and (c) Food Terminal Incorporated (FTI) in Taguig.

To augment the government's effort in providing security of tenure to informal settlers, the Habitat for Humanity and Gawad Kalinga provided shelter and site development assistance to its target beneficiaries. The St. Jude Village in Trece Martires, Cavite accommodated 70 families, the Santa Rosa Habitat Housing Project in Laguna provided security of tenure to 89 families who used to live along the railway in Muntinlupa City, and the Southern Leyte Projects housed 390 families affected by the mudslides in Ginsaigon, Southern Leyte. Gawad Kalinga, on the other hand, was able to complete 20,800 housing units and establish 920 Gawad Kalinga Villages in 2006 nationwide.

² House and lot packages costing PhP300,000 to PhP3,000,000

TABLE 4.1 COMPARISON OF HOUSING TARGETS VS. ACCOMPLISHMENT

PRIORITY ACTIVITIES	ANNUAL TARGETS		ACTUAL ACCOMPLISHMENT		ACCOMPLISHMENT RATE (%)	
	2005	2006	2005	2006	2005	2006
DIRECT HOUSING PROVISION						
Socialized Housing Program						
Resettlement	22,900	21,100	17,000	14,513	74.24%	68.78%
- North Rail and South Rail						
- Assistance to LGUs/NHA-administered						
Slum Upgrading	5,800	5,500	5,132	1,338	88.48%	24.33%
Sites and Services	5,700	6,200	1,192	2,061	20.91%	33.24%
Technical Assistance	-	-	3,809	3,647	-	-
Core Housing	5,000	5,100	1,033	927	20.66%	18.18%
HDMF Socialized Housing	18,313	20,694	14,276	8,878	77.96%	42.90%
GSIS Socialized Housing	720	792	2,995	210	415.97%	26.52%
DBP Socialized Housing	3,700	5,000	1,014	-	27.41%	-
Tenurial Assistance	-	-	267	466	-	-
Presidential Proclamations	-	35,000	1,001	19,978	-	57.08%
Community Mortgage Program	15,360	15,860	12,710	13,822	82.75%	87.15%
National Government Center Project	-	-	2,686	-	-	-
Housing Materials Assistance	-	-	3,570	6,987	-	-
Provision of Housing Facilities (NHA)	-	838	2,041	-	-	-
Local Housing (NHA)	7,400	9,287	9,295	9,287	125.61%	100.00%
Sub-total for Socialized Housing	84,893	125,371	78,021	82,114	91.91%	65.50%
Low Cost Housing Program						
HDMF Housing Loan Program	26,403	29,835	39,145	24,061	148.26%	80.65%
SSS Housing Loan Program	664	730	59	47	8.89%	6.44%
Medium-Rise Housing	8,200	10,200	105	105	1.28%	1.03%
Sub-total for Low Cost Housing	35,267	40,765	39,309	24,213	111.46%	59.40%
TOTAL DIRECT HOUSING PROVISION	120,160	166,136	117,330	106,327	97.64%	64.00%
INDIRECT HOUSING PROVISION						
Retail Guaranty	22,340	24,574	5,493	12,460	24.59%	50.70%
Developmental Guaranty	2,482	2,730	3	2	0.12%	0.07%
Issuance of License to Sell	133,420	137,853	167,229	187,001	125.34%	135.65%
TOTAL INDIRECT HOUSING PROVISION	158,242	165,157	172,725	199,463	109.15%	120.77%

Sources: Strategy Planning Matrices, MTPDP 2004-2010

Housing and Urban Development Coordinating Council

Housing loans were also extended to 24,061 low-salaried government and private sector employees valued at PhP15.96 billion through the home lending programs of HDMF.

Provision of Indirect Housing

The Housing and Land Use Regulatory Board (HLURB) issued licenses to sell 2,346 residential projects, equivalent to 187,001 saleable lots and houses and lots. The actual number of projects issued with licenses to sell in 2006 accounts for a 135.65 percent accomplishment rate against the target of 137,853 units which is higher than the 2005 accomplishment of 125.34 percent. HLURB also provided technical assistance to 106 LGUs for the formulation and updating of their Comprehensive Land Use Plans (CLUPs). Another 239 LGUs were also assisted in the

the provision of housing guaranty covers vis-à-vis the 2005 accomplishments of 24.59 percent and 0.12 percent, respectively³. The low accomplishment rate has been traced to the low demand for guaranty cover from banks and financial institutions that extend housing loans. Moreover, to expand private sector participation in housing, the HGC floated PhP12 billion 7-year HGC zero-coupon bonds to refinance HGC corporate requirements in the provision of housing guaranty.

Policy Reforms

The HUDCC Council approved Memorandum Circular No. 04 on September 27, 2006 providing for the new ceiling definition of low-cost housing packages as well as that of medium-cost housing (Table 4.2).

The adjustment was prompted by increases in housing construction costs and the

TABLE 4.2 REVISED DEFINITION OF HOUSING LOAN CEILINGS/PACKAGES

HOUSING PACKAGES	CURRENT LOAN CEILINGS
Socialized Low Cost	Below P300,000
Level 1	PhP300,000 to PhP3,000,000
Level 2	PhP300,000 to PhP1,250,000
Medium Cost	Above PhP3,000,000 to PhP4,000,000
Open Housing	Above PhP4,000,000

adoption and review of their CLUPs against the 2006 target of 330 LGUs.

The Home Guaranty Corporation (HGC) guaranteed a total of 12,462 housing units valued at PhP8,937.70 billion through its Retail and Developmental Guaranty Programs. Against the retail guarantee target of 24,574 units and a developmental guaranty target of 2,730 projects, the HGC was only able to guarantee 12,460 units and 2 projects, respectively. This reflects a 50.70 percent and 0.07 percent accomplishment, respectively, in

generation of additional tax revenues for the government through the application of the restructured value-added tax (RVAT) for low cost housing.

To make housing more affordable to the lowest 30 percent of the income decile, the HDMF further lowered its interest rate from 9 percent to 6 percent for its socialized housing package. This aims to widen housing access to the segment of the formal sector not catered to by the banks.

³ HGC's developmental guaranty program has been temporarily suspended since 2001

To accelerate the distribution of secure tenure, the HUDCC crafted a policy paper and housing microfinance product manual allowing the use of rights-based instruments such as interim land titles as collateral in banking loan transactions. The manual is currently being reviewed by the Banko Sentral ng Pilipinas (BSP).

To ensure compliance with the balanced housing requirement under the Urban Development and Housing Act of 1992, the HUDCC Council also approved an alternative compliance to balanced housing through participation of developers in implementing government resettlement programs for the North Rail and South Rail relocatees in the form of financing, design, planning, development, upgrading or improvement of the sites and/or housing units.

CREATING JOBS THROUGH HOUSING CONSTRUCTION

In support of the 10-point Agenda on the creation of six to ten million jobs, the housing sector was able to generate 533,751 jobs in 2006 through the construction of 70,897 housing units. This output translates to 50.21 percent of the total target of 1,063,037 jobs from housing construction per year. This is lower than the accomplishment rate of 59.35 percent or an equivalent of 630,925 jobs generated in 2005. With about 8.3 skilled and semiskilled construction workers completing a housing unit in three weeks or a total of 124 man-days, the jobs created in the sector is equivalent to providing annual full-time employment to 276,391 workers assuming a maximum full-time annual employment of 264 man-days.

PROSPECTS AND POLICY DIRECTIONS FOR 2007

For 2007, the housing construction sector will continue to pursue the establishment of a more conducive environment to ensure secure tenure conditions through

policy and program reforms. The MDG of improving the lives of slum dwellers in the metropolis will be vigorously promoted. The thrusts will be in the following areas: (a) rationalizing coordination of key shelter agencies; (b) promoting sustainable housing finance; (c) institutionalizing secure tenure approaches; (d) lowering the cost of housing production; and (e) further strengthening housing regulations.

To rationalize coordination of shelter agencies, the creation of the Department of Housing and Urban Development (DHUD) by Congress will continue to be pushed by the HUDCC and key shelter agencies. The latest version of the DHUD Bill seeks to elevate the HUDCC into the DHUD with expanded powers to better implement the housing and urban development program with focus on institutional strengthening. The DHUD Bill has been further revised and simplified with the proposed Shelter Finance Fund already deleted in order to fasttrack its passage.

To strengthen housing regulation, the sector will continue to seek passage of the following bills: (a) Establishment of Local Housing Boards in Every City and Municipality; (b) Institutionalization of the National Land Use Policy; and (c) Creation of Land Title Insurance. The Local Housing Boards in the LGUs will be mandated to formulate, develop, implement, and monitor policies on the provision of housing and just and humane resettlement. The National Land Use Policy is aimed at rationalizing the use of land among productive (i.e., agricultural and food security), protective (i.e., for ancestral domain and wildlife/biodiversity use), infrastructure development (i.e., for built-up facilities), and settlements (i.e., for residential areas). The creation or establishment of land title insurance and its inclusion in the Insurance Code of 1978 will protect the insured against land title defects, liens, encumbrances and fraud.

To help institutionalize secure tenure approaches, the government will promote urban asset reform through innovative schemes such as the De Soto principle⁴. Moreover, the

NHA shall pursue the disposition of proclaimed lands among their qualified occupants. These will entail the conduct of census and structure tagging, land surveys and individual lot titling for some 18 proclaimed lands with an estimated 15,000 occupant-families. For the North Rail Resettlement Project, the NHA shall continue to pursue the relocation and resettlement of an estimated 16,270 families under the Pampanga segment of the North Rail system. This will complete the clearance of the rights-of-way of the entire Phase I of the North Rail system from Caloocan City up to Clark in Pampanga.

To promote sustainable housing finance schemes, the sector will continue to fully operationalize the SHFC as the subsidiary of the NHMFC that will cater to the housing

needs of the bottom 30 percent poor through the implementation of the CMP and the Abot-Kaya Pabahay Program.

In addition, HUDCC will promote the institutionalization of new financial products such as the housing microfinance initiative. This involves the application of microfinance principles and methodologies to the provision of housing finance and consists of loans to low-income households for home renovation or expansion, construction, land acquisition and access to basic infrastructure.

Finally, the sector will initiate the piloting of other innovative schemes such as incremental home lending and graduated amortization schemes, which are both based on the borrowers' affordability level and capacity to repay.

⁴ *De soto principle - reforms on property rights whereby poor informal settlers are provided security of tenure through the issuance of legal rights for the lands they are occupying, which rights they can use as well as their other assets as collateral to raise capital for microenterprises. The De Soto principle is attributed to Dr. Hernando de Soto, President of Peru's Institute of Liberty and Democracy, in his book entitled "the Mystery of Capital".*

Chapter 5

Tourism

The performance of the tourism sector improved in 2006 despite the challenges (i.e., terrorism threats, health scares and rising oil prices) facing global tourism. Visitor arrivals from China, Malaysia, Korea, and Singapore doubled, making up for the lower growth in visitor arrivals from the country's traditional markets such as the US and Japan. Even so, US and Japanese visitors still account for almost 35 percent of visitor arrivals. However, the country's tourism performance paled when compared with its Association of Southeast Asian Nations (ASEAN) neighbors. Thus, the country should continue to intensify efforts to attract more foreign and local tourists.

ASSESSMENT

As a result of continued efforts to boost the tourism sector, visitor arrivals in the Philippines reached 2.84 million in 2006. It was higher by 8.4 percent from the 2.623 million visitors recorded in 2005. However, this was still 7.4 percent lower than the 2006 target of 3.068 million visitor arrivals (Table 5.1). Visitor receipts also increased from US\$2.236 billion in 2005 to US\$2.505 billion in 2006. This is 16 percent lower than the 2006 target tourism receipts of US\$2.98

billion. The 2006 growth performance is also lower than the 14.5 percent growth rate recorded in 2005 as visitor arrivals from some priority markets (e.g. Japan, Taiwan and Hong Kong) registered a slow growth.

The Philippines accounted for only about 0.34 percent of world visitor arrivals, a slight improvement over last year's share of 0.33 percent. This is way below the shares of Vietnam, Singapore, Thailand and Malaysia, which range from about 0.42 percent to 1.5 percent of world tourist arrivals (Table 5.2).¹

TABLE 5.1 TOURISM PERFORMANCE

Indicator	Target	Actual	Accomplish- ment Rate, %	Target	Actual	Actual Accom- ment Rate, %	Growth Rate, %
	2006	2006	2006	2005	2005	2005	2005-2006
Visitor Arrivals ('000)	3,068	2,843	92.66	2,668	2,623	98.31	8.4
Visitor Receipts (US\$ billion)	2.98	2.543 ^{p/}	85.33	2.590	2.265	87.45	12.27

^{p/} preliminary

Sources: Department of Tourism for tourism arrivals; and Bangko Sentral ng Pilipinas for travel receipts

¹ For comparison, shares of Malaysia, Thailand, Indonesia and Lao PDR to total world visitor arrivals in 2006 are computed using latest available data (as proxy to full-year data).

TABLE 5.2 TOURIST ARRIVALS IN ASEAN COUNTRIES

Country	2006	2005	2005-2006 Growth Rate (%)	2006 Share to World (%)
Malaysia (Jan-Sept for 2006)	12,903,178	16,431,055	NA	1.53
Thailand (Jan-Sept for 2006)	10,092,740	11,516,936	NA	1.20
Singapore	9,673,362	8,875,980	8.98	1.15
Indonesia (Jan-Nov for 2006)	2,693,572	5,002,101	NA	0.32
Vietnam	3,581,874	3,477,500	3.00	0.43
Philippines	2,843,345	2,623,084	8.40	0.34
Cambodia	1,700,041	1,421,615	19.59	0.20
Myanmar	630,061	660,206	(4.57)	0.07
Lao PDR (Jan-Sept for 2006)	857,157	1,081,606	NA	0.10
Brunei Darussalam	NA	815,054	NA	NA

Source: ASEAN Secretariat, total world visitor arrivals data from World Tourism Organization

Market-Product Focused Approach

Focused Tourism Promotion

The multichannel promotion of the country as a must-see destination for the short-haul beachgoer and sightseer/shopper in China, Korea and Japan was sustained along with the niche-based tailored promotion of the country's tourist attractions aimed at short-haul recreation travelers and ecotourists from the Asia-Pacific (Australia/New Zealand, Hong Kong, Taiwan and ASEAN) region. In China, television ads, newspapers, travel magazines and the Internet were used to build awareness

of the country's tourist destinations and attract affluent individuals working in foreign-invested enterprises in Beijing, Shanghai and Guangzhou. In Japan, tourism promotion and marketing focused on generating active support of agents and media to travel in the country. In Korea, promotion was done by participating in travel exchanges such as the Philippine-Korean Travel Exchange (PHILKOTEX), road shows, travel fairs/expos, and consumer events. For long-haul markets such as Europe, the Philippines took part in travel or consumer fairs and invitational or familiarization programs such as Leisure "Otdykh" promotion in Moscow and the World Travel Mart in London.

TABLE 5.3 PHILIPPINES' TOP TOURIST MARKETS BY COUNTRY

RANK	COUNTRY	JAN-DEC 2006	% SHARE	JAN-DEC 2005	GROWTH RATE, %
1	Korea	572,133	20.1	489,465	16.9
2	USA	567,355	20.0	528,493	7.4
3	Japan	421,808	14.8	415,456	1.5
4	China	133,585	4.7	107,456	24.3
5	Taiwan	114,955	4.0	122,946	-6.5
6	Australia	101,313	3.6	96,465	5.0
7	Hong Kong	96,296	3.4	107,195	-10.2
8	Singapore	81,114	2.9	69,435	16.8
9	Canada	80,507	2.8	72,853	10.5
10	UK	68,490	2.4	63,002	8.7
11	Malaysia	53,279	1.9	43,059	23.7
12	Germany	51,402	1.8	50,411	2.0

Source: A/D Cards & Shipping Manifests, Department of Tourism

With these endeavors, tourist arrivals from these priority markets reached 1.91 million in 2006, an increase of 7.98 percent from the 2005 level. However, only China exceeded the targeted number of arrivals. Short-haul markets (i.e., China, Korea and Japan) accounted for 59 percent of total arrivals and took up almost 73 percent of the PHP722.81 million DOT promotional budget in 2006.

Tourists from China and Korea increased by 24.3 percent and 16.9 percent, respectively from 2005. Meanwhile, arrivals from Japan only increased by 1.5 percent as the Japanese shifted its focus to domestic travel (Table 5.3).

The rifle shot niche-based tailored promotion for Asia-Pacific (Australia/New Zealand, Hong Kong, Taiwan and ASEAN) region accounted for about 12 percent of the DOT promotional budget. This increased tourist arrivals from these countries by only 1.96 percent as arrivals from Hong Kong and Taiwan declined due to changes in market preferences, preferring mainland China instead. The Philippine share in tourist arrivals from the Asia Pacific region (1.7 %) and the ASEAN (5.28 %) in 2006 were almost the same as the shares recorded in 2005. Nevertheless, the Philippines was able to attract more American and Korean visitors than Singapore and Vietnam in 2006.

In the long-haul European market, a 6.63 percent increase in tourist arrivals was recorded after a long-term tactical marketing and nonmedia-based campaigns was carried out. It gathered 12 percent of the total promotional budget of the DOT. The budget allocations for both the rifle shot niche-based promotion and long-term tactical marketing and nonmedia based campaign, however, fell short of the 20-30 percent allocation targeted in the Plan.

Tour Packages

Both government and private tour operators developed and promoted beach activities and accommodation packages for the

short-haul beachgoer. This created the WOW Holidays (six days and five nights Manila-Bohol/Manila-Cebu tours) and Summer Dream Vacations (three days and two nights packages in major destinations in Luzon, Visayas and Mindanao) promotions. Another cultural tour package for Western Visayas (three days and two nights tour in Kalibo, Aklan; Antique; Roxas City, Capiz; Bacolod City, Negros Occidental, Iloilo and Guimaras) was pilot-tested to determine viability of offering a four to five days tour package in specific areas in the region for short-haul sightseers and shoppers.

The DOT partnered with relevant government agencies and private health service providers in developing and promoting health and wellness tourism, considering the country's internationally competitive health professionals and service providers. The Department of Health (DOH), a partner agency, participated in the 2006 Spa Asia Wellness Summit in Thailand and will be the lead host in the 2007 Spa Asia Wellness Summit. The DOH also took the lead in promoting health tourism by preparing an updated brochure and three-minute audiovisual presentation on "Islands of Wellness" for the said 2007 summit. The country's five leading hospitals, the University of Santo Tomas (UST) Hospital, Asian Hospital, World Citi Medical Center, Makati Medical Center, and St. Luke's Medical Center, also participated in the first World Health Tourism Congress in Germany in 2006 where about 10,000 medical/health tourism brochures were disseminated. It contains information on the country's medical packages such as executive check-up, dental, and cosmetic holiday packages, among others.

Destination-Focused Strategy

Two tourism economic zones (TEZs) were established in 2006, namely, the Resorts and Enterprise Village and Retirement Village; and Vacation Villa and Ecotourism Village. Potential TEZs were also identified and submitted to PEZA for approval. These were

the Sta. Rosa Complex Tourism Economic Zone, San Lazaro Leisure Park, Club Misibis, Waterfront Cebu Tourism Estate, Manila Bay Tourism and Leisure Park, Boracay Shangri-La Hotel and Resorts, Inc., Poro Point Special Economic and Freeport Zone, CCP Culture and Tourism Zone, and John Hay Tourism Special Economic Zone.

Ecotourism projects identified in the National Ecotourism Strategy not only attracted more tourists but also promoted environmental sustainability. The Department of Environment and Natural Resources (DENR) conducted two pilot trainings on ecotourism planning and development in identified priority ecotourism areas. To alleviate the negative impact of the oil spill in Guimaras, DENR assisted Guisi Community-Based Tourism Enterprise Program in Nueva Valencia, Guimaras Island obtain funding from UN Development Programme (UNDP). Aside from these, DENR also developed an ecotourism website for the Dolphin Watch in Pamilacan Island and the Banaue Trek Program; and produced a film feature and brochures on key ecotourism sites in the Philippines Marine Life Tours, Banaue Trek Project, and *Sapang Bato* Nature Park Project.

Removing Barriers in Investments and Free Flow of Tourists

Tourism efforts in 2006 focused on encouraging investments and establishment of tourism ecozones and flow of tourists. The 2006 Investment Priorities Plan also include health and wellness tourism to encourage investment from the private sector. Tourism projects like the construction of two hotels, two resorts and five ecotourism zones with a combined estimated cost of PhP30.76 billion were endorsed by the DOT to obtain incentives under Executive Order 226 and the PEZA law. An additional 1,978 rooms for tourists and travelers are projected from these projects. The DOT coordinated with the Development Bank of the Philippines (DBP) for the Health and Wellness Access Loan (HEAL) Program to provide financial

assistance to spa operators/owners, hospitals and clinics.

The country continued to support progressive air liberalization through the trigger mechanism in its air services agreements (ASAs). It allows automatic increases in air seat capacity when 70 percent load factor is reached, thus allowing airlines to respond quickly to market demand. This mechanism made the Philippines add 1,861,470 seats in 2006 from 1,807,884 seats in 2005 from its ASAs with Brunei Darussalam, China, Hong Kong, and Qatar. The Philippines concluded air consultation talks with Bahrain and will also be consulting Korea.

To mitigate the slow pace in ASA negotiations, 12 foreign airlines were allowed to operate 3,992 chartered flights serving 235,392 inbound passengers in 2006, a much higher figure than that in 2005, where only eight airlines operated 803 chartered flights. The 12 airlines are Air Asia, Air Philippines, Asiana Airlines, China Southern Airlines, CR Airways, Far Eastern Air Transport Hong Kong Express, Korean Airlines, Mandarin Airlines, Pacific East Asia Cargo, Tiger Airways, TransGlobal Airways, and Vietnam Airlines. Travel advisories were also constantly monitored and addressed.

POLICY DIRECTIONS AND OUTLOOK FOR 2007

Better prospect, for international tourism is foreseen in 2007 with world travel expected to sustain its growth momentum. According to the UN–World Tourism Organization (UN-WTO), worldwide travel in 2007 is forecasted to post a sustained growth of four percent with Africa and Asia Pacific regions expected to record the highest growth at nine percent and eight percent, respectively. With the growing interest in tourism among the countries in the Asia and the Pacific Region, it is expected that there would be stronger competition between countries aiming to increase their market shares. Thus, the country must continue to aggressively promote itself as a tourist

destination and implement necessary reforms to enhance its tourist attractions. The Philippines should also position itself as a prime tourist destination in Asia.

The country is targeting 3.1 million visitor arrivals and US\$3.10 billion visitor receipts in 2007. To achieve this, the country needs to review its marketing plan for Japan and the Asia-Pacific region (i.e., Hong Kong and Taiwan) to make it more effective and cost efficient. Other markets such as Russia, Germany and India will also be monitored for possible tourism promotion.

The country will finalize its guidelines on the visa-upon-arrival scheme for Russian tourists. More ASAs covering key tourism markets will be conferred and more charter flights will be allowed to facilitate travel to and within the country. The infrastructure projects in the 2006 State of the Nation Address (SONA) will be continued to provide access

to major tourism destinations in the country. These projects, in particular, include the improvement of roads along the Nautical Highway; development of new airports in Silay City, Negros Occidental; Sta. Barbara/Cabatuan, Iloilo, and Panglao, Bohol; and the development of all ports in the Roll-On–Roll-Off (RORO) routes.

The DOT and other government agencies will continue to promote and develop ecotourism and health and wellness tourism. At least two TEZs will be declared and developed as priority destinations. Given the magnitude of resources needed to develop tourism, the LGUs and the private sector shall be tapped as partners in the development and implementation of tourism programs and projects. Domestic tourism will also be developed and promoted by continuing the implementation of the *Biyahen* Program in cooperation with the private sector.

Chapter 6

Infrastructure Development

Infrastructure development is a priority of the government, as the President indicated during her July 24, 2006 State of the Nation Address (SONA), to further accelerate economic growth. Thus, the government is committed to increase infrastructure spending to about 5 percent of gross domestic product (GDP). Project implementation was enhanced through policy reforms on Build-Operate-Transfer/Public-Private Partnership (BOT/PPP) pursued in 2006.

The development of the transportation network is one of the major national programs of the government, which primarily seeks to decentralize development and progress across the country by providing interisland linkages and well-paved roads. In 2006, the government carried on with the construction of needed roads, bridges, rails, seaports and airports to realize the goals set in the 2004-2010 Medium-Term Philippine Development Plan (MTPDP).

Various technological innovations such as the Voice over Internet Protocol¹ (VoIP) provided a cheaper alternative for both local and international calls, while the introduction of third-generation (3G) technology has improved mobile phone services, making multimedia applications accessible to users at faster speeds. To further strengthen and transform the regions outside Metro Manila into viable investment destinations for ICT, the President created the Cyber Services Corridor as one of the five “super regions”² to ensure the provision of appropriate telecommunication infrastructure, as well as services for education, commerce, and governance.

ASSESSMENT

A. TRANSPORTATION

Major accomplishments in the transportation sector consistent with the 2004-2010 MTPDP and the President’s July 2006 SONA include projects, such as: roll-on roll-off (RORO) ports and connecting national roads; strategic roads and rail systems to decongest Metro Manila; airports and roads that support tourism; and other transport projects in Mindanao and highly impoverished areas.

Nautical Highways to Link the Entire Country

Nautical highways are being built to link strategic areas and business centers critical to trade and investments, with the goal of reducing travel cost and time to further promote development in other areas of the country while decongesting Metro Manila. The Department of Public Works and Highways (DPWH) and the Philippine Ports Authority (PPA) led the provision of critical roads and RORO ports in the nautical highway network (Table 6.1)

¹ The technology used to transmit voice conversations over a data network using the Internet Protocol.

² Other four super regions are North Luzon Agribusiness Quadrangle, Luzon Urban Beltway, Central Philippines and Agribusiness Mindanao.

TABLE 6.1 UPDATES ON THE STATUS OF HIGH PRIORITY ROUTES IN THE NAUTICAL HIGHWAY SYSTEM

	2005	2006
1. Western Nautical Highway (Strong Republic Nautical Highway)		
Oroquieta City-Dapitan City-Dipolog City Road	For F/S verification	For F/S verification
Dipolog - Dumaguete City RORO	Dumaguete is RORO -capable (2 RORO ramps), while the development of Dipolog and Samboan is under the jurisdiction of the LGU and CPA, respectively.	Dumaguete: RORO-capable (2 ramps), New RORO Ramp (25.89% completed); Operational
Dumaguete-Samboan, Cebu RORO		Dumaguete: RORO-capable (2 ramps), New RORO Ramp (25.89% completed); Samboan: Cebu Port Authority (CPA) Port
Toledo-San Carlos City RORO	San Carlos City is RORO-capable (3 RORO ramps), while Toledo is under CPA.	San Carlos City: RORO-capable (3 ramps) while Toledo, under CPA
Dumaguete-Bais-Mabinay-Kabankalan-Bacolod Road	For F/S verification	Kabankalan-Bacolod Road: F/S completed
Bacolod-Iloilo City RORO	Iloilo is RORO-capable (ICPC, 1 RORO ramp; Iloilo River Wharf: 2 RORO ramps); there are private RORO facilities at BREDCO in Bacolod.	Bacolod: Private Port (BREDCO); Iloilo: RORO-capable (3 ramps); Operational
Iloilo City-Passi-Calinog-Ivisan-Kalibo-Nabas-Caticlan Road	For F/S verification	Kalibo-Nabas-Caticlan: F/S completed
Iloilo East Coast-Capiz Road	Project is 61.94% completed	Project is 67.23% completed; Contract time was suspended on 15 Jan 2006
Caticlan, Aklan-Roxas, Mindoro Oriental RORO	Caticlan, Roxas, Calapan and Batangas are all RORO-capable. Developments for Caticlan which include a RORO ramp, RC pier and reclamation are ongoing and expected to be finished 1st Qtr of 2006.	Caticlan: RORO-capable (1 ramp), New RORO ramp (94.11% completed); Roxas: RORO-capable (2 ramps); Operational
Roxas-Calapan, Mindoro Oriental Road	For F/S verification	Bongabong – Calapan: F/S completed
Calapan-Batangas City RORO	Batangas baseport has six RORO ramps in place; Calapan baseport has seven.	Calapan: RORO-capable (7 ramps); Batangas: RORO-capable (6 ramps); Operational
2. Central Nautical Highway		
Calinan, Davao-Buda, Bukidnon-Misamis Oriental Road	Davao – Bukidnon: completed	Davao-Bukidnon Road: completed
Balingoan, Misamis Oriental-Guinsiliban, Camiguin RORO	Balingoan serves as partner-port of Guinsiliban and Benoni (both in Camiguin Island) and has existing RORO ramps (2). Guinsiliban is only 7-km far from Benoni which is already RORO-capable (2 RORO ramps).	Balingoan: RORO-capable (2 ramps), New Ramp (Preparing D/E); Guinsiliban: RORO-capable (1 ramp), PTB Construction (Preparing D/E); Operational

	2005	2006
Mambajao, Camiguin-Jagna, Bohol RORO	Mambajao can accommodate RORO vessels, and development projects for this port were programmed for 2006. Jagna has existing RORO facilities (2 RORO ramps). Tubigon (2 RORO ramps), San Carlos (3 RORO ramps) and Dumaguete are presently RORO-capable, while Cebu City, Toledo and Samboan, which are their partner-ports, respectively, are under CPA. Mambajao, Port of Balbagon is programmed to be dredged this year under the PPA 2006 Dredging Program (5,000 cu.m.)	Mambajao: RORO-capable (1 ramp), Ramp Extension (preparing D/E); Jagna: RORO-capable (1 ramp); No RORO Traffic
Bohol Circumferential Road	Calape-Tagbilaran City-Valencia: 62.11% completed	Calape-Tagbilaran City-Valencia: 76.76% completed
	Candijay-Jagna-Valencia: 68.86% completed	Candijay-Jagna-Valencia: 96.83% completed
Tubigon, Bohol-Cebu City RORO	Tubigon, San Carlos and Dumaguete are presently RORO-capable, while Cebu City, Toledo and Samboan, which are their partner-ports, respectively, are under CPA.	Tubigon: RORO-capable (2 ramps), PTB Construction (For Technical Study); Cebu Port: CPA Port; Operational
Toledo-San Carlos RORO		Toledo: CPA Port; San Carlos: RORO-capable, PTB Construction (ongoing)
Dumaguete-Samboan, Cebu RORO		Dumaguete: RORO capable (2 ramps), New RORO Ramp (25.89% completed); Samboan: CPA Port
San Remigio-Placer, Masbate RORO	Masbate has three RORO ramps; San Remigio is under CPA. Aroroy, Masbate is being developed instead of Placer (which has no existing port). Another link to be developed is Pilar, Sorsogon.	San Remigio: completed; Masbate: RORO-capable (3 ramps), PTB Construction (For Technical Study); Operational
Placer, Masbate-Aroroy, Masbate Road	Cataingan-Placer Section, Masbate: physically completed May 2004 Placer-Aroroy Highway: No F/S	Cataingan-Placer Section, Masbate: physically completed May 2004 Placer-Aroroy Highway: No F/S
Aroroy, Masbate-Boca Engano, Masbate RORO	Aroroy is under the jurisdiction of LGU but PPA has lined-up development projects up to 2008. Boca-Engano is not under the PPA Port System, and no development plan is anticipated in the near future. Projects for completion in Aroroy by 2008 are RORO ramp, parking area and passenger terminal shed.	Aroroy: RORO Ramp Construction (Project Preparation); Boca-Engano: For Port Development (Project Preparation)
Boca Engano, Masbate-Claveria, Masbate – San Pascual	Masbate-Malinta-Mobo Road, Masbate: 83.00% completed	Masbate-Malinta-Mobo Road, Masbate: 83.00% completed (works suspended)
Claveria, Masbate-Pantao, Albay RORO	Port development (Phase II) of Pantao is ongoing and is expected to be finished by 2007, while none is lined-up for Claveria.	Claveria: For Port Development; Pantao: For Port Development Phase II (Project Preparation)

	2005	2006
3. Eastern Nautical Highway		
Davao-Compostela Valley-(Alegria-Santiago, Bayugan-San Francisco-Trento-Monkayo)-Agusan-Surigao Road	Alegria-Santiago, Agusan del Norte: Completed on 11 Nov 2005	Alegria-Santiago, Agusan del Norte: Completed on 11 Nov 2005
	San Francisco-Rosario-Bunawan-Trento Road: 34.98% completed	San Francisco-Rosario-Bunawan-Trento Road: 74.00% completed
	Monkayo Bypass, Monkayo-Nabunturan-Tagum, Davao Oriental: 38.13% completed	Monkayo Bypass, 2.6 kms Monkayo-Nabunturan-Tagum, Davao Oriental: 81.00% completed
	Langkilaan (Trento)-Monkayo Section, Davao Oriental: Project scope completed in Sept 2002, additional scope completed in July 2004	Langkilaan (Trento)-Monkayo Section, Davao Oriental: Project scope completed in Sept 2002, additional scope completed in July 2004
Surigao City-Liloan, Southern Leyte RORO	Both ports are RORO-capable; Further expansion of Liloan and addition of another RORO ramp were programmed for 2006 to 2007.	Surigao City: RORO-capable; Liloan: RORO-capable (1 ramp), RORO Ramp Construction (90.66% completed); Operational
Naval, Biliran-Cataingan, Masbate RORO	Naval is under LGU; municipal port at Kawayan, Biliran (14 km. from Naval) is programmed to be developed in the 3rd Qtr of 2006 to 2007. Cawayan, Masbate is also up for a port improvement project starting 2006 which will involve the construction of RC platform, RORO ramp and two breasting dolphins among others.	Naval: RORO Ramp Construction (Project Preparation); Cataingan: RORO ramp Construction (Project Preparation)
Cataingan-Arroyo, Masbate Highway	Masbate-Cataingan-Placer Road: Completed May 2004	Masbate-Cataingan-Placer Road: Completed May 2004

Decongestion of Metro Manila

To decongest Metro Manila and provide new opportunities for growth in other regions, the following activities were undertaken:

1. Establish new centers of government and housing in Luzon, Visayas and Mindanao

The proposed establishment of new government centers in the provinces has been aligned with the strategic themes of the super regions. The DOTC is still being planned to be located in Clark to promote Subic and Clark as the transshipment and logistics hub for the Asia-Pacific region. Likewise, the Department of Tourism (DOT) would be located in Cebu to boost Central Philippines' potential as a major tourist destination.

The President, however, issued a new directive for the transfer of the Department of

Agriculture (DA) to Baguio, instead of Davao, to facilitate the development of North Luzon as agribusiness center. The Department of Agrarian Reform (DAR) will instead be transferred to Davao as part of the strategy to make Mindanao the agribusiness center of the south. The DPWH, on the other hand, will no longer be transferred to Bicol since it is already part of Central Philippines. Meanwhile, DOT has already operationalized some of its functions in Cebu since July 2005, and DAR has identified possible building/office sites and has reassigned personnel from its Central Office to Davao City.

2. Develop Clark-Subic

The development of Clark-Subic Corridor aims to provide a competitive international logistics center and service hub in the region. As of December 2006, the Bases Conversion and Development Authority

(BCDA) completed approximately 62 percent of the Subic-Clark-Tarlac Expressway Project (SCTEP).

Meanwhile, the North Luzon Railway Corporation (NLRC) has acquired 100 percent of the Right-of-Way (ROW) for the Northrail Project Phase I, Section 1 (Caloocan-Malolos) and is now completing the project's detailed engineering. The acquisition of ROW for Section 2 (Malolos-Clark) is still ongoing, with its civil works contract signed in November 2006 and Loan Agreement signed on January 15, 2007.

Meanwhile, the Clark International Airport Corporation (CIAC) has already completed the master plan for the upgrade of the Diosdado Macapagal International Airport (DMIA) while the DMIA Passenger Terminal Expansion Project is currently under detailed engineering.

Lastly, the Subic Bay Metropolitan Authority (SBMA) is nearing completion of the Subic Bay Port Development Project with an estimated 86 percent accomplishment as of December 2006. The said road, rail, airport, and port projects will help decongest Metro Manila and fully link Clark and Subic with other major destinations in Asia.

3. Develop the Southern Luzon Corridor

The Southern Tagalog Arterial Road Phase 2 (STAR 2) Expressway aims to complete the 19.74 km extension link from Lipa City to Batangas City. As of end 2006, the project is 38.87 percent completed. For the South Luzon Expressway Extension Project, construction of Toll Road 1 (Alabang viaduct) has begun while the engineering design for Toll Road 2 (Alabang to Calamba, Laguna) was completed in November 2006. ROW for Toll Road 3 (Calamba, Laguna to Sto. Tomas, Batangas) is still ongoing.

In November 2006, the NEDA Board approved the Mainline South Rail Rehabilitation Project (or Southrail) Phase-IA (Calamba to Lucena Section). The Southrail Resettlement Program is ongoing under the National Housing Authority (NHA).

4. Improve Transport within Metro Manila

As of December 31, 2006, the Light Rail Transit Authority (LRTA) is processing the procurement of consultancy services for the Line 1 North Extension, a project that will extend LRT Line 1 to the North Avenue Station of Line 3 thereby closing the MRT-LRT Loop.

The Metro Manila Development Authority (MMDA) has been continuously maintaining and rehabilitating the seven major roads in Metro Manila, namely: Radial Road 10, McArthur Highway, Commonwealth Avenue, Quezon Avenue, Marcos Highway, EDSA, and C-5. Activities include widening roads, constructing drainages and footbridges, improving lane markings and sidewalks, illuminating the roads, and putting road furniture. The program aims to improve pedestrian safety and travel speed, and reduce traffic congestion in Metro Manila.

5. Address critical infrastructure bottlenecks along national roads and bridges to speed traffic out of Metro Manila

In April 2006, the Philippine Reclamation Authority (PRA), in joint venture with UEM-MARA Philippines Corporation (UMPC), started the implementation of the Manila-Cavite Toll Expressway R-1 Extension Project, which will connect R-1 Expressway to Kawit and then Kawit to Noveleta. From R-1 to Kawit, 82 percent of the reclamation has been completed while 93 percent of the inland ROW has been acquired. The National Development Corporation (NDC), on the other hand, has just completed the F/S for the Skyway Extension from Bicutan to Alabang and from Buendia to Balintawak. The F/S is currently under review.

The Philippine National Construction Company (PNCC), meanwhile, has completed the preliminary detailed engineering design for the NLEX Project Phase 2 to extend the existing NLEX to Mindanao Avenue and McArthur Avenue, providing an alternative route within the center of Metro Manila.

Tourism Infrastructure: Access to Major Tourism Destinations

The government identified the need to develop infrastructure such as roads, RORO ports and airports to provide access to major tourism destinations in the country.

One of the major tourist gateways being developed is the DMIA in Clark, where the necessary upgrading is being pursued, including the installation of advanced navigation equipment that would further enhance the safety of flights, as well as ensure 24 hours of airport operation even during adverse weather conditions. Another is the upgrading of the Busuanga Airport in Coron as a tourist gateway for Northern Palawan, which includes concrete paving of the runway and construction of a new terminal. For the Cordillera Region, the San Fernando Airport is being developed to provide quality services and meet international civil aviation standards.

New airports are also being constructed in other major tourist areas for easier access, such as: (a) New Iloilo Airport to serve tourist destinations in Panay, including Boracay, which is now 96 percent completed and is expected to open in April 2007; and (b) New Bacolod (Silay) Airport for Negros island destinations, which is 79 percent completed and is expected to open in July 2007. Meanwhile, the Air Transportation Office (ATO) is conducting a parcellary survey for the Panglao Airport in Bohol to serve the Cebu-Bohol-Camiguin complex. For the Laoag International Airport, its FS/Master Plan (FS/MP) is being updated to establish optimum development and viability of the project.

With regard to road projects, among major developments are: (a) Cebu South Road Project (Talisay-Toledo-Carcar Section) in Cebu is nearing completion; (b) Halsema Highway, Mt. Data (Benguet)-Bontoc Section (Mtn. Province) is ongoing with 33 percent already completed; (c) Calape-Tagbilaran City-Valencia Section and the Candijay-Jagna-Valencia Sections of the Bohol Circumferential Road Phase II are now 76.76 percent and 96.83 percent completed, respectively; and (d)

Taytay-El Nido Section of the Palawan North Road is now 95 percent completed.

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

The Bicol Region, Region 8, Mindanao, as well as some areas in Negros, Panay, Ilocos Sur, Pangasinan, Pampanga, Batangas, Quezon, Aurora, and Cordillera were identified as the highly impoverished areas under MTPDP. To help address this, the government is putting up and improving road interconnections with other regions that would allow more opportunities for the remote and disadvantaged communities.

The ongoing major road and bridge projects in Mindanao are the Tukuran-Doblison-Kapatagan Road (Zamboanga Del Sur and Lanao Del Norte), Cotabato Junction Awang-Upi-Lebak-Kalamansig Road (Central Mindanao Inter-Regional Circumferential Road), Zamboanga-Pagadian Road, 2nd Magsaysay Bridge, Surigao-Davao Coastal Road and Butuan City Bypass. The Malalag-Malita Road Section (Sulop-Junction Malalag-Malita Road, Davao del Sur) was completed in May 2006, while the San Jose-Patnongon Road in Antique was completed in January 2006.

Other road projects are as follows: in the Bicol Region are the Tigaon-Mayon Road (Camarines Sur), Caramoan Peninsula Road, Ligao-Pio Duran Road, and Catanduanes Circumferential Road; in Region 8 are the Himayangan-Silago-Abuyog and Liloan-San Ricardo roads (Southern Leyte), Dolores-Oras-San Policarpio (Eastern Samar) and Pacific Coastal Road (Northeastern Samar); and in other regions are the Bayawan-Kabankalan Road (Negros Oriental), Macalelon-Malunay Road (Quezon), Tayabas-Mauban-Lucban Road (Quezon), Iloilo-Aslunan Road (Iloilo), Bontoc-Tinglayan Boundary-Lubuagan-Tabuk Section (Mtn. Province), and the Baguio-Pangawan-Aritao (Benguet). Meanwhile, the first phase of the Bongabon-Baler Road (Nueva Ecija-Aurora) was completed in February 2006.

Bureaucratic and Legislative Reforms

A revised draft of the Civil Aviation Authority of the Philippines (CAAP) Bill entitled *“An Act Creating the Civil Aviation Authority of the Philippines, Authorizing the Appropriation of Funds Therefore, and For Other Purposes”* was submitted by the Mindanao Economic Development Council (MEDCO) to the Office of the President in June 2006. The Civil Aeronautics Board (CAB) is excluded from the proposed CAAP, but will retain its quasi-judicial function as economic regulator of air transportation services.

In the water transport sector, promotion of private sector participation in port development is being institutionalized through the introduction of House Bill (HB) No. 335 (*An Act Institutionalizing the Road-RORO Terminal System, And For Other Purposes*), which stemmed from Executive Orders (EO) 170 (*Promoting Private Sector Participation and Investment in the Development and Operation of the Road-RORO Terminal System*) and EO 170-A (*Amending EO 170 to Expand the Coverage of the Road-RORO Terminal System*). Also, still pending in Congress is HB No. 2912 (*An Act Amending Presidential Decree No. 857, Otherwise known as the Revised Charter of the Philippine Ports Authority (PPA), as amended, to Strengthen and Streamline the Authority, and For Other Purposes*) which is being pursued to address, among other things, the dual role of PPA as port regulator and operator.

B. DIGITAL INFRASTRUCTURE

Significant developments in the telecommunications sector took place in 2006. In broadcasting, the National Telecommunications Commission (NTC) created a technical working group to come up with standards to implement digital TV broadcasting in the Philippines, while improvements in multimedia messaging service (MMS) was highlighted by the introduction of 3G mobile communication technology. At present, the Philippine

telecommunications industry is comprised of 73 local exchange carrier operators, 14 inter-exchange carrier operators, 11 international gateway facility operators, seven cellular mobile telephone system (CMTS) operators, 10 public trunk repeater system operators, eight paging operators, 19 satellite operators, and 388 value added service (VAS) providers.

Reduce Cost of Connectivity

VoIP continued to effectively reduce the cost of overseas and domestic calls since it was classified as VAS in 2005. The Commission on Information and Communications Technology (CICT), with the International Telecommunication Union (ITU), has already developed the Philippine Broadband Deployment Plan Strategy for the migration to an IP-based network environment. Meanwhile, the National Computer Center (NCC) is still formulating the guidelines for the implementation of VoIP in government services.

Since the provision of corresponding rules and regulations for the allocation and assignment of 3G technology licenses in 2005, NTC has awarded the required frequency spectrums to the four qualified telecom firms to provide 3G services by 2008, i.e., Smart Communication Inc., Globe Telecom, Digital Mobile Phils. Inc., and Connectivity Unlimited Resources Enterprise Inc.

In 2006, the cost of wireless calls decreased from a range of PhP4.50-13.75 per minute to PhP1.00-8.00 per minute, while text messaging rate decreased from a range of PhP0.50-1.00 per text to PhP0.35-1.00 per text. Meanwhile, Internet connection charge remained at PhP4 per hour using a prepaid card and telephone landline subscription remained at more than PhP600 per month for residential postpaid lines.

In terms of telecommunication densities, the data for 2006 is not yet available as the official data is often one year delayed. Hence, per official NTC data for end-2005, the following indicators were recorded:

TABLE 6.2 NUMBER OF TELEPHONE SUBSCRIBERS PER REGION

REGION	2005			TELEDENSITY			
	POPULATION	INSTALLED LINES	SUBSCRIBED LINES	INSTALLED LINES 2004	2005	SUBSCRIBED LINES 2004	2005
CAR	1,553,173	89,154	33,660	6.18	5.74	2.35	2.17
I	4,481,820	192,581	111,696	4.31	4.30	2.44	2.49
II	3,086,812	37,990	28,066	1.41	1.23	0.89	0.19
III	8,426,578	408,207	271,175	4.96	4.84	3.4	3.22
IV	12,810,064	1,073,343	581,450	8.39	8.38	4.71	4.54
V	5,165,243	109,631	68,387	2.46	2.12	1.43	1.32
VI	6,884,429	427,481	135,385	6.31	6.21	1.96	1.97
VII	6,068,238	470,616	222,748	7.89	7.76	3.81	3.67
VIII	4,133,242	151,652	27,790	3.74	3.67	0.68	0.67
IX	3,522,722	35,945	29,446	1.04	1.02	0.73	0.84
X	3,189,990	146,258	56,361	4.72	4.58	1.63	1.77
XI	5,902,604	322,243	108,916	5.11	5.46	1.92	1.85
XII	2,971,763	82,616	31,864	2.84	2.78	1.08	1.07
XIII	2,319,415	117,116	31,927	5.15	5.05	1.36	1.38
ARMM	2,409,317	33,315	8,773	1.41	1.38	0.12	0.36
NCR	11,289,368	2,840,239	1,619,608	25.19	25.16	15.15	14.35
Total	84,214,778	6,538,387	3,367,252	7.83	7.76	4.16	4.00

Source: National Telecommunications Commission (NTC)

- On telephone landlines, there were 6.54 million installed lines with 3.37 million lines subscribed, which translates to an installed density of 7.8 lines per 100 population and subscribed density of 4.0 lines per 100 population (Table 6.2). The recorded subscribed density of 4.0 is lower compared to the 4.16 figure in 2004 due to continuing preference for CMTS.
- On CMTS, a total of 34.78 million subscribers were registered, translating to a CMTS density of 41.3 per 100 population. This is higher by 5.6 percent subscription (or 1.5 percentage points on density) compared to 2004 figures.
- On Internet subscribers, an estimated 1.44 million subscribers were recorded in 2005, reflecting a 20 percent increase from the 1.2 million subscribers in 2004. This is partly attributed to the additional 33 registered Internet Service Providers (ISP), bringing the total number of ISPs to 177.

Comparing the Philippines with neighboring countries, the 2005 World Telecommunication/ICT Indicators (WTI) Database of the ITU (Table 6.3) showed the Philippines at seventh rank out of ten selected countries in terms of telephone landline density, fifth in terms of CMTS density, and seventh in terms of Internet subscribers/users density.

As of end 2006, more interconnection activities were undertaken through Digitel in Cebu, Globe/Innove in the Visayas, PLDT in Benguet, and with TELOF facilities.

In addition to the citizen-centric website template developed by NCC in 2005 to attract potential investors, an eCare Center was established in 2006 to provide ICT training for persons with disabilities (PWDs).

ICT Human Resource Development

The CICT pursued the professionalization of IT personnel by completing the National ICT Literacy

TABLE 6.3 TELEDENSITY COUNTRY COMPARISON

COUNTRY	Main telephone lines per 100 inhabitants		CMTS subscribers per 100 inhabitants		Internet users per 100 inhabitants	
	2004	2005	2004	2005	2004	2005
Singapore	44.37	43.50	95.51	103.41	57.87	57.87
Brunei	25.57	...	56.26	56.26	15.30	15.30
Malaysia	17.38	16.79	57.12	75.17	38.62	42.37
Vietnam	12.18	18.81	5.97	11.39	7.63	12.72
Thailand	10.69	10.95	42.98	42.98	10.95	11.03
Indonesia	4.49	5.73	13.63	21.06	5.04	7.18
Philippines	4.16	4.16	39.85	39.50	5.32	5.32
Lao PDR	1.30	1.27	3.53	10.77	0.36	0.42
Myanmar	0.79	...	0.17	...	0.12	...
Cambodia	0.26	0.26	5.95	7.55	0.28	0.28

Source: WTI Database of the ITU

Standards (NILS) and drafting of the National ICT Competency Standard for Teachers. Also, three Computer-Based Training Modules (CBTs) are being developed on ICT Basics, Internet, and various Open Office Productivity Tools. Among major accomplishments on training programs: (a) CICT through the eQuality program conducted ten training courses which were attended by 116 participants from SUCs; (b) iSchools Project for SUCs conducted the Educators' Training, benefiting 33 trainers who in turn trained 462 teachers from 40 schools; (c) WebBoard training course had been conducted three times to a total of 54 teachers from 18 schools; and (d) through the eSkwela Project, a total of 130 Mobile Teachers/Instructional Managers were trained on the use of customized eSkwela Instructional Design and related courses. To date, more than 1,300 participants have benefited from the 124 training courses of CICT.

Regulatory and Legislative Reforms

As of end-2006, the ICT-related legislative bills identified in 2005 are still pending in Congress, namely: (a) *Establishment of the Department of Information and Communications Technology Bill*, which aims to ensure the focused execution of ICT-related programs and projects; (b) *The Cybercrime*

Prevention Act, which would allow the country to effectively prevent and combat cybercrime; (c) *Convergence Bill*, which would optimize the utilization of available infrastructure and invite further capital infusion for digital expansion and development; and (d) *NTC Reorganization Bill* to make NTC more responsive to the continuing dynamism of the sector.

PROSPECTS, CHALLENGES AND POLICY DIRECTIONS

Considering the enormous cost of infrastructure projects, the government has tapped the private sector, together with LGUs, to be its partners in the development and implementation of needed infrastructure support. In line with this thrust, several BOT projects were identified in 2006 and are being pursued for implementation in 2007, namely: PPA's Manila North Harbor Modernization Project, LRTA's LRT Line 1 South Extension, and DPWH's Panguil Bay Bridge and North Luzon Expressway Extension Projects. Several BOT/PPP reforms to be pursued in 2007 shall seek to promote wider private sector participation.

Given the limited finances for the maintenance of national roads, the development of a "users pay" culture in public infrastructure was pursued in 2006. As a result, roads envisioned to be implemented in 2007

such as the Second Magsaysay Bridge, Butuan Bypass Road Phase 2 and Cebu South Coastal Road Project will be bid out as toll facilities to cover for the operation and maintenance expenses. Through the road fund revenues from the Motor Vehicle Users Charge (MVUC) collections, the Road Board continued its effort to maintain and preserve the national road network.

For the communications sector, the implementation of the Philippine Broadband Deployment Plan Strategy developed by CICT with ITU will provide a common VoIP platform for a communications system for the national government, allowing citizens to avail of government services through an all IP-based environment. The technical working group created by NTC initially recommended Digital Video Broadcasting-Terrestrial (DVB-T) as the digital terrestrial TV (DTT) standard for adoption in the country. A consultative document was prepared to elicit comments from the public.

To continuously develop ICT human resources, the completion of the National ICT Literacy Standards (NILS), National ICT Competency Standard for Teachers, and the National Competency Standard for ICT Specialists in government as well as the establishment of an ICT Competency Standards Assurance Body were pursued. The Bridge Program under the umbrella eQuality Program for SUCs is being formulated to address the training and certification needs for the Software Development Industry. This program will be launched in April 2007. It will be conducted in partnership with private ICT training and business entities.

Through the Cyber Services Corridor, it is expected that a single platform IP-based national broadband network will be established in the near future to provide various communications services to different government agencies, especially the requirements for the distance-learning program of the Department of Education (DepEd).

Chapter 7

Fiscal Strength

Another year proved to be favorable in the fiscal front. Buoyed by the combined higher revenues and controlled spending, the country moved closer to a balanced budget ahead of schedule. The National Government (NG) recorded the lowest budget deficit after 1999. The 2006 full year deficit¹ figure was way below the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 target and even lower than the latest emerging targets of the Development Budget Coordination Committee (DBCC) for 2007. The deficit net of interest payments yielded an all-time high primary surplus. These fiscal improvements cleared the path toward a balanced budget by 2008.

ASSESSMENT

Continuing the fiscal consolidation

After the passage of three out of the eight priority legislative measures in 2005, the country's fiscal managers focused on the administrative measures that would support the legislative efforts of the government towards revenue generation. The 2006 tax effort was the highest percentage recorded since 2000, albeit still relatively low compared to the precrisis level.

To address leakages in revenue generation, the 3R campaign of the Department of Finance (DOF) in coordination with its revenue bureaus, the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC), was able to file several cases of corruption in different courts and with the Department of Justice (DOJ). Cases filed comprised 79 cases of Run After Tax Evaders

(RATE) from the BIR, 28 cases of Run After the Smugglers (RATS) by the BOC, and 43 cases under Revenue Integrity Protection Service (RIPS).² The RIPS is the anticorruption program against the personnel of the DOF and its attached agencies. The BIR and the BOC has 20 cases each under the RIPS.

Meanwhile, the BIR continued its intensive computerization programs to facilitate tax awareness campaigns. These programs aim to improve audit services for the taxpayers.

To reduce the face-to-face transactions in the ports, the BOC acquired ten x-ray machines in September. Four mobile units are now ready for operation, while the remaining six units are undergoing civil works, or testing and commissioning. An Executive Order (EO) was also issued authorizing the BOC to collect container security fees to be earmarked for the loan repayment and maintenance of these machines.

¹ As of September 2006 only

Moreover, the PhP500-million government-funded e-Customs project, also known as the Automated System for Customs Data (ASYCUDA) World project was implemented in 2006. This project aims to develop a faster and more dynamic end-to-end cargo clearance process through the use of mobile broadcasting and the Internet.

The second wave of Republic Act (RA) 9337 or the RVAT law took effect in February 2006 when the VAT rate was raised from ten percent to 12 percent. In 2006, about PhP76.9 billion was collected with its implementation. Driven by non-VAT reform component, the collection target for the period was surpassed by PhP1.1 billion.

Nontax revenues surpassed the MTPDP and revised targets. At the same time, the Bureau of Treasury (BTr) was also able to maintain the 91-day T-bill rate within program.

The DOE, through its Privatization Office (PO), also contributed to the

government's revenue generation program by disposing off two big-ticket assets in June and December 2006. These are the old site of the International School in Makati City in June 2006 and Philippine National Oil Company–Energy Development Corporation (PNOC-EDC). In June, the DOE-PO was able to remit to the BTr, as the first of two tranches, the amount of PhP194.5 million from the sale of the International School. Just before the end of the year, 40 percent of the outstanding stock of PNOC-EDC was sold through an initial public offering (IPO) for PhP4.6 billion.

These two items already made up 82.4 percent of the total privatization transactions of the government for 2006. Other items include the various assets sale of the Privatization and Management Office (PMO) and proceeds from the development of Philippine properties in Japan.

The revenue contribution of the PO for 2006 is 139 percent higher than its income in the previous year.

TABLE 7.1 NATIONAL GOVERNMENT CASH OPERATIONS
(In Billion Pesos)

	2005		2006		2006		2006	
	ACTUAL	% OF GDP	ACTUAL	% OF GDP	MTPDP* PROGRAM	% OF GDP	REVISED PROGRAM	% OF GDP
Revenues	816.2	15.1	979.6	16.3	941.3	16.6	974.1	16.2
o.w. BIR	542.7	10.0	652.7	10.9	697.1	12.3	675.4	11.2
BOC	154.6	2.9	198.2	3.3	156.5	2.8	196.0	3.3
Expenditures	962.9	17.8	1044.43	17.4	1103.1	19.5	1099.0	18.2
o.w. Interest Payments	299.8	5.5	310.1	5.2	364.2	6.4	340.0	5.6
Capital Outlays	129.5	2.4	n.a.	n.a.	178.0	3.1	157.3	2.6
Fiscal Balance	(146.8)	(2.7)	(64.8)	(1.1)	(161.8)	(2.9)	(124.9)	(2.7)
Primary Balance**	152.3	2.8	239.5	4.0	212.1	3.7	222.9	3.7
Financing	146.8	2.7	64.8	1.1	161.8	2.9	124.9	2.7
External Financing	92.7	1.7	120.8	2.0	n.a.	n.a.	102.4	1.7
Domestic Financing	143.3	2.6	(10.6)	(0.2)	n.a.	n.a.	47.6	0.8
less: Change in Cash	22.3	0.4	6.06	0.1	n.a.	n.a.	1.4	0.02
less: Non-budgetary accounts	66.9	1.2	39.3	0.7	n.a.	n.a.	23.7	0.4

Details may not add up due to rounding off.

**MTPDP Program does not include noncash collections and subsidies.*

*** Refers to revenues net of privatization less expenditures net of interest payments and net lending*

Sources: MTPDP 2004-2010, National Government Cash Operations Report and BESF 2007

Expenditures were lower than the revised targets for 2006, largely because of the nonpassage of the country's budget for the year though this was partially offset by the approval of the PhP46.4 billion supplemental budget.

On institutional strengthening initiatives, particularly the Rationalization Program, 48 government agencies and 33 government corporations submitted their rationalization plans. About 12 plans (seven agencies and five government corporations) were approved by the Department of Budget and Management (DBM). At the same time, the Organizational Performance Indicator Framework (OPIF) was also made for 20 departments³ in support of the 2007 budget. In August of 2006, the OPIF book was presented to Congress.

Operationalization of the MTPIP

As part of the annual updating, the Medium-Term Public Investment Plan (MTPIP) was updated in March 2006 incorporating the policies to be implemented for the year. However, the MTPIP was reformatted in the second half of the year to address the Super Regions development thrusts of the government as enunciated in the 2006 State of the Nation Address (SONA). In addition, the National Economic and Development Authority (NEDA) began integrating the Comprehensive Integrated Infrastructure Program (CIIP) 2006-2010 into the MTPIP Information System to ensure that the goal of increasing infrastructure spending from less than two percent to around four percent of GDP will be achieved and given priority. The CIIP was valued at PhP1.9 trillion, 42.8 percent of which will be financed by the government and which would amount to roughly four to five percent of GDP per year if spending were distributed evenly. As of October 27, 2006, investments under the MTPIP 2006-2010 was PhP1.92 trillion, of which PhP805.1 billion will be coming from the NG, PhP426 from government-owned and

controlled corporations (GOCCs) and PhP365.8 billion from government financial institutions (GFIs). Meanwhile, PhP146.3 billion will be implemented through private sector participation, PhP2.7 billion will be sourced from the local government units (LGUs), and PhP177.9 billion from other sources.

Strengthening the ICC process

The Investment Coordination Committee (ICC) continued enunciating policy directives regarding the cost partnership between the NG and the LGUs for projects involving devolved activities. In response to the Presidential advice to streamline the procedures for approval and address delays in project clearances/approvals, revisions on the implementing rules and regulations (IRR) of the Amended BOT Law or RA 7718 were being proposed to the BOT-IRR Committee.

To enhance capital works programming, NEDA was granted technical assistance from the Philippines-Australia Partnership Economic and Governance Reforms (PEGR). This involves analyzing the ICC process and improving the ICC guidelines according to international standards. The assistance also intends to develop a focused MTPIP that will improve the budget process.

Achieving the 1.0-percent CPSD-to-GDP target

The favorable economic performance in the first three quarters of 2006 boosted the consolidated public sector position to achieve a surplus of 0.2 percent of GDP. The good standing was above the target for the public sector balance for the same period in the previous year. Lower deficits incurred by the NG and the monitored GOCCs largely contributed to the good consolidated public sector position. The substantial improvement in the financial performance of the 14 monitored state-owned enterprises was

³ The agencies include DAR, DA, DBM, DepEd, DOE, DNR, DOF, DFA, DOH, DILG, DOJ, DOLE, DND, DPWH, DOST, DSWD, DOT, DTI, DOTC and NEDA.

attributed to lower interest payments, reduced capital spending by the PNOOC, Light Rail Transit Authority (LRTA) and Manila Water and Sewerage System (MWSS) and the National Power Corporation's (NPC) shift to more efficient power generation mix. In addition, significant surpluses were achieved

comprise most of the NG's debt. With the domestic debt consolidation program at full swing, the BTr swapped PhP165 billion worth of 3, 5, 7 and 10-year bonds and issued PhP180 billion worth of new bonds. On a net basis, 78.6 percent of NG issuances are fixed rate treasury bonds which are longer dated

TABLE 7.2 CONSOLIDATED PUBLIC SECTOR POSITION
(In Billion Pesos)

	2005 JAN-SEP	% of GDP	2006 JAN-SEP	% of GDP	2006 JAN-SEP	% OF GDP
Total Surplus/(Deficit)	(74.6)	(1.9)	8.9	0.2	(106.8)	(2.4)
National Government	(108.5)	(2.8)	(50.4)	(1.2)	(121.9)	(2.8)
CB Restructuring	(12.4)	(0.3)	(10.5)	(0.2)	(13.2)	(0.3)
14 MNFGCs	(29.1)	(0.7)	(12.7)	(0.3)	(35.9)	(0.8)
SSIs	37.3	1.0	41.9	0.9	32.2	0.7
BSP	9.3	0.2	(9.8)	(0.2)	1.0	0.0
GFIIs	4.6	0.1	4.5	0.1	9.5	0.2
LGUs	20.4	0.5	27.8	0.7	13.6	0.3
Adjustments	3.7	0.1	18.1	0.4	8.1	0.2

Source: Department of Finance (as of January 7, 2007)

by the local governments and social security institutions, which implemented various reforms to sustain their good standing in the previous year.

Accelerating the reduction of Public Sector Debt-to-GDP

Lower borrowings due to the improvement in the fiscal position of the NG largely contributed to the continuously declining national debt. As of November 2006, NG debt dropped to 65.1 percent of GDP from 72.3 percent of GDP in end-2005. Domestic sources of debt comprised 55 percent of the NG debt dominating foreign sources which made up the rest of the NG debt. Net repayments and net appreciation of the peso against the US dollar also brought down the total contingent liabilities to 9.6 percent of GDP from 10.9 percent through lower guaranteed and assumed external debt. The sound debt structure was maintained with medium and long-term liabilities, which

instruments. Foreign bond exchange amounting to PhP60 billion was also executed to limit foreign currency denominated bonds and lengthen maturity profile. This consisted of US\$764 million in 18-year bonds due in 2024 and US\$434 billion in 25-year bonds due in 2031. From 92.9 percent of GDP in 2005, total consolidated public sector debt slid to 83.5 percent of GDP as of June 2006. On the other hand, consolidated nonfinancial public debt reached 77.1 percent of GDP for the same period. Majority of the total public sector debt is foreign-denominated.

With regard to official development assistance (ODA), total loans for ongoing projects commitment as of December 2006 amounted to US\$9.51 billion, 5.9 percent lower than in 2005 level. Meanwhile, ODA loans disbursement level for program and project loans rose by 61 percent from US\$1.2 billion in 2005 to US\$1.9 billion in 2006. The continuous improvement in the disbursement of ODA funds was attributed to the government's sustained focus and

actions toward addressing implementation bottlenecks and harmonization of procedures on procurement and other activities of the NG and the funding institutions.

POLICY DIRECTIONS

Policy reforms that support fiscal consolidation will remain imperative for 2007 as the national government nears its goal of balancing the budget. The government will continue its deficit reduction strategy as it is expected to contain the deficit to 0.9 percent of GDP or PhP63 billion in 2007 and to balance the budget in 2008. The latter is two years ahead of schedule from the target specified in the Plan.

The government will focus on implementing reform measures to sustain improvements in tax collection. These reforms include the Lateral Attrition Law, governance programs such as RIPS, RATS and RATE, the expanding taxpayer base, strengthening audit through taxpayer profiling and industry benchmarking, and upgrading taxpayer assistance. In addition, the government will

also intensify oversight of GOCCs, manage debt more proactively, and develop the local capital market. The NG borrowing program will further decline in 2007 and will continue to veer more towards the domestic market.

On the expenditure side, the DBM will work towards a sustainable budget by putting funds in the right place at the right time, managing resource allocation effectively, and ensuring desired results through capability and accountability measures. The Department will shift from input to output-based budgeting by requiring agencies to submit performance targets and to undergo quarterly performance evaluation. Furthermore, to make the budget more strategic, the DBM will employ the Medium-Term Expenditure Framework (MTEF). The MTEF is a multiyear budgeting system which maps out systematically the requirements for ongoing and new projects on a three-year basis. For 2007, the priority sectors in the budget are infrastructure and education. An increase in the budgets of the departments is supported by the drop in the share of interest payments in the total budget.

Chapter 8

Financial Sector

Monetary and banking policies generated positive results as market reforms continued in 2006. Despite the banking system's increased provisioning levels and transition to the demands of new international accounting standards, banks remained well capitalized with capital adequacy ratio of 17.0 percent on a solo basis and 18.3 percent on a consolidated basis as of end-June 2006. These are well above the statutory requirement and the international standard of 10 percent and eight percent, respectively. The positive performance of the financial sector was also evident as benchmark nonperforming loan (NPL) ratio of commercial banks fell to 5.7 percent by December 2006, the lowest since the 1997 Asian crisis. Despite the supply shocks from record-high world oil prices and the value-added tax reforms during the start of the year, the continued efforts to ensure price stability and the successful conduct of monetary policy led to the easing of inflationary pressures towards the end of 2006. Year-on-year inflation rate dropped to 4.3 percent in December 2006, the lowest since October 2003.

The financial system's role to effectively deliver financial intermediation and alternative funding source for the economy requires accelerated development of the domestic capital market in order to channel savings to more productive uses. To mobilize domestic savings, the regulatory agencies of the government actively promoted measures to improve the country's financial and banking services. In 2006, the Bangko Sentral ng Pilipinas (BSP) jumpstarted the process through its Financial Literacy Campaign (FLC) targeting remittances from Overseas Filipino Workers (OFWs) as sources of capital. The idea is to help channel remittances to development activities and promote savings habit among OFWs and their beneficiaries. In particular, FLC aims to promote savings and investments through alternative opportunities for remittances, such

as savings or placements in financial instruments and investments in business ventures available in the nonbanking sector.

Reform measures focused on developing a well-functioning and profitable banking system, and active and efficient stock and bond markets that offer more incentives and a wider array of mechanisms to save. These include the proposed amendments to the BSP Charter, the Insurance Code, the Securities Regulation Code that will improve the regulatory framework of the financial system, and the Corporation Code to further promote corporate governance. In addition, the BSP is actively supporting the establishment of a Credit Information Systems Act (CISA), the passage of the Corporate Recovery Act (CRA), the Personal Equity Retirement Account (PERA), the Revised Investment Company

Act (RICA), the Lending Companies Regulation Act (LCRA), and the Pre-Need Code. Furthermore, with the approved extension of the Special Purpose Vehicle (SPV) Law, the BSP is targeting to dispose PhP100 billion worth of nonperforming assets (NPAs). Based on the preliminary results of implementation, five banks have already applied for their certificates of eligibility (COE) to dispose PhP31.1 billion of NPAs. This is exclusive of 27 banks that likewise expressed interest to dispose PhP50.9 billion worth of bad assets but have yet to apply for their COEs.

ASSESSMENT

Ensure stable macroeconomic environment to reduce long-term risk by managing inflation

The average inflation rate for 2006 stood at 6.2 percent, 1.4 percent lower than the recorded average inflation rate of 7.6 percent in 2005. This, however, exceeded the government's target of 4.0-5.0 percent mainly due to the increase in world oil prices and the two-percent Value Added Tax (VAT) rate imposed in February 2006. Inflation steadily declined despite upward pressures with the increase in VAT and from harsh weather conditions in the third quarter of 2006. Nevertheless, the easing of world oil prices, the continued strengthening of the peso against the US dollar, and the recovery of agricultural production led to the downtrend in inflation towards the end of the year. The inflation rate reached a 32-month low of 4.3 percent in December 2006. Similarly, core inflation was on a downtrend through most of the months of 2006 and averaged 5.5 percent for the year, the lowest since 2003. This reflected the absence of broad-based demand pressures on consumer prices.

Due to developments in inflation trend and expectations of a manageable inflation environment, the BSP kept a steady hand on monetary policy settings. This kept the 7.5 percent for the overnight reverse

repurchase (RRP) rate and 9.75 percent for the overnight RRP rate unchanged throughout 2006. To spur business activity, the BSP also revived the tiering scheme on banks' placements with BSP in order to encourage banks to use excess funds for lending. Furthermore, BSP also continued to intensify its public information campaign to help manage inflation expectations through the conduct of regional briefings focusing on: (a) economic developments and prospects; (b) the role of the BSP in the economy; (c) the conduct of monetary policy and inflation targeting; and (d) the concept of core inflation.

On the other hand, the National Price Coordinating Council (NPCC), through its member agencies, actively worked with the private sector to counteract the effects of supply-driven inflationary pressures.

The Department of Trade and Industry (DTI) continued its price monitoring activities and provided online price updates of basic commodities in order to protect consumers from profiteering. The public and private sectors supported the immediate passage of the Biofuels Act of 2006 that aims to lessen the effects of increased oil prices by using gasoline and diesel blended with alternative fuels like ethanol and coconut methyl ester (CME).

Likewise, the notable performance in rice and corn production was due to the sustained usage of hybrid and high quality inbred seeds and fertilizer in accordance with the GMA Rice and Corn Program, which is spearheaded by the Department of Agriculture (DA) in cooperation with the local government units (LGUs). Moreover, some of the DA measures for strategic and catalytic provision of national government support services which were delivered last year include credit and capability building support to agriculture and enhancement of effectiveness, adequacy, and efficiency through transport and logistical support for both farm inputs and produce especially for agricultural and fishery food products.

The BSP also participated actively in the interagency meetings of the Development

Budget Coordination Committee (DBCC) and other government bodies, such as the NPCC and the National Food Authority (NFA). This allowed the BSP to articulate its support for the national government's use of nonmonetary measures to address supply-side risks, particularly those related to food supply and oil prices. To institutionalize fully the management of risks involved in the conduct of monetary policy and to ensure that risks to the attainment of the inflation target are incorporated in the formulation of monetary policy, the BSP continued to employ and report the results of its Early Warning Systems (EWS) on Business Cycles, Currency Crisis and Debt Sustainability.

Promoting a stronger, more stable and deeper financial system

1. Further accelerate the reduction of NPAs of the banking system

In 2006, the asset quality of the banking system continued to improve because of the brisk asset cleanup in response to the alignment of local banking practices with international standards. The extended implementation of the SPV Law of 2002 further invigorated asset dispositions. RA 9343, which was signed into law on April 24, 2006 and took effect on May 14, 2006, will extend the SPV-related incentives for another two years.

Apart from this, the BSP issued Circular No. 518 on March 9, 2006 to allow banks greater flexibility to dispose bad assets. Specifically, this allows banks to enter into joint venture agreements (JVAs) with real estate developers to convert their foreclosed real estate properties into income-generating assets.

As of November 2006, the benchmark NPL ratio of universal and commercial banks moved closer to its precrisis level at 6.96 percent while similar trend was observed for thrift and rural banks at 8.44 percent. The NPA ratio also eased to 7.15 percent as of November 2006 from the 8.8 percent record in the same month of last year, mainly driven

by the decline in NPAs by 2.45 percent and the expansion in gross assets (GAs) by 2.25 percent. As of December 2006, the banking system's NPL and NPA ratios further improved to 6.4 percent and 7.2 percent, respectively and closer to their precrisis levels.

2. Prevent and minimize systemic risks by strengthening supervision and regulatory framework in accordance with international standards

In line with the strengthening of risk management arising from potential bank failures as well as the growing sophistication in the banking and financial services industry, the BSP, SEC, and PDIC further enhanced their consolidated and risk-based supervision approach in 2006.

The SEC fully implemented the submission of Risk-Based Capital Adequacy (RBCA) reports from securities brokers and dealers while the PDIC enhanced and applied an offsite risk-rating framework for banking reports. Meanwhile, BSP and PDIC signed an agreement on the Definition of Jurisdiction on Investigation and Filing of Cases and set up a system to investigate fraud, irregularities, and anomalies among banks. A framework to pursue prompt and effective resolution of problem banks was also recommended for approval. Moreover, BSP fully implemented the Data Warehouse Project (DWP), its main repository of financial and nonfinancial data collected from BSP's supervised and regulated institutions, in order to facilitate a more effective conduct of supervisory and regulatory oversight and monetary policy formulation.

On the other hand, the objective to strengthen the coordination with domestic and foreign regulators served as catalyst for a consolidated supervision approach. The exchange and sharing of information with ten foreign central bank counterparts were made possible through reciprocity arrangements between the BSP and other central banks. In addition, the continued effort to make the Philippines at par with the international practice of system-wide consolidated approach

to supervision led to the signing of a Memorandum of Agreement among the members of the Financial Sector Forum (FSF) specifically addressing the harmonization and coordination of: (a) supervisory and regulatory methods and policies; (b) reporting and information exchange and dissemination; and (c) consumer protection and education.

Other reforms that were implemented by the BSP to address risk management and supervision include the start of the reorganization of the BSP's Supervision and Examination Sector (SES) through the conduct of structured training for SES personnel and the advocacy for technological advancements in e-banking which includes the integration of e-banking risks into the bank's overall risk management framework.

3. *Improve market liquidity*

The effort by government regulatory institutions to improve the market situation coupled with sustained dollar inflows from OFW remittances and foreign portfolio resulted in an ample supply of market liquidity in 2006. Capital market initiatives made headway during the year capped by significant developments in the areas of infrastructure development and policy initiatives. The BSP, Philippine Dealing System (PDS), and Bureau of the Treasury (BTr) signed a formal agreement on July 26, 2006, which made "straight through processing (STP)"¹ of government securities traded at the Fixed Income Exchange (FIE) possible and eliminated the need for the manual encoding of settlement transactions. Effective September 11, 2006, all STP-eligible government securities traded at the FIE between banks were settled automatically via the RoSS–PhilPaSS DvP system established by the BTr and BSP. The complete system linkage was in compliance with the standards set by the Committee on Payment and Settlement Systems-International Organization of

Securities Commissions (CPSS-IOSCO) to minimize operational and other risks.

The BSP likewise enhanced monetary and banking policies in order to promote investor protection and confidence in the government securities market. The enhancements include: (a) the third-party custodian system which connects the BSP's real-time gross settlement system or Philippine Payments and Settlements System with the PDS and the BTr in line with the Delivery-versus-Payment settlement of government securities; (b) streamlining of the access to rediscounting facilities, one of the instruments for conducting monetary policy, specifically the launching of electronic rediscounting facility to ensure wider and faster delivery of credit to SMEs in the countryside; (c) measures to improve access of SMEs to financing through lower reserve requirements and relaxed - but still prudent - regulations on bank branching, risk weights, single borrower's limit, connected lending and documentation; and (d) monitoring of the conversion of Common Trust Funds (CTFs) to Unit Investment Trust Funds (UITFs) and issue regulations on UITFs.

4. *Further strengthen existing prudential regulations on corporate governance and promote market discipline*

The demand for financial institutions to strictly adhere to good corporate governance practices in an increasingly complex and sophisticated financial environment prompted the BSP to further strengthen its corporate governance framework. This includes the alignment with internationally accepted standards and best practices in order to: (a) safeguard the institution against excessive risk-taking and improve its solvency; (b) provide higher degree of transparency expected in financial reporting to promote proper market discipline through the issuance of guidelines for the new Financial Reporting Package (FRP)

¹ *In a straight through process, the buyer and seller exchange cash and securities ownership simultaneously. This eliminates the need to encode separately instructions to the RoSS and trade transactions.*

and the engagement of external auditors; (c) ensure fair exercise of business transactions and promote consumer protection; and (d) fortify the role of bank directors as corporate decision makers by amending the regulations on the fit and proper rule and on directors, officers, stockholders and their related interests (DOSRI) lending by making the board of directors fully accountable to the shareholders and the public.

In preparation for the full implementation of Basel II in 2007, the BSP issued guidelines on the new capital adequacy framework by providing additional guidelines on the issuance of unsecured subordinated debt (USD) qualifying as either Tier 2 (supplementary) capital or hybrid Tier 1 capital aimed at improving the capital position of some banks which could suffer the brunt of regulatory tightening under Basel II.

POLICY DIRECTIONS FOR 2007

Reform efforts will be pursued to promote a stronger, stable and deeper financial system.

Ensure stable macroeconomic environment to reduce long-term risk by managing inflation

- Despite recent benign readings on the inflation outlook, the BSP will continue to remain watchful of the potential risks to inflation. These risks include the impact on the food prices of the El Niño dry spell, upward adjustments in domestic power costs and wages, and volatility in world oil prices. Hence, the BSP remains vigilant against potential second-round effects on price- and wage-setting behavior and possible adverse shifts in the public's inflation expectations. The BSP will also continue to pay close attention to a possible sustained buildup in liquidity conditions that could lead to price pressures in the future.

Accelerate reduction of nonperforming assets (NPAs) of banks

- The BSP intends to facilitate a more vigorous bank asset cleanup through the reduction of the banking system's level of NPAs preferably by half and its asset quality indicators closer to the precrisis levels in the near term. With the implementation of the SPV Law II, the BSP expects to dispose another PhP100 billion worth of NPAs.

Prevent and minimize systemic risks by strengthening regulations in accordance with international standards for greater transparency and accountability

- The BSP will continue to enhance existing procedures and framework to fully implement a consolidated and risk-based supervision approach. This will entail the implementation of mapping structures for complex groups and review of existing ratings systems (i.e., CAMP, groupwide rating system) in 2006.
- Future thrusts also target the completion and implementation of the following: (a) BSP's Data Warehouse project which is envisioned to deliver time data essential for off-site and on-site examination with value-added functionalities for data analysis; (b) adoption of a formal off-site review process which shall include the preparation of process manuals and training of personnel from 2007 to 2008; and (c) various Financial Sector Forum projects such as harmonization of risk management guidelines, accreditation standards for reputable external auditors, credit rating agencies and independent appraisers, rules on reporting and information exchange and initiatives on consumer protection and education by the first quarter of 2008.
- The BSP expects full compliance of the banking system with the Basel II provisions by 2007 for standardized

approach and by 2010 for internal rating-based approach with the issuance of BSP Circular No. 538 on August 4, 2006.

- The BSP will also sustain its efforts to closely coordinate with Congress to pass the amendments to the BSP Charter to: (a) promote greater stability in the banking system, (b) strengthen the supervisory capacity of the BSP, and (c) enhance the effectiveness of the BSP as a regulatory institution. Senate Bill No. 1943 is currently pending at the Congress for approval.

Improve liquidity by accelerating the development of the domestic capital market

- Initiatives toward this end will be largely focused on implementing the Blueprint for Capital Market Development and passage of key legislative bills aimed to improve credit information; widening the

pool of institutional investors; and developing the enabling infrastructure for a deep and efficient capital market in the Philippines such as the Credit Information Bureau (CIB) Bill, the CRA, the PERA Bill, the RICA, and the Pre-Need Code Act.

Increase SME access to financing

- Initiatives to promote the activities of small and medium enterprises (SMEs) through: (a) public information campaigns to increase awareness on SME financing programs; and (b) establishment of a central credit information bureau in the country² which will have the power to collect and disseminate credit-related information.

² *The Credit Information System Act (CISA) or HB No. 04356 was proposed by Congressman Jose de Venecia, Jr. and it seeks to establish a central credit information bureau in the country. The bill has been referred to the Committee on Banks and Financial Intermediaries on May 30, 2005. Moreover, a similar Senate Bill No. 01936, was certified urgent by President Gloria Macapagal-Arroyo on May 30, 2005.*

Chapter 9

Labor

In a number of indicators, labor market conditions in 2006 closely resembled 2005. Unemployment rate was slightly higher than the previous year and the rising underemployment rate continued. Net employment creation, mainly for salaried jobs rather than unpaid work, moreover, was still way below the Plan's employment target. Compliance with labor standards continued to miss the Plan target in 2006 although the year was also generally peaceful in terms of labor-employer relations, and strike prevention. Supervening conditions allowed workers to get a wage increase in the early second half of 2006 even as the issue of legislated wages emerged. Furthermore, the government's facilitation and protection of overseas Filipino workers (OFWs) contributed to all-time records for both monthly remittances and deployment levels that propped up the economy.

In 2007, the government shall continue to pursue programs in support of employment generation, preservation, enhancement and facilitation. The Department of Labor and Employment (DOLE) will further boost its services both locally and globally through the application of the "Single-Agency" approach, improving its efficiency and synchronizing efforts for the pursuit of national interests.

ASSESSMENT

The labor market registered a slightly higher unemployment rate of 7.9 percent from 7.8 percent¹ in the previous year. Employment creation, however, again hardly moved and fell short of the target for 2006, employing an

additional 650,000 workers vis-à-vis the targeted 1.26-1.53 million workers.

The employment increments were observed largely in the services sector (482,000) followed by agriculture (187,000). However, industry suffered employment losses (-18,000). The trends in employment creation mirrored the sectoral growth pattern except for industry, due to the increasing role of capital vis-à-vis labor in production.

Employment came mainly from agriculture and services. A 6.4 percent increase for the labor force working less than 40 hours a week was observed while a drop among fulltime workers² was noted. This resulted in a high underemployment rate of 22.7 percent. On a positive note, the quality of employment improved as remunerative work managed a 2.9 percent expansion in 2006.

¹ Average of April, July and October 2005 for unemployment rate and labor force. The use of the new Labor Force Questionnaire to estimate the unemployed started in April 2005 with the adoption of the revised definition of unemployment that adds the "availability" criterion (NSCB Resolution No.15, series of 2004). Subsequently, levels for labor force and derived labor entrants were affected by this change.

² Employment 40 hours and above.

TABLE 9.1 SUMMARY INDICATORS ON LABOR AND EMPLOYMENT: 2005-2006

Indicators	Level (in '000, except rate)		Growth Rate (%)	
	2005 ¹	2006	2005	2006
Labor Force	35,286	35,788	(1.6)	1.4
Labor Entrants	(576)	502	(144.6)	(187.0)
Employment Level	32,313	32,963	2.2	2.0
Net Employment Creation/Employment Generated	700	650	(28.4)	(7.1)
Unemployment Rate (%)	7.8	7.9	(4.0)*	0.1*
Underemployment Level	6,786	7,470	21.7	10.1
Underemployment Rate	21.0	22.7	3.4*	1.7*
Employment by No. of Hours Worked				
Less than 40 hours a week	11,640	12,382	0.2	6.4
40 hours and above	20,187	20,051	4.2	(0.7)
Employment by Class of Workers				
Wage and salary workers	16,316	16,789	(0.9)	2.9
Own-account workers	12,104	12,134	3.7	0.2
Unpaid family workers	3,893	4,040	9.1	3.8
Net Employment Creation/Employment Generated, by Industry				
AGRICULTURE, FISHERY, FORESTRY	248	187	53.6	(24.7)
Agri, Hunting, Forestry	221	163	286.5	(26.4)
Fishing	27	23	(74.5)	(12.3)
INDUSTRY SECTOR	26	(18)	(83.9)	(171.6)
Mining & Quarrying	5	18	(63.0)	265.0
Manufacturing	16	(18)	(86.7)	(210.9)
Electricity, Gas and Water	(3)	12	(140.0)	500.0
Construction	8	(31)	(56.5)	(506.7)
SERVICE SECTOR	427	482	(35.2)	13.0
Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles & Personal & Household Good	275	133	1.9	(51.7)
Hotel & Restaurants	55	32	(1.8)	(41.6)
Transportation, Communication & Storage	25	108	(78.7)	336.4
Financial Intermediation	13	9	(49.5)	(33.3)
Real Estate, Renting & Bus. Activities	45	63	(12.3)	(42.1)
Public Ad & Defense, Compulsory Social Security	(10)	32	(113.4)	414.6
Education	39	35	214.0	(12.1)
Health and Social Work	15	(9)	(241.5)	(162.1)
Other Community, Social & Personal Service	(59)	36	(121.5)	160.3
Private Households with Employed Persons	30	110	(66.3)	269.7
Extra-Territorial Organizations & Bodies	0	0	66.7	200.0

* Percentage point difference

Source: Labor Force Surveys, National Statistics Office

By region, employment rate was lowest in the urban centers of Metro Manila (85.7%), Region 3 (89.6%), Region 4-A (90.1%), and Ilocos Region (91.4%). This is reflective of a high unemployment rate and low capacity to absorb workers looking for work in urban areas due to in-migration.

In 2006, minimum wages increased as purchasing power eroded due to higher prices notably of petroleum and transport. All regions issued minimum wage orders between July to August, granting minimum wage increases, cost-of-living allowance or integration of cost-of-living allowances into the basic pay.

The National Capital Region still has the highest minimum wage for nonagricultural workers at PhP350 while the Autonomous Region in Muslim Mindanao (ARMM) has the lowest at PhP200. The adjustment in the wages occurred in the midst of the continuing issue of legislated wages stemming from the Congressional proposal for a PhP125 daily across-the-board hike.

Labor productivity grew by 3.3 percent in constant terms from PhP37,430 in 2005 to PhP38,662 in 2006, higher than the 2.7 percent growth posted last year. Productivity of workers for all the sectors posted gains: agriculture (2.4%), industry (5.2%) and services (from 3.1%).

Overseas employment remained a key source of jobs for Filipinos. The POEA's Daily Deployment Report showed that 1,092,055 people were deployed in 2006, registering a 10.5 percent increase from last year. Land and sea-based deployment grew by 12.2 percent and 5.1 percent, respectively.

Consequently, remittances posted a record US\$12.76 billion as of December 2006, or a 19.4 percent growth from the previous year. This is also attributed to higher skilled and higher paying jobs for overseas Filipino workers (OFWs) as well as improved capture of remittances by financial and remittance channels.

1. Support for Employment Generation

To ease the unemployment problem, the government, through the DOLE continued to promote entrepreneurship among OFWs and/or their families through the Enhanced Reintegration Program for OFWs and the OFW Groceria Project.

In 2006, PhP34 million was released to fund 198 projects under the Overseas Workers' Welfare Administration-National Livelihood Support Fund (OWWA-NLSF) Livelihood Development Program. A total 3,730 participants joined the community-based trainings while 14,261 attended other livelihood seminars.

Employment preservation

Like in the previous year, industrial relations were generally peaceful in 2006. The DOLE resolved some 530 preventive mediation cases for a settlement rate of 86 percent with quality settlement rate at 94 percent, due to "24 hours/7 days" action on labor cases. This resulted in lesser strikes.

The DOLE recorded 12 strikes/lockouts this year against 26 in 2005, or a lower incidence of 54 percent. As a result, mandays lost due to strikes decreased by 58 percent, from 109,579 last year to only 46,134 in 2006.

In promoting dispute prevention and alternative dispute settlement at the workplace for unionized and non-unionized establishments, 313 grievance machineries (GMs) were operationalized, 444 GMs were strengthened, and 83 GMs in unorganized establishments were institutionalized.

There were 501 Labor Management Councils (LMCs) covered by advocacy activities at the plant level and alternative dispute settlement mechanisms. Meanwhile, 107 LMCs were also facilitated and/or reactivated. There are now 160 LMCs in unorganized establishments.

On labor management and education, the DOLE continued to promote workers' rights and dispute prevention and settlement. It pilot-tested the Labor Human Productivity modules on October 4-5, 2006 among selected DOLE officials. A trainers' training on the new modules followed on October 11-13, 2006. The Department also conducted 3,244 labor education seminars, benefiting 88,110 organized and unorganized workers. On the other hand, 231 management education seminars were conducted covering 3,047 establishments with 5,441 participants.

The agency strengthened quick-response intervention for displaced and about-to-be-displaced workers by promoting efficiency-enhancing measures, including arrangements or human resource strategies that minimize employment losses. The DOLE also established the Tripartite Assistance and Supervising Committee and administered an "Industrial Peace and Stability Fund" to assist displaced workers on a tripartite basis. A total of 33,456 workers benefited from this package of interventions.

In 2006, social dialogues were maintained as a central element of labor policy and as a means to secure sustainable decent work outcomes through tripartism.

At yearend, there were 79 existing Industry Tripartite Councils (ITCs).

Meanwhile, there were 125 existing Tripartite Industrial Peace Councils (TIPCs) nationwide covering 126, 011 workers from 3,508 establishments.

2. Employment Enhancement

Trainings

More trainings and consulting services were provided during the year showcasing productivity improvement programs in micro, small and medium enterprises (MSMEs) like the Small Brother-Big Brother support interventions under the Industrious, Systematic, Time-conscious, Innovative, and Strong Value for Work (ISTIV) Program as well as in barangay micro business enterprises (BMBEs). A total of 4,149 BMBEs/microenterprises were provided with orientation on productivity and quality, reaching a 231 percent target accomplishment.

Assistance to Vulnerable Groups

Providing opportunities for the youth to acquire skills and competencies required by

TABLE 9.2 INDUSTRY TRIPARTITE COUNCILS

Level	No. of ITCs	Establishments / Workers covered
Regional	25	322 est. / 1,038 workers
Provincial	37	932 est. / 16,802 workers
City/Municipal	17	241 est. / 319 workers

Source : DOLE

TABLE 9.3 TRIPARTITE INDUSTRIAL PEACE COUNCILS

Level	No. of TIPCs	Establishments / Workers covered
Regional	12	920 est. / 11,918 workers
Provincial	37	1,703 est. / 77,175 workers
City/ Municipal	76	885 est. / 36,918 workers

Source : DOLE

the market was continued in 2006. Trainings, scholarships, expanded apprenticeship and learnership programs, special employment of deserving students and emergency employment for out-of-school and out-of-work youth in Metro Manila were also carried out. Under the *Kasanayan at Hanapbuhay* Program, 62,399 apprentices were trained or 62 percent of the target for the year.

In 2006, a total of 53,715 students or 76.7 percent of the targeted 70,000 per year obtained jobs under the Special Program for Employment of Students (SPES).

Meanwhile, 12 government agencies got linked electronically, cutting down OFW documentation time and cost by 20 percent. The OWWA distributed e-cards to 255,406 OFWs thereby achieving 43 percent of its target for the year

3. Enforcement of Labor Standards

The implementation of the new labor standards framework continued in 2006. The framework, started in 2004, promotes a culture of safety and health, self-regulation, and voluntary compliance to labor standards and productivity. However, the targeted 75 percent compliance rate for inspection was not met. Only 11,251 establishments of the total inspected (61% compliance rate) were found complying with general labor standards before and after inspection. Meanwhile, 84.8 percent of the total number of units inspected were found complying with technical safety standards (TSS) before and after inspection while 64.4 percent enforcement rate for violations, which materialized into labor standards cases, was recorded. The enforcement of labor standards against erring establishments resulted in the restitution of 50,216 workers, totaling PhP302.1 million in monetary awards/settlement.

Wage Policy Review

The government continued the review of wage policies vis-à-vis emerging labor industry requirements. In 2006, the DOLE

issued 17 Wage Orders, prepared 64 Quarterly Regional Evaluation Reports on the review of minimum wage levels, conducted 54 public hearings/consultations nationwide, disposed all of 129 applications for exemption (100% disposition rate) and disposed all of 17 appeals on exemption (100% disposition rate).

The Department also started/completed the following studies: (a) Measurement and Operationalization of Safety Net in Minimum Wage Fixing (revised report submitted); (b) Minimum Wage Structure Simplification: Practice and Application (2006 round of WOs incorporated in the report); and (c) Impact of Minimum Wage Fixing on Inflation, Employment and Collective Bargaining (project continuing in 2007).

4. Employment Facilitation

To enhance local employment facilitation, employment guidance and regulation, the Labor Market Information System Project was strengthened. The Public Employment Service Office (PESO) Manual of Operation was developed for pilot testing in 75 PESOs.

The DOLE's job search facility, *Trabaho Mo, I-text Mo*, operationalized in 2005 to increase jobseekers' access to job vacancy information, was also continued. The Department receives a daily average of 500 text messages/inquiries.

POLICY DIRECTIONS

For 2007, the efforts and resources of government through the DOLE shall continue to support four strategic goals for the well-being of the Filipino workforce. It will contribute to the creation of 6–10 million jobs and the attainment of the DOLE commitments to the MTPDP. In the delivery of its services, the Department has adopted a "Single-Agency Approach", which includes the effective synchronization of DOLE policies and plans as well as communication of priorities to its clientele.

The Department's major thrusts and priorities under the DOLE Strategic Workforce Framework are:

Goal 1: A Gainfully Employed Workforce

Towards providing the Filipino workforce with gainful employment, either as local or overseas wage earners, self-employed persons or entrepreneurs, the DOLE shall deliver: (a) job search assistance services for wage employment; (b) capacity-building services for livelihood and self-employment; and (c) social partnership promotion and dispute resolution services to preserve employment;

Goal 2: A Globally Competitive Workforce

Towards providing the Filipino workforce with skills and knowledge that are relevant to the needs of today's employers, the DOLE shall deliver skills competency, productivity trainings, technical-vocational

education and bridging employment services through the following programs: Technical Education and Skills Development Program, Maritime Training and Upgrading Program, Productivity and Competitiveness Program and Bridging Employment Program;

Goal 3: A Secure Workforce

To afford the Filipino workforce with fair and just terms and conditions of work and social protection benefits, the DOLE shall provide: (a) services to safeguard fair and just terms and conditions of employment; and (b) social protection and welfare services; and

Goal 4: A Safe and Healthy Workforce

Towards providing the Filipino workforce with safe and healthy working environment, the DOLE shall deliver work accident/illnesses prevention, work compensation and rehabilitation services.

Chapter 10

Energy Independence

The energy independence agenda envisions the country attaining an energy self-sufficiency level of 60 percent by 2010 as targeted in the Philippine Energy Plan. In 2006, the energy self-sufficiency level already stood at 56.0 percent beyond the 2006 target of 53.0 percent and the 2005 sufficiency level of 55.8 percent. To attain this, the government in cooperation with the private sector undertook measures to accelerate the development of indigenous fossil fuel resources and renewable energy potentials, increase the use of alternative fuels, and strengthen and enhance energy efficiency and conservation program that will generate savings in fuel oil displacement, among others.

ASSESSMENT

INCREASING OIL AND GAS EXPLORATION

Under the 2005 Philippine Energy Contracting Round (PECR), four petroleum blocks of about 12,000 square kilometers (sq. km) each were offered to interested investors. As a result, eight petroleum service contracts were awarded in 2006 entailing about US\$200 million for the duration of the contracts. To pursue the initiative, the 2006 PECR was launched in December 2006 wherein nine petroleum areas located in potential basins of Cagayan, Central Luzon, Visayas and Agusan-Davao were offered to investors.

In 2006, the country acquired 11,168 line km of 2D seismic data and 581 sq. km of 3D seismic data. The target for 2D data was reduced by one service contract operator in lieu of additional 3D data. On the other hand, the acquisition of 3D data is still ongoing.

Meanwhile, about 103.3 billion cubic feet of gas and 4.91 million barrels of condensates were produced under Service

Contract (SC) 38 (Malampaya) as of November 2006 which provides the gas fuel requirements of Sta. Rita, San Lorenzo and Ilijan power plants in Batangas. These production accomplishments represent 18 percent and 16 percent of the targeted 573.45 billion cubic feet of gas and 30.4 million barrels of condensates for SC 38. Furthermore, the San Antonio Gas Power Project produced 292.9 million standard cubic feet (MMSCF) of natural gas as of November 2006, which equates to about 20.24 percent of the 1,447 MMSCF target, generating about 14.8 gWh of electricity.

STRENGTHENING THE PHILIPPINE NATIONAL OIL COMPANY (PNOC)

The Rationalization Plan of the Philippine National Oil Company (PNOC) was submitted to the Department of Budget and Management (DBM) in November 2006. PNOC-Energy Development Corporation (EDC) offered its shares to the public, marking the beginning of its privatization.

Likewise, the PNOC Shipping and Transport Corporation is in the initial stage of its privatization. In 2006, the contract for the engagement of a valuation advisor for its assets was awarded to Punongbayan & Araullo.

PNOC-Exploration Company (EC) continued its exploration activities in partnership with local and foreign investors. Its ventures include the awarding of SC 58 West Calamian (where a total of 3,184 km of seismic data was acquired from September to October 2006) and SC 50 West Balabac (where a total of 2,056 km of seismic data was acquired from October to November 2006).

As a wholly-owned subsidiary of PNOC, PNOC-Alternative Fuels Corporation (formerly PNOC-Petrochemical Development Corporation) is mainly concerned with the exploration, development and acceleration of the use and commercialization of existing and emerging alternative sources of energy and technologies. However, the subsidiary will continue to be responsible for developing the Petrochemical Park in Limay and Mariveles, Bataan and other petrochemical-related activities as its secondary purpose. Currently, there are three petrochemical plants located in the complex. No developments have been undertaken on the cracker plant.

PURSUING THE DEVELOPMENT OF INDIGENOUS AND RENEWABLE ENERGY

Geothermal Energy

PECR 2006 was launched offering three prospective geothermal areas – Biliran (Biliran Province), Amacan (Compostela Valley) and Mabini (Batangas).

In June 2006, the 130 mW Upper Mahiao Power Plant, the biggest binary power plant in the world using the Ormat-designed geothermal combined cycle unit technology, was turned over to PNOC-EDC. This ended the project's 10-year cooperation period with California Energy under a Build-Operate-Transfer (BOT) agreement.

To mark the completion of the Northern Negros Geothermal Project, synchronization of steam acceptance and plant load tests were conducted in December 2006 in preparation for the scheduled commissioning in February 2007. Meanwhile, PNOC-EDC continued to solicit offers for the construction of Palinpinon II Power Plant and sought appropriate financing for the Mindanao Optimization Project. Both plants were originally targeted for commissioning in 2007.

Wind Energy

The 30 mW Saoit Wind Farm in Ilocos Norte was not commissioned in 2006 as projected due to cost increase issues. Bid documents for the project were released only in November 2006.

On the other hand, wind assessments in Bayog, Boracay, Nubenta, Tagkiling, Sta. Ana and Dinagat Island were completed. The combined feasibility study for Nubenta and Boracay was completed in August 2006 with findings that both were not technically and economically viable.

The wind-diesel hybrid plant in Basco, Batanes experienced system failure from July to December 2006 due to a defective main programmable logic controller and AC-DC converter.

Solar Energy

The Sunpower Solar Wafer Fabrication Plant in Sta. Rosa, Laguna realized 50 mW of additional manufacturing capacity in 2006. The US\$300 million investment is expected to supply about 6 percent of the world demand for photovoltaic cells.

The Solar Home Distribution Project, aimed to provide electricity to offgrid barangays, commenced in 2001. Total installations for 2006 reached 3,336 units (bringing the total number of units installed to 12,280), surpassing the 2,400 target units.

Hydropower Energy

The Department of Energy (DOE) continued to manage five ongoing mini-hydropower projects (MHP), namely: 0.96 mW Cantingas MHP in Romblon, 0.50 mW Hinubasan MHP in Surigao Norte, 2.5 mW Sevilla MHP in Bohol, 0.75 mW San Luis MHP in Aurora and 1.0mW Sipangpang MHP in Surigao Sur. The operating contract of the 1 mW Colasi Hydro Project in Mercedes, Camarines Sur is under negotiation.

EXPANDING THE USE OF NATURAL GAS

The Batangas-Manila 1 pipeline project continues to undergo economic reevaluation with the government's decision to rehabilitate the Sucat power plant. PNOC is currently undertaking promotional activities to encourage participation of international partners in the project.

In the ongoing negotiations for the sale of the National Power Corporation (NPC) power plants, the Power Sector Assets and Liabilities Management (PSALM) Corporation encouraged prospective buyers to undertake the conversion of the 600 mW Limay Combined Cycle Power Plant and the 450 mW Sucat to natural gas.

For the commercial transport application of compressed natural gas (CNG), the Philippines acquired five China-made CNG commercial buses. This brought the number of CNG buses in the Philippines to 22, far from the 2006 target of 200 units. This is caused by the delayed operation of the mother-daughter refilling stations due to concerns on technical standards and safety requirements.

In the industrial sector, the Pilipinas Shell Petroleum Corporation commenced using natural gas as fuel in its refinery operations and has consumed approximately 2,148 MMSCF as of November 2006. As compared to its diesel cost equivalent, this amounts to savings of about PhP1.328 billion. Private utilities engaged in gas pipeline operations are currently evaluating and

negotiating with ecozone industries in Batangas for possible pipeline projects and conversion to natural gas.

For power generation, the Energy World International (EWI) has signified its intention to construct and operate liquefied natural gas (LNG) storage facilities and power plant in the Philippines. EWI is proposing to initially put up a 150-300 mW integrated LNG and power plant facility in Pagbilao, Quezon. The company has started its feasibility study.

Similarly, the Bonifacio Global City and the Alabang Business District are evaluating possible implementation of cogeneration systems involving power generation and district cooling in their localities.

DEVELOPING FUEL BLENDS

The Jathropa Plantation Project kicked off in 2006 with 13 hectares of land planted to the Jathropa Curcas species. This will provide the scientific data for the country's National Biofuel Program.

As of September 2006, at least 109 government agencies with 1,430 diesel vehicles (compared to only 59 agencies in 2005) complied with Memorandum Circular (MC) No. 55, mandating government vehicles to use 1 percent coconut methyl ester (CME) blend in their diesel requirements. For supply stability of CME, four manufacturing companies were approved by the DOE – Senbel Fine Chemicals, Inc., Chemrez, Inc., Romtron Inc. and Mt. Holly, Inc.

Department Circular (DC) No. 2006-08-0011 was issued on August 30, 2006, prescribing interim guidelines for the accreditation of oil industry participants in the Fuel Bioethanol Program. Commercialization of E10 was heightened through the launching of "Shell Super Unleaded E10 Gasoline" at the Nagtahan Station in May 2006. The price of E10 is 50 centavos cheaper than its regular unleaded gasoline. In addition, Ford's Flexi-fuel Vehicle model was launched and made available commercially in April 2006. It can

operate either with regular gasoline or with a blend of 85 percent ethanol and 15 percent gasoline.

FORGING STRATEGIC ALLIANCES

PNOC-EC pursued a tripartite agreement with China National Offshore Oil Corporation and Vietnam Oil & Gas Corp on upstream exploration. In 2006, PNOC-EC provided vital technical inputs to the seismic data processing activity in Vietnam for the Joint Marine Seismic Undertaking.

STRENGTHENING ENERGY EFFICIENCY AND CONSERVATION PROGRAM

For information dissemination, various seminars on the Power Patrol Program, Road Transport Patrol Program, Government Energy Management Program, and Fuel Economy Run were conducted in 2006 which were attended by different stakeholders.

STATUS OF LEGISLATIVE BILLS

Renewable Energy (RE) Bill

The House version was approved on its third reading while the Senate version has undergone Committee review following the finalization of the substitute bill which is an integration of the various RE bills filed in the Senate. The Senate version is scheduled for deliberation during the special session for pending urgent bills. Among the salient provisions of the substitute bill is the establishment of affiliated renewable energy centers (ARECs) to support DOE's extension and technical services in the implementation of RE projects. The bill also calls for the creation of the renewable energy trust fund to finance research and development activities, conduct resource and market assessment studies, and propagate RE knowledge through training, accrediting and providing benefits to ARECS.

Biofuels Bill

The Biofuels Bill mandates the use of biofuels in the transport sector. The National Biofuels Program was thus established to develop and utilize indigenous energy sources such as the coco-biodiesel and ethanol to reduce dependence on imported oil, mitigate toxic and greenhouse gas (GHG) emissions, and increase rural employment and income. As of December 2006, the bill only awaits the signing of the President to become effective.

The bill provides for the mandated blending of diesel with locally-produced biodiesel as motor fuel. It also outlines a package of fiscal and nonfiscal incentives to encourage capital investments in biodiesel production and distribution. With this, the National Biofuels Board shall be created to oversee the nationwide implementation of the program which is envisioned to make a potential displacement of about 95 million liters of diesel annually.

Transco Franchise Bill

House Bill (HB) No. 2223 or the TransCo Franchise Bill provides for the granting of TransCo an assignable franchise to construct, install, operate and maintain a transmission system and the grid throughout the Philippines for a term of 50 years.

To date, the bill is pending with the Committee on Legislative Franchises while PSALM, TransCo, DOE and the Joint Congressional Power Commission are currently reviewing the privatization scheme under the bill.

Natural Gas Bill

The draft bill was approved on its third reading at the Lower House during the 12th Congress as HB No. 5845, "An Act Ordaining the Development of the Downstream Natural Gas Industry, Consolidating for the Purpose All Laws Relating to the Transmission, Distribution and Supply of Natural Gas and for other Purposes". The said bill was re-filed

in the House of Representatives as HB 1533 and as Senate Bill No. 8 in the Senate.

Liquefied Petroleum Gas (LPG) Bill

HB 2422 known as the LPG Industry Act of 2004 shall provide for the establishment of the monitoring and supervisory framework for the LPG industry. It shall extend additional powers to the DOE on developing and implementing a comprehensive program that shall promote national consciousness on the safety requirements and proper use of LPG and also provide appropriate penalties for violations.

At the Lower House, a technical working group was created to handle the final refinements of the draft bill following preliminary review by the House Committee on Energy.

POLICY AGENDA/PROSPECTS FOR 2007

In the field of oil and gas, the following must be continued: (a) pursue the implementation of the Philippine Energy Contracting Round; (b) encourage service contractors and prospective investors to undertake improved and new technologies for the development of marginal fields and rehabilitation of previously-producing fields; and (c) prioritize active interaction with the downstream energy sector through gas-to-market projects.

To downstream the oil industry, the following should be conducted: (a) review and develop standards for biofuels, petroleum fuels and petroleum facilities such as Philippine National Standards (PNS) for Fatty Acid Methyl Ester (FAME)-blended diesel oil, Jatropha, multigrade E-gasoline and Liquid Petroleum Products Depot; (b) issue a DC implementing Fuel Additives Registration, PNS for fuel oil, E-gasoline and FAME-blended diesel oils, as well as on the handling, transport and distribution of LPG in cylinders; and (c) conduct inspection/sampling of auto-LPG establishments, depot/terminals/

refineries, biofuels manufacturing plants and the fuel ethanol program.

In the field of renewable energy, the following are expected in 2007: (a) the commissioning of the 49 mW Northern Negros Geothermal Power Plant in February 2007 in Bago City by PNOC-EDC; (b) the turn-over of IPP Power Plant at Leyte Geothermal Production Field to PNOC-EDC on July 25, 2007; (c) the continuing assessment of renewable energy resources (wind, microhydro and biomass); (d) permitting and licensing in relation to EO 462 (Ocean, Solar and Wind Law) and RA 7156 (Mini-Hydro Law); and (e) the immediate passage of the Renewable Energy Bill.

For coal, there is a need to: (a) conduct information campaign on Clean Coal Technologies and pursue environmental programs and new technologies to address social acceptability issues on the use of coal; (b) review policy guidelines on small-scale coal mining operations; (c) pursue small-scale coal mining projects to provide livelihood in identified coal mining areas in the countryside.

For natural gas, the private sector should be encouraged to participate in the timely development of these strategic natural gas infrastructure/facilities: (a) PNOC's proposed LNG Import Terminal in Limay initially for the conversion of the 600 mW Limay gas-fired power plants by 2011; (b) GNPowers proposed LNG Import Terminal in Mariveles initially for the development of 1,200 mW gas-fired power plants by 2012; (c) EWI's proposed LNG Terminal in Pagbilao for the development of 1 x 150 mW by 2010; (d) Batangas to Manila (BatMan1) gas transmission pipeline for the expanded utilization of natural gas reserves for the industrial, transport and commercial sectors, as well as for the conversion of Sucat and Malaya power plants; and (e) Pipeline from the LNG terminal in Limay, Bataan to Rosario, Cavite (BatCave) to Binan (RoBin) to BatMan1 pipeline to reduce risk on security of supply.

There is also a need to promote the integrated development of LNG terminals, gas transport/supply pipelines and power plants

and push for the enactment of the Natural Gas Bill to provide incentives for investors in the natural gas industry.

To advance the use of alternative fuels, the following should be pursued: (a) the promulgation and conduct of public consultations on the Implementing Rules and Regulations (IRR) of RA 9367 (Biofuels Act of 2006); (b) the operationalization of Natural Gas Vehicle Program for Public Transport Pilot Phase and inauguration of CNG refueling stations; (c) the demonstration of Alternative Fuel Vehicle Technologies (Hybrid Cars); and (d) the formulation of policy on LPG Utilization for Transport.

Chapter 11

Power Sector Reforms

The restructuring of the electric power industry, aimed at bringing about competitiveness and economic efficiency, proved to be a lengthy process. Envisioned reforms in the sector include the unbundling of rates, operation of the wholesale electricity spot market (WESM), and the introduction of open access and retail competition, among others.

ASSESSMENT

ADDRESS NPC LOSSES

Assurance of successful privatization of National Transmission Corporation (TransCo), National Power Corporation (NPC) generation assets and NPC Independent Power Producers (IPPs)

Two agreements concerning the management of power assets were signed in March 2006. These are the: (a) Omnibus Amendment Agreement (OAA), which allowed Power Sector Assets and Liabilities Management Corporation (PSALM) assume NPC's loans with the Asian Development Bank (ADB) and the transfer of NPC assets to PSALM and TransCo, and; (b) the ADB-Funded Projects Agreement among PSALM, NPC, TransCo, the Department of Finance (DOF).

In addition, PSALM submitted the final draft Amendment Agreements with the World Bank (WB) to the Interagency Committee on the Review of Foreign Loan Documents (IAC-RFLD) composed of DOF, the Department of Justice (DOJ) and the Bangko Sentral ng Pilipinas (BSP) in August 2006. This agreement signified the consent of the WB and the ADB on the transfer of ownership of NPC's assets that were acquired

using their funds without seeking individual creditor approval. Signing will take place in early 2007 after securing the IAC-RFLD clearance.

As of September 5, 2006, NPC was able to negotiate a total of 122 Transition Supply Contracts (TSCs) with its power distributor-customers. The contracts contained the terms and conditions of supply of electric power and the corresponding schedule of rates, and shall be assigned to the NPC successor generating companies. The TSCs, with NPC customers, will provide a more stable tariff, a reliable and continuous supply of electricity, and protection from the price volatilities and uncertainties of the power spot market. These 122 TSCs were filed and eventually approved by the Energy Regulatory Commission (ERC). Five remaining power contracts are still to be filed with ERC (i.e., PhilTown, FBPC, CASURECO IV, PEZA-Baguio, PEZA-Cavite).

Transmission

PSALM published the Invitation to Bid on May 28, 2006 for the TransCo business via a 25-year concession. A prebid conference was held on November 20 among three prequalified consortia. The year ended with PSALM setting a third round of comments to give prequalified bidders an opportunity

to clarify the amendments, revisions and modifications in the bidding procedures before the bid transaction documents are finalized.¹

As of December 2006, 34 distribution utilities (DUs) signed 37 contracts for the sale and ownership transfer of 1,468.86 kilometers (km) of subtransmission lines amounting to about PhP1.944 billion.

Generating Assets

PSALM bid out three generation assets for the year, namely Calaca, Pantabangan/Masiway and Magat. The successful bidding of Pantabangan/Masiway for US\$129 million and Magat for US\$530 million brought up the privatization level from 0.08 percent in 2005 to 11 percent in 2006, compared with the 70-percent requirement for Open Access and Retail Competition. The agency's privatization proceeds for the year reached US\$673 million, including the US\$14 million of actual proceeds from the Masinloc performance bond. The second bidding for the 600-megawatt (mW) Calaca coal-fired power plant conducted on April 27 was declared a failure as the bidders' price offers did not meet the reserve price.

The agency also conducted a bidders' forum for the decommissioned or retired plants on September 29, 2006. Twenty-two interested investor groups, mainly from construction and steel manufacturing companies, attended the forum. PSALM also issued an Invitation to Bid for the decommissioned Manila thermal plant on November 27, 2006.

Transfer of management and control of at least 70 percent of total energy output of power plants under contract with NPC to IPP Administrators (IPPAs)

The Department of Energy (DOE) manifested that the selection of Power Producer Independent Administrators (IPPAs) may

commence on the third quarter of 2007. Based on the assessment of the PSALM consultant on the IPPAs, prospective bidders will base their forecasts on the trading results of the IPPs of at least one year highlighting the significance of a working Wholesale Electricity Spot Market (WESM) in the appointment of the IPPAs for the portfolios. This notwithstanding, the PSALM consultant prepared the IPPA structure, draft Terms of Reference and preliminary Bidding Packages in May 2006.

Formulation of Pricing Policy

The ERC promulgated the following guidelines on the different methodologies and processes to be undertaken prior to the approval/implementation of revision in rates for the year: (a) Guidelines Prescribing the Tax Recovery Adjustment Mechanism; (b) the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately-Owned Distribution Utilities Entering Performance Based Regulation (First Entry Point); and (c) the RDWR for Privately-Owned Distribution Utilities Entering Performance Based Regulation (Second and Later Entry Points).

PSALM/NPC was able to secure approval from the ERC of 98 percent of the applied amount under the 6th Generation Rate Adjustment Mechanism (GRAM) and 100 percent of the applied amount under the 5th Incremental Currency Exchange Rate Adjustment (ICERA). This represented about PhP15.548 billion and PhP20.705 billion for the 6th GRAM and 5th ICERA, respectively.

STRIVE TO REDUCE ELECTRICITY RATES

Facilitate establishment of WESM and introduce Open Access and Retail Competition

The WESM commenced commercial operations for Luzon in June 2006, behind

¹ PSALM declared the bidding for the TransCo 25-year concession a failure after only one investor group (Consortium of Citadel and Terna SpA) submitted a bid by the 12 noon deadline of February 5, 2007.

the original target date of December 2005. The total volume traded from June 26 to December 25, 2006 of WESM operations was 20,362,490 megawatt hours (mWh). This included spot transactions and volumes covered by bilateral power supply contracts.

TransCo submitted its proposed revisions to the Open Access Transmission Service (OATS) Rules in May 2006, in line with its Regulatory Reset for 2006-2010. The revisions aim to make the rules market-ready and to align with the WESM Rules and Manuals. After a series of public consultations and review, the ERC approved the Revised OATS Rules in December 2006.

The WESM Metering Project procured potential and current transformers for NPC Plants WESM Permanent Revenue Metering. This resulted in an increase in the number of Metering Installations (MIs) equipped with telephone links from 256 in 2005 to 539 in 2006. A Provisional Certificate of Authority from ERC authorizing TransCo Metering Services Group to act as metering service provider for the initial operation of WESM was also obtained.

Moreover, the following were promulgated by the ERC in 2006: (a) Distribution Services and Open Access Rules; (b) Guidelines for the Issuance of Licenses to Retail Electricity Suppliers, as Amended; (c) A Uniform Business to Business System and Designating the Philippine Electricity Market Corporation as the Central Registration Body to Manage Transactions Related to Enrollment and Switching of End-Users in the Contestable Market; (d) Rules for the Registration of Wholesale Aggregators; (e) Guidelines for the Issuance of Certificate of Authority for WESM Metering Service Providers; (f) A Resolution Clarifying and Providing Guidance on Certain Regulatory Issues upon Commencement of Commercial Operations of the Philippine WESM; (g) Code of Conduct for Competitive Retail Market Participants; (h) Rules for the Supplier of Last Resort; (i) Rules for the Default Wholesale Supply Arrangements for the WESM; and (j) Competition Rules and Complaint Procedures.

Strengthen Electric Cooperatives (ECs) and Distribution Utilities (DUs)

The condonation of loans was intended to give ECs a fresh start in the management of their operations towards becoming more financially viable. However, any EC which shall transfer ownership or control of its assets, franchise, or operation shall repay PSALM the total debt condoned including accumulated interests. As of December 31, 2006, final authorities were issued to all ECs. The total amount condoned was PhP17.5 billion and the ensuing reduction in rates ranged from PhP0.0578 to PhP1.3507 per kilowatt hour (kWh), with the average at PhP0.3570 among ECs. The reduction in rates resulted in lower electricity bills of the consumers in the rural areas.

The National Electrification Administration (NEA) Management Academy was able to train 157 electrical engineers and 162 nonengineers from 82 ECs nationwide, as well as 13 engineers and 43 finance and institutional advisors from NEA in partnership with the University of the Philippines-National Engineering Center (UP-NEC) this year. Programs were focused on Electric Power Distribution System Engineering aimed at training and testing participants in the distribution systems planning, operation, design and utility economics.

The national average system loss this year was pegged at 14.43 percent, slightly better than the 2005 average of 14.68 percent. However, it fell short of the 14-percent target in 2006.

To rationalize technical regulation, the ERC promulgated the following: (a) Guidelines for the Monitoring of Power Quality Standards for Distribution Utilities; (b) Guidelines for the Monitoring of Reliability Standards for Distribution Utilities, and; (c) Guidelines to Govern the Submission, Evaluation, and Approval of Electric Capital Projects.

The ERC likewise issued the Resolution Requiring All Regulated Entities to Designate a Regulatory Compliance Officer

(RCO) to ensure compliance with the applicable rules and regulations. The RCOs and other key officers of DUs are also required to take part in the Mandatory Regulatory Education Program (MREP) and the Mandatory Minimum Training Requirement for the Technical Personnel of every Distribution Utility. To strengthen the customer service capabilities of DUs, the ERC issued the Guidelines Prescribing Minimum Standards for Frontline Customer Services of Distribution Utilities and Other Electric Service Providers.

Reduce claims on the Universal Charge (UC) with respect to stranded cost

Currently, only the UC for missionary electrification and environmental protection projects is being collected as part of the electricity bill. The ERC made permanent the provisional approval granted to NPC-Small Power Utilities Group (NPC-SPUG) through a decision authorizing the annual release of PhP1.34 billion from the UC-Missionary Electricity (UC-ME) fund for its missionary electrification program for 2005-2006 on February 28, 2006.

No petition for the UC for Stranded Contract Cost and Stranded Debt has yet been filed. The draft rules for recovery were issued on October 12, 2006, with their finalization expected by the first semester of 2007.

On IPP contracts renegotiations, the NEDA-Investment Coordination Committee approved in November 2006 the following: (a) the Settlement and Clarification Agreement for the Operation and Maintenance Agreement of the Limay A and B Combined Cycle Power Plant; (b) the Term Sheet offered by Korea Electric Power Corporation on the Malaya Rehabilitation, Operation, Maintenance and Management Agreement, and; (c) the Ilijan Build-Operate-Transfer/Energy Conversion Agreements. Meanwhile, PSALM and NPC continued discussions on four IPP contracts with outstanding issues, namely the Bauang, Limay A and B (legal review on Parent Company Guarantee) and the Mindanao Power Barges 117 and 118.

Eliminate cross subsidy

As of 2006, 119 out of 120 ECs and 15 out of 18 Private Investor-Owned Utilities (PIOUs) have implemented the cross subsidy removal in various phases (i.e., 50%-50% removal, 40%-60% removal, complete removal, 2/3 removal, 1/2 removal, 1/3 removal, 1/4 removal). A total of 115 ECs and 11 PIOUs have implemented the removal of all cross subsidies in 2005.

ENCOURAGE PRIVATE SECTOR PARTICIPATION

The government remains focused on ensuring a more transparent, efficient and competitive electricity market, which encourages participation of the private sector.

The DOE completed the final draft of the Distribution Development Plan (DDP) during the fourth quarter of 2006. Likewise, two information, education and communication (IEC) activities were conducted on the DDP formulation. The collection of relevant power statistics and finalization of the 2006 Power Development Plan Update were also accomplished.

The entry of Qualified Third Parties (QTPs) seeks to solicit private sector participation. These are alternative electric service providers in areas declared by DOE to be unviable and where electric service is not currently provided in an efficient and sustainable manner by DUs which have franchise right over the said areas. In 2006, the ERC promulgated the "Guidelines for the Regulation of Qualified Third Parties Performing Missionary Electrification in Areas Declared Unviable by the DOE". It provided that the DU franchise is not transferred and that only the right to service such area is assumed by the QTP. As outlined in the list of requirements for QTP business qualification and approval, it is required to secure a waiver from the franchised DU and a service contract with the NPC-SPUG. The ERC, upon finding the petition of QTP sufficient, will issue an Order approving the QTP Service Contract.

That will constitute a license to generate and distribute electricity to the concerned QTP.

A new private provider took advantage of the DOE private sector participation program and is now catering to the power needs of Masbate. This brings the total of privatized areas to eight as of 2006 out of the 14 first-wave NPC-SPUG areas². The privatization of these areas will contribute in sustaining the turn-around in NPC's finances due to the reduction in the given subsidies to these areas. Improved efficiency in power supply management brought about by privatization will further result in lower rates for NPC-SPUG consumers.

ENSURE SUFFICIENT AND RELIABLE POWER SUPPLY AND SYSTEM EFFICIENCY IMPROVEMENT

In 2006, the Philippine high-voltage backbone expanded by 380.31 circuit-kilometers (ckm) through eight transmission line projects, higher than the targeted 289.54 ckm. In addition, the capacity of substations expanded by 160.03 megavolt ampere (mVA) through five substation expansion projects, surpassing the target of 119 MVA.

TransCo submitted to DOE its 10-year Transmission Development Plan (TDP) in December 2006. It identified the capital projects necessary to convey the projected demand for electricity and to address technical constraints for the next decade. The ERC-approved capital expenditure for TransCo in 2006-2010 consist of PhP17.98 billion for its local currency component and US\$385.64 million for its dollar component. This is based on the ERC's Final Determination on PSALM/TransCo's Regulatory Reset Application through an order released in June 2006.

PURSUE TOTAL BARANGAY ELECTRIFICATION

As of November 2006, a total of 39,671 barangays has been energized, bringing the electrification level to 95.51 percent from 93.78 percent in 2005, but below the target of 95.6 percent. This leaves a total of 2,274 barangays still to be energized until 2008.

POLICY AGENDA/PROSPECTS FOR 2007

Based on the assessment and review of the performance of the concerned agencies vis-à-vis the 2006 priorities and targets, a number of activities remain to be completed. The implementation gaps further indicate that some of the 2006 priorities will likely remain as priorities in 2007.

To spur market activities, these activities should be undertaken: (a) promote competition in the power sector through accelerated sale of NPC's generation assets; (b) continue work on transfer of debts and assets from NPC and TransCo to PSALM by separating NPC and TransCo books and securing creditors consent; (c) continue managing liabilities by handling condoned loans of ECs, providing for PSALM/NPC/TRANSCO hedging and financing requirements, and settling, administering and managing NPC liabilities; and (d) continue managing assets with renegotiation of IPP contracts, optimization of revenues, administering UC for stranded contract cost and stranded debt and selection of IPPAs.

On the WESM and power generation, there is a need to open a WESM Reserves Market, which is envisioned to operate parallel to the procurement by the System Operator of ancillary services through ancillary services contracts. WESM commercial operations in the Visayas grid should already start, along

² These areas include Oriental Mindoro, Catanduanes, Southern Palawan, Bantayan, Marinduque, Tablas, Romblon and Masbate

with enhancing WESM market infrastructure through the Information Systems Plan, as well as continuing training and education. Moreover, the development of WESM Rules and market manuals should be continued. Exploring the possibility of amending NPC's debt portfolio and continuing several major repair and rehabilitation works of power generation plants should also be undertaken.

There is a need to aggressively pursue reforms to strengthen the ECs by facilitating the revision of the Memorandum of Agreement (MOA) on Loan Condonation and ensuring that the ECs will improve their creditworthiness. ECs should be assisted in the filing for rate adjustments to improve their financial standing and by providing technical support in distribution development planning and other technical and institutional competencies.

Private sector support should be courted by facilitating the timely completion of private sector initiated power projects to address required capacity in the future, offering PECR 2006 areas, increasing RE-based capacity by 100 percent in the next 10 years and provide business opportunities in the biofuels and compressed natural gas (CNG) industry.

Transmission projects under the US\$850 million maximum capital expenditures (CAPEX) of Transco from 2006-2010 should also be completed

Rural power development should be pushed through to accelerate the Expanded Rural Electrification Program to achieve the government's target of 100 percent barangay electrification by 2008. There should also be a continuous development of an innovative partnership mechanism between the government and the private sector to meet the total electrification program of government.

Chapter 12

Responding to the Basic Needs of the Poor

The performance of the sectors on microfinance/livelihood, agrarian reform, health, and social welfare in 2006 focused on two objectives: (a) ensure effective delivery of interventions; and (b) encourage the participation of other stakeholders (NGOs, private sector) in extending credit, health, capacity building, and welfare services for the poor and marginalized sectors.

The emphasis was on empowering the poor through land acquisition/ownership and through management of their own community-based projects. These led to advances towards Plan targets in areas such as microfinance and empowerment. However, other areas still need improvement due to modest and below-target accomplishments.

In addition, through the NEDA Board-SDC Cabinet, the government has adopted an official definition of social protection. This covers policies and programs relevant to the labor market, social insurance, social welfare, and social safety nets. This framework will be a guide in the ongoing social welfare/protection reforms in the government. These reforms would improve the social services for the poor and the marginalized groups.

Efforts towards the attainment of the MDGs were likewise strengthened, in particular, advocacy and localization initiatives aimed at increasing awareness and consciousness on the MDGs.

For 2007, emphasis will be directed towards: (a) strengthening of microfinance institutions (MFIs); (b) hastening of asset distribution; (c) development and operationalization of a social protection framework; (d) pursuing the implementation of the FOURmula One for Health; and (e) institutionalizing empowerment strategies through stronger political participation of the

poor. Furthermore, the capacities of national and local government units and other partners on disaster prevention, mitigation and preparedness as well as emergency response will be improved to address the adverse effects of natural and man-made hazards on the lives and assets of the poor and vulnerable especially in disaster-prone areas.

ASSESSMENT

EXPANDING LIVELIHOOD AND MICROFINANCE OPPORTUNITIES FOR THE POOR

Microfinance

In line with the government's target of providing microcredit to 4.2 million new microfinance borrowers by 2010, microfinance providers now geographically cover 100 percent of provinces and cities and 97 percent of towns. These microfinance borrowers are serviced by a total of 1,410 microfinance institutions, including 2,188 branches currently operating nationwide.

For the period July 2004-September 2006, a total of 2.152 million active micro, small and medium enterprise (MSME) clients were served with total loan releases amounting

to PhP76.21 billion. Moreover, new jobs generated for the MSME sector in the same period was estimated at 1.135 million. From these figures, the microfinance sector accounted for 2.106 million active clients with a PhP52.69 billion amount of loans released and 801,462 new jobs generated. This is based on the consolidated reports from the People's Credit and Finance Corporation (PCFC), National Livelihood Support Fund (NLSF), Land Bank of the Philippines (LBP), Small Business Guarantee Finance Corporation (SBGFC), QUEDANCOR, and the Development Bank of the Philippines (DBP)¹. The number of clients served and the loans provided in 2006 is more than twice the 1.022 million microfinance borrowers provided with PhP18.66 billion of loans from July 2004 to November 2005.

The PCFC, one of the major microfinance institutions, released around PhP1.28 billion of new loans - an increase from PhP1.27 billion in 2005. Moreover, a total of 316,779 new microfinance borrowers were aggregately registered by partner MFIs of the PCFC from January to December 2006. For PCFC, the current number of active end-clients increased from 1.65 million in 2005 to 1.98 million in 2006. For 2007, the PCFC targets to reach PhP1.39 billion of disbursed loans and increase clients to 2.12 million.

President Arroyo ordered more focused and coordinated efforts among government agencies implementing microfinance programs. Following this, PCFC assumed the lead role as the Chair and Secretariat of the Microfinance Program Committee (MFPC) composed of representatives from LBP, DBP, NLSF, SBGFC and Quedancor. Towards the latter part of 2006, the MFPC geared its efforts towards increasing the number of microfinance enrollees in areas that have low saturation rates, especially in the priority 1 and 2 provinces identified by the National Anti-Poverty

Commission (NAPC) and the National Nutrition Council (NNC) as priority areas for the hunger mitigation and improvement of quality of life programs. The PCFC database was used in identifying municipalities with the least saturation rates within these priority provinces. In areas still unserved by accredited MFIs (at least 47 municipalities as identified by PCFC per EO 558-A²), the DSWD intends to implement a microfinance program with corresponding funds from NLSF. An IRR for the implementation of the special program is in its final stages of preparation.

To improve the formulation and development of credit policies and standards, the Department of Finance-National Credit Council (DOF-NCC) was involved in efforts to strengthen and restructure the Cooperative Development Authority (CDA) into a regulatory body. Specifically, the DOF-NCC pursued the re-filing of legislative measures to amend the Cooperative Code, the CDA Charter, and the Savings and Credit Cooperative Bill. The Council also formulated rules and regulations for the effective regulation, supervision and examination of credit cooperatives.

Also, a Developing Financial Cooperatives Project was implemented under a technical assistance grant from the Japan Fund for Poverty Reduction (JFPR). Its objective is to develop the operations of financial cooperatives and to strengthen the regulatory capacity of the CDA. Specific activities under this project include: (a) the formulation of a supervision and examination manual for credit cooperatives including the accreditation criteria for deputized supervisors; (b) the formulation of training modules on the use and implementation of the Supervision Manual; (c) the conduct of training of trainers of the Manual; and (d) the development of an appropriate software for supervision and examination by the CDA.

¹ Liquidation is ongoing for October-December 2006 microfinance releases.

² E.O. 558 – A entitled 'Clarifying the Overall Framework in the Implementation of Government Credit Program' as Contemplated under E.O. 558 dated 8 August 2006

The promotion of an enabling environment to attract the greater participation of the private sector in the delivery of financial services to the basic sector includes the implementation of the Microfinance Development Program (MDP). This program, being implemented by DOF-NCC, is a US\$150 million policy loan from the Asian Development Bank (ADB). The program aims to ensure the access of poor households and microenterprises to sustainable institutional financial services by: (a) creating viable and effective microfinance institutions through capacity-building and effective policies and regulations; (b) strengthening regulatory capacities of regulatory bodies; and (c) increasing financial literacy and consumer protection for the poor.

Relatedly, NAPC, with DOF-NCC secured a US\$500,000 grant entitled “Support to Implement the MDP (TA 4693-PHI)” to build viable MFIs that can provide efficient and cost-effective retail delivery services and increase financial literacy and consumer protection for the poor. The NAPC also issued an industry advisory to MFIs in 2006 on requirements under the Truth in Lending Act (RA 3765) and Insurance Law for providing credit and insurance products, respectively.

The completion of the ADB-funded technical assistance (US\$357,000 with US\$107,000 GOP counterpart) grant for “Enhancing Access of the Poor to Microfinance Services in Frontier Areas” has led to the design and development of MFI training materials and basic sector microfinance educational materials. There were also limited onsite training and mentoring of 29 MFI units (exceeded the target of 15 MFI units) and 20 basic sector seminars on microfinance attended by 3,304 individuals (exceeded the target of 3,000 participants) conducted under this project, which was completed in 2006. Results and findings were presented to the major stakeholders of the microfinance industry.

To fully operationalize the People’s Development Trust Fund (PDTF) for the capability building needs of microfinance institutions, a total of PhP7.57 million is already available for grant financing from earnings as of the 3rd Quarter of CY 2006.³ In addition, NAPC has submitted a PhP500 million proposal to augment PDTF for consideration under the Agriculture Competitiveness Enhancement Fund (ACEF). Additionally, one MFI has been provided a capability-building grant from the PDTF.

On the part of the banking sector’s initiative to go into microfinance services, the Bangko Sentral ng Pilipinas (BSP) maintained its microfinance program which aims to: (a) provide the enabling policy and regulatory environment; (b) increase the capacity of the BSP and the banking sector in microfinance operations; and (c) promote and advocate for the development of sound and sustainable microfinance operations. In pursuit of these objectives, BSP specifically reviewed the implementation of the existing regulations (rediscounting, branching and licensing) in terms of mainstreaming microfinance services/operations and exploring innovations in service delivery (mobile banking) and product designs (Micro-Agri Product).

The approval of the Micro-Agri Product (MAP) by the Monetary Board allows banks with microfinance operations to extend credit to those with small agricultural activities using microfinance methodologies. Building on proven microfinance technologies and principles, the MAP will allow banks to serve the unmet needs of small farmers. To date, there are nearly 220 banks currently engaged in microfinance operations. In addition, there are 10 commercial banks with wholesale windows for microfinance or are in the process of opening such facilities. The Microfinance Committee of the BSP continues to monitor the various experiences of these commercial banks for possible future policy issuances (i.e. possible SME alternative compliance, modified risk weighting).

³ Pending the allocation of funds for the PDTF in the GAA (from agencies’ share in PAGCOR earnings), a PhP100 million loan from NLSF was acquired in 2005

Livelihood

The Government continued to improve the socioeconomic skills of poor families, through the organization of community-based associations under existing programs such as the SEA-K and the *Tindahan Natin* (TN). These gave entrepreneurs, community-based organizations, NGOs, LGUs, barangay councils and existing retail/sari-sari stores opportunities to operate TN outlets selling low-priced but good quality rice and noodles in poor communities.

Since it started operations in 1997, the SEA-K Program benefited a cumulative total of 12,496 SEA-K Associations or 280,689 families who were given capital seed fund worth Php1.2 billion. The target of 865 SEA-K associations organized for 2006 was not accomplished as only 773 SEA-K projects worth Php72 million and serving 15,400 families were set up in 2006. In 2005, a total of 935 SEA-K associations were organized which were able to serve 20,099 families.

Successful SEA-K Associations were further organized into SEA-*Kabayan* (SKA) groups or SEA-K Level II that manage micro-projects such as home improvement and housing construction. A cumulative total of 199 SKAs comprised of 8,800 families were already provided with higher level capability and entrepreneurial skills training and additional capital seed fund worth Php175 million for microenterprises. Of these, 42 SKAs comprising 1,962 families were given Php40.2 million additional capital in 2006. The repayment rates of communities for 2006 stand at 94 percent for SEA-K Associations and 98 percent for SKAs, indicating strong community support for these programs.

In order to further improve the livelihood convergence projects/models, 16 new Poverty Free Zone Program (PFZ) Sites were established under the PFZ Site 3, with 176 business plans for core community enterprises. The 16 new sites are in Benguet, Las Pinas, Pangasinan, Cagayan, Tarlac, Quezon, Romblon, Camarines Norte, Aklan, Negros Oriental, Biliran, Ipil, Camiguin,

Davao del Norte, South Cotabato, and Agusan del Sur. Meanwhile, PFZ Site 2 generated an average of 263 workers employed per month earning an average monthly income of Php 2,054.44 per worker. PFZ Site 1, on the other hand, generated employment at an average of 295 workers per month earning an average monthly income of Php2,102.66 each.

To support the microenterprise needs of the workers in the informal sector, the Department of Labor and Employment (DOLE) with the assistance of the United Nations Development Programme (UNDP), conducted an island-wide training of trainers on local employment and microenterprise development. The participants were DOLE's regional and provincial focal persons. The workshop intends to institutionalize skills and expertise at the Department's local offices and facilitate similar trainings to LGUs and workers in the informal sector.

ASSET REFORM

(cross-reference with Chapter 2: Agribusiness)

To improve land tenure under the Comprehensive Agrarian Reform Program (CARP), a total of 3,820,954 hectares of land was distributed to landless farmers. This is equivalent to 86 percent of the original scope of 4,428,357 hectares including ARMM. During the last five years, the Department of Agrarian Reform (DAR) acquired and distributed an average of 114,000 hectares per year or an average annual performance of 96 percent.

Two other land tenure improvements were undertaken. First is the subdivision of lands covered by collective Certificates of Land Ownership Award (CLOA). Here, under the name of an informal group of farmers, cooperative or farmer organization, a total of 26,860 hectares was distributed/awarded to individual agrarian reform beneficiaries (ARBs). Second is the installation of 5,127 ARBs who are long-time holders of EPs and CLOAs but could not take physical possession of the land due to landowners resistance.

In terms of fasttracking the resolution of agrarian reform cases, the DAR Adjudication Board (DARAB) and its adjudicators resolved a total of 16,540 cases. This represents 107 percent of the year's target of 15,450 cases. These cases usually involve the recomputation and fixing of land cases, the eviction of farmers from the land tilled, the fixing of rentals in leasehold areas, the recovery of possession, and the cancellation of EP/CLOA.

As of December 2006, 1,861 agrarian reform communities (ARCs) including those at the ARMM were launched covering 7,773 barangays with some 1.06 million ARBs. In one way or another, they were also recipients of various services such as credit, marketing assistance, training and infrastructures. The total number of ARB organizations in ARCs is 5,053. Here, 2,367 (47%) have reached medium to high level of development and are now able to manage their respective enterprises.

On February 21, 2006, the consolidated House Bill (HB 4846) entitled "An Act Instituting Reforms in Land Administration" was approved in the 13th Congress. The Bill contains provisions that will improve basic sector participation. Related to the issue of additional guidelines on the completion of the delineation of municipal waters, a case was filed in the Court of Appeals (CA) by concerned NGO groups to counter a case filed in the Navotas Trial Court by commercial fishers for a Petition for Declaratory Relief in 2005. While stakeholders await the CA decision, DAO 17, series of 2001 issued by the DENR (guidelines in the delineation municipal waters) has been implemented.

To intensify reforms on ancestral domains, the National Commission on Indigenous Peoples (NCIP) has approved 18 Certificate of Ancestral Domain Titles (CADTs) covering an area of 268,870.85 hectares. Also, 100 Certificate of Ancestral Land Titles (CALTs) were approved within an area of 1,005.97 hectares. Thus, a total of 269,876.82 hectares was covered in 2006. The Commission has also completed the survey of 35 ancestral domains with a total land area of 1,061,197.02 hectares. A total of 33

Certification Precondition with Free and Prior Informed Consent Compliance (FPIC) was also accomplished in 2006. For 2005, 9 CADTs, 2 CALTs and 10 FPIC were issued.

ACCESSIBLE AND AFFORDABLE ESSENTIAL SERVICES: HEALTH

Reducing the Cost of Essential Medicines

The Half-Priced Medicines Program of the Department of Health (DOH) aims to ensure the availability of affordable, high quality, safe and effective drugs and medicines. This is also one of the targets in the MDG under the goal of developing a global partnership for development. The MTPDP target is to reduce the 2001 prices of essential medicines by 50 percent. In 2006, the prices of essential medicines (fast moving drugs) decreased by an average of 41 percent - the same price reduction in 2005. Low priced medicines were made available at all 72 DOH-managed hospitals and three local LGU hospitals located in the Autonomous Region of Muslim Mindanao (2 in Maguindanao and 1 in Lanao del Sur).

In 2006, the *Botika ng Barangays* (BnBs) sold 18 types of over-the-counter (OTC) drugs and nine types of prescription medicines. Nationwide, the number of BnBs rose to 7,437 (or 67% of the 11,000 target) from 4,738 in 2005. This is composed of 6,102 managed or based in DOH-Centers for Health Development (CHD), 986 *Botika Binhi of the Kabalikat ng Botika Binhi, Inc.*, and 349 Health Plus Outlets of the National Pharmaceutical Foundation.

Relatedly, *Botika ng Bayan* outlets of the Philippine International Trading Corporation (PITC) also offer low cost quality drugs and medicines. The distribution network of the *Botika ng Bayan* expanded from 1,016 outlets in 2005 to 1,283 outlets in 2006. The DOH issued AO 2006-0033 entitled "Guidelines for the DOH-PITC Expanded Drug Access Pilot Program using Convenience Stores as BNB Express Outlets." The three objectives of this AO are: (a) to

identify areas of collaboration between the DOH and PITC in relation to the Expanded Drug Access Pilot Program; (b) to identify procedures for the operation of selected *Botika ng Bayan* as a distribution network, as well as accreditation of convenience stores under the *Botika ng Bayan* identified by PITC; and (c) to provide clear definition of roles and responsibilities among stakeholder entities.

Expanding Health Insurance

In line with its mandate for universal coverage, the National Health Insurance Program (NHIP) has increased its coverage to 77 percent (as of September 2006) from 64 percent in 2005. The NHIP reached 15.56 million members or about 64.79 million beneficiaries (members and dependents). PhilHealth conducted information campaigns and trimedia initiatives among various sectors to boost enrollment. The MTPDP target for insurance coverage in 2007 is 85 percent. For the Sponsored (indigent) Program, membership enrollment reached about 4.48 million families. This translates to an estimated 22.5 million poor Filipinos eligible for benefits under the Program.

The number of PhilHealth accredited health institutions/facilities increased from 2,750 in 2005 to 3,348 in 2006. Health facilities include 1,589 hospitals, 29 ambulatory clinics, 581 outpatient clinics, and 1,149 rural health units (RHUs). Similarly, there was an increase in the number of accredited professionals from 21,148 in 2005 to 21,428 in 2006. Of this figure, 10,455 are general practitioners, 10,594 medical specialists, 238 dentists, and 141 midwives.

Although the Implementing Guidelines have yet to be finalized, PhilHealth also developed outpatient benefit packages in support of MDG targets 4, 5, and 6. The packages include newborn care, third normal spontaneous delivery, HIV and malaria (antimicrobial consultations and diagnostic/laboratory exams). Pursuant to PhilHealth Board Resolution 880 s. 2006, PhilHealth Benefits on Severe Acute Respiratory Syndrome

(SARS) was expanded to cover avian influenza and influenza pandemic.

Strengthening Public Health Programs

To strengthen health promotion and disease prevention and control, the government pursued various programs for tuberculosis (TB), HIV/AIDS, and malaria.

For TB, the country reached the MTPDP target of 70 percent case detection rate and 85 percent success rate. To sustain these achievements and to maintain quality Directly Observed Treatment Short-Course (DOTS) implementation, the hospital-based National Tuberculosis Program (NTP) continued to be implemented. Hospital staffs were trained on DOTS strategy and in 2006, there were 16 hospitals implementing the program. Scaling up of PPMD (Public-Private Mix DOTS) units was also done in coordination with PhilCAT (Philippine Coalition Against TB). Over a hundred PPMD units are now functional nationwide. Since the adult TB control program is already in place, the target group was expanded to include children. For 2006, Childhood TB control program was expanded to cover one city per region (16 cities were covered excluding ARMM). The Manual of Procedures of NTP was also revised to attune to the current initiatives of NTP.

The HIV/AIDS situation in the Philippines is now dubbed as “hidden and growing”. Previously described as a “low and slow” situation, the HIV/AIDS phenomenon in the country could escalate to epidemic proportions if left unchecked. Based on the HIV and AIDS Registry, from January 1984 to December 2006, there were 2,719 HIV Ab seropositive cases reported, of which 1,966 (72%) were asymptomatic and 753 (28%) were AIDS cases. However, according to a study led by the National Epidemiology Center of DOH entitled, “2005 HIV Estimates in the Philippines,” the prevalence of HIV infection among Filipino adults (15-49 years old) was 0.03 percent, or 11,200 adults infected with HIV. In 2006, treatment hubs on HIV and

AIDS were expanded to include Ilocos Regional Training Medical Center, Vicente Sotto Medical Center, and Davao Medical Center (apart from Research Institute for Tropical Medicine, Philippine General Hospital, and San Lazaro Hospital).

Malaria morbidity rate slightly increased from 53 cases per 100,000 population in 2004 to 55 cases in 2005 because of the improved detection of malaria cases. This is attributed to the implementation of different program strategies such as the assignment of trained microscopists in remote areas. Although there were areas with high malaria cases, the prevalence of malaria is now generally characterized as moderate to low with pockets of high endemicity. In 2006, three provinces were declared malaria-free for having no indigenous malaria cases for the past five years or more. DOH also assisted LGUs on capability building, especially in putting up a Malaria Information System and Malaria Network.

To improve nutrition, micronutrient fortification was implemented. For rice, about five brands, carrying the Diamond *Sangkap Pinoy* Seal, were fortified with iron. Similarly, 30 percent of NFA rice used for the Food for School Program (FSP) was fortified with iron. For cooking oil, 42 brands were fortified with Vitamin A, and 36 out of 46 refiners now have technology to fortify. For flour, 49 brands from six millers were fortified with Vitamin A and iron. For salt, 89 percent of households use iodized salt and 95 percent of salt tested in markets were positive for iodine as a result of the “*Patak sa Asin*” program.

To reduce hunger incidence in the country President Arroyo ordered the formulation of the Accelerated Hunger Mitigation Plan (AHMP). NEDA coordinated with the National Nutrition Council (NNC) and other concerned agencies in drafting the program. The AHMP seeks to address the whole spectrum of major factors that contribute to hunger. Broadly, it seeks to address hunger at both the supply-side or the unavailability or insufficiency of food to eat, and the demand-side or the inability to buy

food. To guide the implementation of hunger mitigation interventions and to maximize the resources available, the ten worst food-poor provinces will be given top priority. Second priority will be given to the 20 poorest provinces and third priority to the other 24 food insecure provinces.

The Food for School Program (FSP) under the AHMP is an immediate intervention in the form of food subsidy. The NNC developed the FSP Operational Guidelines. The program provides a daily ration of one kilo of rice to families of Grade 1 pupils, preschool, and daycare center children. There were 294,172 daycare center children and 609,252 Grade 1 students who benefited from the program. By end of 2006, DepEd implemented the program by following the coverage expansion of the FSP in AHMP priority areas to all elementary grade levels.

The *Tindahan Natin* (TN) Project is a national government initiative for food security, job generation and livelihood. As of December 2006, 6,679 TN outlets (TNOs) were targeted. Of these, 90 percent of 5,983 outlets are already operational. Of the operational outlets, 1,997 TNOs enjoy loan assistance from DSWD amounting to Php38.2 million. One operational TN can serve 250 families, thus, 5,983 operational TN outlets translate to at least 1,495,750 families served through TN.

In line with the target of promoting responsible parenthood, the 2005 Family Planning Survey (FPS) revealed that the contraceptive prevalence rate (CPR) did not change at 49.3 percent - the same rate recorded in the 2004 FPS. However, the prevalence rate for modern methods registered an increase from 35.1 percent in 2004 to 36.0 percent in 2005. Pills and female sterilization remain the most commonly used contraceptive methods. On the other hand, the prevalence rate for traditional methods decreased from 14.2 percent in 2004 to 13.2 percent in 2005.

Recent changes in the Philippine Population Management Program (PPMP), now known as the Philippine Responsible Parenthood Program (PRPP), reflect the thrust

of the President to vigorously promote responsible parenthood, natural family planning (NFP), breastfeeding, and birth spacing. Furthermore, the Responsible Parenting Movement (RPM) was launched in 2006 to support the President's promotion of responsible parenting and NFP. Related activities include the airing of an infomercial, the development and production of the Responsible Parenting Handbook and Facilitator's Guide, and the setting up of NFP Hotlines in the Commission on Population (POPCOM).

Establishing Drug Treatment & Rehabilitation Centers

The Drug Test Operations and Management Information Systems (DTOMIS) of the DOH links all drug testing laboratories (DTL) nationwide into a central database processing system. Based on the DTOMIS, the national prevalence of drug users among those requesting drug testing in 2006 is 0.04 percent, lower than the 2005 figure of 0.10 percent. Out of the 3.4 million clients tested in 2006, 1,398 were confirmed positive for drug use.

To intensify primary prevention on drug addiction, the DOH has conducted advocacy and consultative meetings and workshops among the following organizations: Philippine Association of Drug Rehabilitation Center and Intervention Agencies (PADRECIA), Philippine Federation of Therapeutic Communities, Group of Addiction Psychiatry in the Philippines, and Philippine College of Addiction Medicine. Moreover, during the celebration of the "Drug Abuse Prevention and Control Week," free drug testing was conducted for 18,000 clients nationwide. Information dissemination was also strengthened through the distribution of posters, leaflets, television and radio advertisements. Also, the DOH-National Reference Laboratory trained 785 analysts and 65 laboratory heads for the Manual of Operations for Screening DTLs. As of December 2006, there are seven DOH

Treatment and Rehabilitation Centers in different regions located in Bicutan, Tagaytay, Legazpi, Pototan-Iloilo, Argao, Cebu City and Cagayan de Oro.

PROTECTION OF THE VULNERABLE

Services to protect and rehabilitate the poor and vulnerable sectors were provided through community and center-based facilities, disaster relief operations, advocacy efforts, and special projects in collaboration with local partners and foreign donors.

In 2006, a total of 15,743 clients in 60 residential and six nonresidential centers and institutions were served nationwide. Most of these centers cater to children in need of special protection. The centers were able to serve 3,414 children clients.

On the other hand, community-based services include childcare and placement services, child protection services, and provision of travel clearance for minors as a measure against trafficking. In the same year, community-based services were extended to 62,597 beneficiaries comprising children, youth and women in especially difficult circumstances.

Also, the government continued to provide opportunities for the youth to acquire skills and competencies required by the market through training, scholarships, expanded apprenticeship and learning programs. With this, special employment programs for deserving students and emergency employment for out-of-school and out-of-work youth in Metro Manila were undertaken.

The *Kasanayan at Hanapbuhay* Program trained a total of 62,399 persons while the Special Program Employment of Students (SPES) catered to a total of 53,715 students. In the same light, the TESDA Student Loan Program awarded a total of 1,279 scholarships under the Jobs-Directed Scholarship Program and 83,786 scholarships under the PDMA-TWSP. Additionally, the *Iskolar ng Mahihirap na Pamilya* Program was able to provide 44 Certificates of Eligibility

Assistance enrolled in TVET program for SY 2005-2006 as of the 1st Semester.

There were also developments in dealing with children in conflict with the law (CICL). The enactment of RA 9344 or the “Juvenile Justice and Welfare Act” on May 16, 2006 immediately made an impact on the retroactive dismissal of criminal cases filed against children aged 15 years old and below. The Act adopts restorative justice by raising the age of criminal liability from 9 to 15 years of age. This includes a provision that CICL aged 15-18 years old can only be charged for crimes acted out with discernment. Also, it further necessitates the immediate turnover of CICLs to social workers. CICLs are to undertake community rehabilitation programs, instead of being jailed, in order to facilitate their reintegration to their families. Thus, by virtue of RA 9344, 610 CICLs aged 15 years old and below who were under the care of DSWD’s centers and institutions were released. Of these, 108 CICLs were already reintegrated with their families as of October 2006.

To address the problem of violence against women, a Five-Year Strategic Plan was formulated to support the implementation of gender and development (GAD)-related laws, particularly, the Anti-Violence Against Women and Children Act (RA 9262) and the Anti-Trafficking of Human Persons Act (RA 9208). In 2006, DSWD provided protection and rehabilitation to a total of 6,032 women in especially difficult circumstances through community-based and centers/institutions-based services. DSWD also issued administrative guidelines on the adoption and implementation of the assessment tool entitled “Standards in the Implementation of Psycho-Social Services to Women Victims-Survivors of Violence and Their Children in Center and Residential Facilities.” The enrichment of a manual on “Gender-Responsive VAWC Case Management,” which started in CY 2006, is also ongoing.

To aid persons with disabilities (PWDs), a total of 813 and 1,191 PWDs were served in DSWD-managed centers and

institutions and nonresidential centers, respectively. These PWDs were assisted in the areas of rehabilitation, education, training and employment. Also, 501 older persons were served by DSWD centers and institutions through residential and day care services such as supplemental feeding, psychosocial intervention, and productivity improvement.

To assist people with disabilities and the occupationally disabled workers (ODWs), a program was aimed to enhance their employability (or self-employment) and wages. A total of 4,386 differently-abled persons were provided with employment, training or livelihood assistance. This reflects a 292 percent accomplishment relative to the targeted 1,500 under the *Tulong Alalay sa Taong May Kapansanan* (TULAY) Program.

Indigenous Peoples (IPs), meanwhile, were provided with legal assistance in litigation involving community interest. This involved criminal, civil, labor and administrative cases. Ninety-seven cases were carried over from 2005, while an additional 20 new cases were filed in 2006. Thus, a total of 117 cases were handled in 2006. Thirty-one of these cases were decided or otherwise dismissed while the remaining 86 cases are still ongoing.

Health programs and services to IPs and their communities including their enrolment under the PHIC were also provided. For 2006, a total of 60 families renewed their enrollment in PhilHealth. Also, a total of 2,507 persons availed of health services in emergency situations and in coordinated medical and dental missions.

Furthermore, a total of 11,989 IP grantees were given educational assistance. The NCIP believes that funding for this program should be institutionalized to ensure the sustainability of support for IP grantees and to eventually address poverty in the Indigenous cultural Communities (ICCs).

Also, IPs were also provided with livelihood, entrepreneurial and social assistance. With this, funds for a total of 19 social service projects were released, along with funds to support and contribute to income generating activities of ICCs/IPs. Meanwhile,

a total of 88 communities benefited from various livelihood and entrepreneurship activities.

To strengthen the capability of labor and management to jointly implement workplace family welfare programs, a 6.5 percent increase in the number of firms that would be covered by advocacy activities on the Family Welfare Program (FWP) was targeted for 2006. These welfare programs aim to promote health, nutrition, responsible parenthood, as well as balancing family and work life, among others. Thus, the program covered 1,187 firms for 2006, an increase of 30 percent from last year's 910 serviced firms. Meanwhile, a total of 1.1 million workers have benefited from the program, exceeding its annual target by 251.2 percent. However, female workers account for only 380,105 or 33.9 percent of the total number of beneficiaries.

Also, the government assisted the poor and vulnerable sectors caught in armed conflict and addressed the food and hunger needs of poor families especially children through special programs such as the Emergency Operations Philippines-Assistance to Conflict Affected Mindanao (EMOP-ACAM), the FSP, and the TN Project which were commenced in June 2006.

The EMOP-ACAM is a DSWD-United Nations World Food Program Project Grant Assistance supporting the peace process in the conflict-affected areas of Mindanao. The amount of PhP1.35 billion was used to fund projects in five selected provinces, namely: Lanao del Norte, North Cotabato, Sultan Kudarat, Lanao del Sur, and Maguindanao. As of 2006, the project has already distributed 1,460 metric tons (mt) of rice, corn-soya meal blend, oil, and sugar to families of 9,500 infants (or with pregnant and lactating women), 35,300 children in primary schools, 8,200 children in preschools and day care centers, and 25,800 internally displaced persons in Maguindanao.

To enhance disaster management, the Office of Civil Defense (OCD) continued to undertake the following activities at the local

level, namely: (a) periodic risk assessment in selected provinces; (b) updating of respective land use policy based on risk assessments; (c) conduct of disaster management orientation/training among LGUs and concerned local bodies; and (d) institutionalization of community-based mechanisms for disaster management [e.g. drills conducted, community-based disaster risk management trainings (CBDRM) conducted, CBDRM module standardized]. An advocacy forum was also conducted for the passage of the Disaster Risk Management (DRM) bill entitled, "An Act Strengthening the Philippine Disaster Risk Management Capability, Appropriating Funds Thereof and for other Purposes".

In terms of disaster response, relief and rehabilitation from man-made and natural calamities, a total of 1.3 million families and 6.1 million individuals were given assistance. A total of PhP371.2 million was released for relief operations, of which PhP92.2 million came from DSWD and PhP91 million was also released by the Department for the rehabilitation of affected families and individuals. Of all the calamities and disasters recorded in 2006, 15 were classified as "major." Included were Typhoon Milenyo, Typhoon Reming, the Ultra Stampede, the Guimaras oil spill, among others. The incidents raised the need for a more systematic and coordinated disaster response, relief and rehabilitation strategy among the national government, the LGUs, the private sector, the NGOs, the communities, and the donor community.

To aid disaster-affected government employees, the Government Service and Insurance System (GSIS) provided emergency loan for Milenyo-hit members and declared a moratorium on all loan payments of members hit by Typhoon Reming. The GSIS was able to disburse PhP974.7 million in emergency loan to 47,735 members. The Social Security System (SSS), on the other hand, extended a six-month moratorium in the payment of SSS members' loans (salary and housing) to those who were affected by typhoons in the provinces of Albay, Camarines Sur and Marinduque. Moreover, SSS donated PhP26 million to

families affected by the strong typhoon that cut across the Bicol Region. Of this amount, PhP20 million was released to the Office of the President for relief and rescue efforts; PhP5 million for the relocation of victims from the affected areas; and PhP1 million to the Philippine Chamber of Commerce and Industry (PCCI) for the immediate purchase of relief goods.

The need for a more systematic and institutionalized approach to disaster risk management was further stressed as a development concern as natural disasters that hit the country last year further marginalized the poor, especially those in the rural areas. The continued occurrences of these disasters, especially in poverty-stricken and remote areas, have disrupted not only the economic lives of the poor but also their access to basic social services such as health and education. The direct correlation between disaster occurrence and poverty prompts the need for an overall national framework for disaster management; better and functional coordination system to effectively manage the roles, responsibilities, and resources of the national and local governments, the donor community, the private sector, and the communities; and adequate and working human and institutional capacities on disaster risk management at both national and local levels.

EMPOWERMENT

KALAH-CIDSS is the government's flagship project for poverty alleviation. It aims to empower communities, improve local governance, and reduce poverty by providing communities with capability-building and training on key skills such as development planning, resource allocation, and management. KALAH-CIDSS encourages active community participation in social preparation by engaging the community in subproject planning, situation analysis, finance, and project management. Government agencies, private entities, LGUs, NGOs/POs, civil society and other

stakeholders are also involved in the implementation of subprojects.

The KALAH-CIDSS covers the poorest 42 provinces in the country, specifically, the bottom 25 percent of municipalities in these provinces. Since its launching in 2003, the project has already been implemented in 4,216 barangays and 183 municipalities. In 2006, 1,652 subprojects were already completed consisting mainly of roads (432), potable water source (408), health stations (155), schools (141) and day care centers (120). The total cost of completed sub-projects is PhP2.99 billion.

To fully implement and institutionalize the KALAH-CIDSS, the NAPC supervised and coordinated the provision of asset reform, human development services, livelihood, and social protection assistance to 12,826 identified barangays in 47 cities and 495 municipalities in 70 provinces in all regions under various KALAH modes.

To demonstrate the nationwide adoption and implementation of the enhanced Core Local Poverty Indicators Monitoring System (CLPIMS) and consequently the Local Poverty Reduction Action Planning (LPRAP) Process by LGUs, the CLPIMS is already being implemented in 29 provinces (10 of which is province-wide), 275 municipalities, 20 cities, and 6,970 barangays all over the country. Moreover, 58 percent of the total number of cities (68 cities) and 49 percent of the total number of municipalities (733 municipalities) have already completed poverty maps and database using the Community-Based Monitoring System (CBMS) as of September 30, 2006.

On volunteer work in the country, the Philippine National Volunteer Service Coordination Agency (PNVSCA) facilitated a total of 168 foreign volunteer development workers in 2006. They helped various projects in agriculture, fisheries, education, microenterprise development, health and nutrition, governance, environment, information and communications technology, and many others. The volunteers not only

TABLE 12.1 TARGETS VS. ACCOMPLISHMENTS

TARGETS (2010 unless specified)	ACCOMPLISHMENTS	
	2005	2006
LIVELIHOOD 4.2 million new microfinance borrowers	For the period July 2004 – November 2005, 1.022 million microfinance borrowers have been provided loans ^a	2.106 million active clients from July 2004 to September 2006 ^a
Total loan amount increased by P43.5 billion	P18.66 billion amount of loans were released for the period July 2004 – November 2005 ^a	P52.69 billion amount of loan released from July 2004 to September 2006 ^a
22,440 families served under the SEA – Kaunlaran Program in 2006	20,009 families served through the SEA – K Program ^b	15,400 families served ^b
865 SEA – K associations organized in 2006	935 SEA – K associations organized ^b	773 SEA – K associations organized ^b
ASSET REFORM Distribute an estimated 130,000 hectares and place under leasehold 24,000 hectares of land for 2006	A total of 147,199 hectares were generated and distributed and a total of 24,749 hectares covered for leasehold in 2005 ^c	A total of 125,175 hectares distributed and a total of 28,393 hectares were placed under leasehold for 2006 ^c
ESSENTIAL SERVICES: HEALTH <i>Cost of Essential Medicines</i> • 50% reduction in prices of essential medicines from 2001 prices	• 41 % price reduction ^d	• 41 % price reduction ^d
<i>Health Insurance</i> • 85% universal coverage • 5 million indigent families enrolled and sustained	• 64 % coverage ^e	• 77 % (as of Sept 2006) • 4.48 million indigent families ^e
<i>Public Health Programs</i> • TB case detection rate increased to 70% and cure rate to 85%	• 70% case detection rate (2004) and 81% cure rate (2003) ^d	• 72% case detection rate (2005) and 81% cure rate (2004) ^d
• Prevalence rate of men and women practicing responsible parenthood increased to 60%	• 49.3 % Contraceptive Prevalence Rate (2004 FPS) ^f	• 49.3% Contraceptive Prevalence Rate (2005 FPS) ^f
• HIV/AIDS prevalence contained at 1% or less	• less than 1 % prevalence ^d	• 0.03% (2005 HIV Estimates in the Philippines) ^d
• Malaria morbidity rate reduced to 24 per 100,000 population	• 53 per 100,000 population (2004) ^g	• 55 per 100,000 population in 2005 ^g
PROTECTION OF THE VULNERABLE Enactment of the Juvenile Justice Bill by 2006	NYC advocated for the passage during the Senate Committee hearings in 2005 ^b	Juvenile Justice and Welfare Act (RA 9344) enacted (May 16, 2006) ^b
EMPOWERMENT 42 provinces, 183 municipalities, and 4,530 barangays implementing and institutionalized KALAHÍ-CIDSS	As of 2005, 42 provinces, 101 municipalities, and 2,367 barangays have institutionalized the program ^b	42 provinces, 183 municipalities, 4,216 barangays implementing KALAHÍ-CIDSS ^b
Nationwide implementation of the CLPIMS by 2010 (at least used in small provinces)	DILG is scaling up the adoption of the CLPIMS beginning with 12 pilot cities under the UN – funded “Localizing the MDGs Project.” ^a	29 provinces (10 of which is province-wide), 275 municipalities, 20 cities, and 6,970 barangays implementing CLPIMS ^a
At least 20% of all cities and municipalities have completed poverty maps and database using the Community-Based Monitoring System (CBMS) by 2006	Preparatory activities being undertaken for the production of maps and database using the CBMS ^h	58% of the total number of cities (68 cities) and 49% of the total number of municipalities (733 municipalities) have completed poverty maps and database using the Community-Based Monitoring System (CBMS) as of September 30, 2006 ^h

Sources: ^aNAPC^ePHIC^bDSWD^fFamily Planning survey, NSO^cDLR^gNational Center for disease Prevention and Control, DOH^dDOH^hDILG

introduced new technologies but also enhanced existing ones. Also, they trained local counterparts in different fields of expertise. Aside from technical skills sharing, the foreign volunteers also promoted cultural exchange, people-to-people relations and international goodwill. PNVSCA currently has 13 foreign volunteer organization partners.

The Volunteers for Information and Development Assistance (VIDA) Program also encourages Filipinos to serve in the communities they live in. In 2006, there were 72 VIDA volunteers deployed mostly in rural barangays. They assisted projects in functional literacy, health and nutrition, coastal resource management, rural enterprise development, microfinance, agriculture, environmental conservation, livelihood and peace building. The VIDAs have effectively immersed themselves in local areas despite the security challenges and have worked harmoniously with people of different cultural orientation.

There were also efforts in improving the advocacy of the Millennium Development Goals (MDGs). As the repository of the MDG indicators in the Philippines, the National Statistical Coordination Board (NSCB) continued to compile the quarterly MDG data series and metadata as addition to the regular updating of its web page.

Moreover, in order to continuously advocate the use/significance of MDG indicators, a Users-Producers Forum on MDG was conducted. The event served as a launching activity of the statistical capacity building program for the MDG data sources/agencies and stakeholders and a venue to validate and update the indicator system.

POLICY DIRECTIONS FOR 2007

For 2007, the PCFC intends to serve 158,000 new microfinance enrollees and retain a cumulative 2.1 million active clients by year-end while maintaining past due loans at no more than 2 percent. Furthermore, PCFC expects to generate 100,000 new jobs from the livelihood projects financed for these new enrollees. The Corporation will also target

PhP3.6 billion outstanding loans with about 188 active MFI Program Partners. PCFC will also source an additional funding of at least PhP750 million from domestic and foreign sources and attain at least a PhP95.0 million corporate net income after tax. Moreover, as mandated by EO 558 – A, DSWD is directed to provide livelihood credit to municipalities and barangays with no participating financial institutions such as banks, cooperatives and NGOs. The EO further directs that credit programs by government nonfinancial agencies (GNFAs) and government-owned and -controlled corporations (GOCCs) would require the approval of the President.

The NAPC in coordination with concerned agencies and partners will pursue the promotion and advocacy of the best practices for delivering microfinance services to the unserved and underserved sectors such as the indigenous peoples and PWDs. In terms of developing a training module for LGUs acting as wholesalers of microfinance rather than retailers, preparatory discussions on the development of modules with DILG and other stakeholders will be undertaken in 2007.

The 2007 activities for the advancement of cooperative development between the CDA and the BSP includes: (a) the enactment of the Credit Information Systems Act (CISA); (b) the active participation in the legislative deliberations of the amendments to the Cooperative Code and the CDA Charter; and (c) the identification and establishment of a database system within CDA for effective supervision and examination of financial cooperatives.

For 2007, DAR has a list of targeted activities. First, it will distribute 130,000 hectares of agricultural lands composed of 100,000 hectares of LBP-compensable lands and 30,000 hectares of noncompensable lands. Second, the Department will sustain the acceleration of performance in terms of fasttracking resolution of cases and reducing the volume of caseload. Third, to support the ARBs/ARCs, DAR will launch 80 new ARCs nationwide to bring the ARB coverage to about 1,045,360 beneficiaries. It will also assist some

375,000 ARBs in ARCs in developing their technical and entrepreneurial skills as well as providing credit/microfinance, technology and market linkages.

The NCIP will also continue its initiatives for asset reform. Specifically the Commission will embark on: (a) the issuance of CADTs, CALTs; (b) the facilitation of Ancestral Domains Sustainable Development and Protection Plan; (c) provision of assistance to ADSDPP implementation; and (d) the integration of ADSDPP in Local Development Plans.

For health, the FOURmula ONE (F1) will continue to be the implementation framework of the Health Sector Reform. F1 is designed to undertake critical reforms in the Philippine health system in a manner that is felt and appreciated by Filipinos, especially the poor. Collaboration among the national government, the LGUs and the private sector including NGOs shall be strengthened to ensure access to and provision of quality health, nutrition, and population and development services.

To increase access to affordable essential medicines, the government will continue to widen the coverage of the “Half Priced Medicines Program.” This is through the establishment of more *Botika ng Bayan* and *Botika ng Barangay* outlets. For this, the Philippine International Trading Corp. (PITC) shall increase the importation of drugs by more than threefold. The aim is to attract more businessmen and pharmacists to put up their own drugstores (*Botika ng Bayan*). The target is to establish a total of 30,000 outlets in 2010.

To increase membership and collections on health insurance, PhilHealth will continue to work with LGUs and other sectors to: (a) sponsor enrollment in the Sponsored Program; (b) ensure timely remittance of accurate premium contributions to the private sector employees; (c) increase membership of Overseas Filipino Workers (OFWs); (d) improve active membership of the Individually Paying Program (IPP); and (e) continuously adjust contribution schedule of the employed and the IPP for equity considerations.

In managing the population, the government will continue to strengthen institutional mechanisms to effectively coordinate and monitor the implementation of the population programs especially the Responsible Parenthood and Natural Family Planning (NFP) Program. There will be an aggressive and massive promotion of the Responsible Parenting (RP) Movement through the conduct of classes down to the regional and local levels using the RP Handbook and the Facilitator’s Guide.

For nutrition, the NNC through EO 472 shall be responsible in coordinating the implementation of programs and projects within the Accelerated Hunger Mitigation Framework. This will also be in collaboration with various agencies at the national and local levels. It shall also lead in the monitoring and evaluation of the Food for School Program, as the major component of the AHMP. Furthermore, NNC shall continue to oversee the coordination of the planning, monitoring and evaluation of the Philippine Plan of Action for Nutrition (PPAN) 2005-2010 in order to achieve its goals and targets. For 2007, the major activities will be the conduct of the PPAN Mid-Term Review, the formulation of Resource Generation and Mobilization (RGM) guidelines, the development, printing, and dissemination of nutrition information, education, and communication (IEC) materials, and the analysis and formulation of appropriate nutrition policies.

In order to effectively deliver social protection programs and projects to the poor and the marginalized sectors, the government will adopt and operate a social protection framework. This is intended to rationalize all social protection programs and projects at national and local levels.

As part of the continuing challenge to implement the UN CEDAW, the NCRFW and its partners will continue to advocate for the removal of discriminatory provisions found in the Anti-Rape Law or RA 8353 which allows the wife to pardon the husband in case of marital rape; and the Revised Penal Code Articles 333 and 334 on concubinage and

adultery. In addition, the Commission will push for: (a) the constituency-building and advocacy for the passage of the Magna Carta for Women Bill; (b) the capacity-building on CEDAW among government agencies as well as for advocates and trainers; (c) dialogues with indigenous women; and (d) the development of a gender framework for indigenous peoples' communities.

To ensure nationwide implementation of the CLPIMS, innovative methods will be developed. This includes the advancement and implementation of Local Poverty Reduction Action Plans (LPRAP). Likewise, the nationwide adoption of CBMS as the prescribed monitoring tool for the generation of core local poverty indicators shall be pursued for uniformity and standardization of databases at the local level.

Efforts to advance disaster risk reduction activities shall be continued through: (a) strengthening of capacities of stakeholders on disaster risk management to include measures for disaster preparedness, mitigation and prevention as well as emergency response; (b) improving the system and infrastructure of disaster preparedness and response; and (c) prioritization and systematic integration of

disaster risk management into development policies, plans, and programs, e.g. Land Use Plan.

Continuing efforts will be pursued to improve the structure, facilities and management of centers and institutions for the welfare, protection, rehabilitation, education, training and employment of the marginalized sectors such as the disadvantaged women, children, youth, PWDs, and older persons, among others.

The NCIP will continue its programs for IPs such as the provision of legal assistance, health programs and services, indigenous health knowledge and practice, and educational assistance program.

Technical assistance to enhance the role of LGUs in providing welfare and development services to their constituents including the management of centers and institutions will be intensified. New and improved social technologies will be tested to address emerging social problems such as girl child rape by boy child, boy child victim of sexual abuse, pedophilia and cyber pornography, child trafficking and children in armed conflict.

Chapter 13

Automated Elections

Except for the approval of the amendments to the Election Modernization Act of 1997, there was no significant progress in the election modernization effort in 2006. The government, however, made some progress in pursuing solid reforms in the campaign finance system, and in educating the voters.

ASSESSMENT

Modernizing the electoral system

The Medium-Term Philippine Development Plan (MTPDP) 2004-2010 has targeted to complete and systematize the database of registered voters, to automate the counting and canvassing of ballots, and to electronically transfer the election results come 2007. In 2005, the Commission on Elections (COMELEC) reported that it was able to collate data from 18.38 million registered voters, or from 42 percent of the 43.5 million total registered voters at that time. It has, however, failed to make a report of its accomplishments regarding data gathering as of 2006.

To facilitate the modernization of elections, the President signed Republic Act (RA) 9369 in January 2007 to amend RA 8436 or the Election Modernization Act of 1997. RA 9369 has since broadened the technology options for the automated election system (AES) to make the electronic transmission of election results possible. It also authorized the COMELEC to implement the AES in Luzon, Visayas and Mindanao for the 2007 elections, although this implementation would be limited to two highly urbanized cities and two provinces in each of the said areas. It is hoped, however, that the AES would be fully operational after the 2007 elections to cover

all the Philippine cities and provinces in the elections thereafter.

Reforming campaign finance

To enhance the credibility of the electoral process, the MTPDP proposes to reform the way electoral campaigns are being financed through the passage of the Campaign Finance Bill. House Bill 5877, or the Political Party Act of 2006, was approved during its third reading in Congress, while its counterpart bill, Senate Bill 2442 remains pending in the Senate. These bills aim to curb excessive campaign expenses by regulating the amount that the national political parties could get from the government, as well as the allowable contributions they could accept from private entities.

Intensifying voters' education on civic responsibility

The MTPDP aims to achieve higher voter turnout through continuous voters' education and by integrating election education into the school curriculum.

The COMELEC conducted voters' education, particularly for first-time voters, in schools and universities around the National Capital Region (NCR). Following the pilot test of community volunteers'

training on voters' education in 2005, the COMELEC conducted the training in NCR and Western Visayas in 2006. The Consortium for Electoral Reforms (CER), an NGO, also trained fellow NGOs from the NCR and Mindanao, as well as trainers of the National Service Training Program (NSTP) in the conduct of voters' education.

To further enhance public access to information regarding electoral laws and exercises, the COMELEC launched two websites, www.comelec.wordpress.com and www.bagongbotante.com. The former has been providing public information about the COMELEC, its projects and its activities, while the latter has been providing new voters with an informational guide about the

electoral process. Furthermore, in collaboration with the government and certain NGOs, the COMELEC also replicated these information campaigns at the grassroots level.

POLICY DIRECTIONS FOR 2007

In line with the MTPDP targets and in compliance with RA 9369, the government aims to develop and implement an AES in the 2007 elections. Along with this effort, the government seeks to sustain the reforms it has made in the campaign finance system, and to continue voters' education, in partnership with the private sector and NGOs.

Chapter 14

National Harmony: The Peace Process

The government carried out measures to strengthen the peace process to enable it to move forward amidst the difficulties and obstacles encountered in 2006. These measures included initiatives toward mainstreaming the peace process in local governance, harnessing regional coordinative structures, building indigenous mechanisms, and fostering civil society partnerships. These initiatives aim to improve conflict prevention and peace-building efforts of the government and to expand the peace constituency through creative avenues. The implementation of existing peace agreements and the continuation of peace negotiations, complemented by confidence-building and socioeconomic development programs in conflict-affected areas, have made concrete strides towards attaining lasting peace through the peace process.

ASSESSMENT

This assessment will focus on the two major components of the peace plan, namely: (a) peacemaking and peacekeeping; and (b) peacebuilding and conflict prevention. The following were the major accomplishments under the peace process in 2006.

PEACEMAKING AND PEACEKEEPING

Government of the Republic of the Philippines-Moro Islamic Liberation Front (GRP-MILF) Peace Negotiations

The GRP and MILF conducted three consecutive exploratory talks in Kuala Lumpur, Malaysia to primarily tackle the issue of territory, which was under the ancestral domain agenda. To resolve this issue, the Philippine government also submitted to MILF a proposal that centered around the concept of self-determination.

Meanwhile, the ceasefire agreements continued to provide an atmosphere of relative peace in the conflict-affected communities in Mindanao. Moreover, the GRP-MILF Committee on Cessation of Hostilities, as part of the Regional Peace and Order Council, strengthened its advocacy activities in the ARMM.

GRP-National Democratic Front (NDF) Peace Talks

After the suspension of the GRP-NDF negotiations in 2004, the government's negotiating panel undertook concrete measures to: (a) sustain public support to the peace process from the local, national and international peace constituencies and partners; and (b) bring about a more favorable environment for the resumption of negotiations.

Continuous consultations/dialogues with various stakeholders were held to assess the current peace scenario, explore ways of moving the talks forward, and to support

various community-based peace initiatives in Bohol, Sorsogon, Bondoc Peninsula, Tarlac, and Negros. Likewise, monitoring, networking, advocacy and IEC activities ensured adherence to the Comprehensive Agreement on Respect for Human Rights and International Humanitarian Law (CARHRIHL). A technical working group was created to look into and harmonize various reports of alleged political killings, and humanitarian assistance was provided to Alleged Political Offenders (APOs) pending court action on their cases.

Other peace negotiations

The government continued to negotiate peace with two communist breakaway groups, namely, the *Rebolusyonaryong Partidong Manggagawa ng Pilipinas/ Revolutionary Proletarian Army/ Alex Boncayao Brigade (RPMP-RPA-ABB)* and the *Rebolusyonaryong Partidong Manggagawa ng Mindanao (RPMM)*. Aside from regular meetings and formal talks, socioeconomic projects have been implemented to support peace-building activities in identified areas of conflict. In the RPMP-RPA-ABB areas, a total of PhP15.64 million livelihood fund was made available to residents of 49 peace barangays. An immediate assistance of PhP1.28 million and a livelihood fund of PhP3.72 million were provided to Alleged Political Offenders (APOs) and their families. Meanwhile, in the RPMM-identified barangays, projects worth PhP49.40 million under the KALAHI-CIDSS Program were implemented.

Complementary measures to minimize the level of violence arising from armed conflicts

To complement the ongoing peace talks and implementation of interim ceasefire agreements with rebel groups, government undertook efforts to strengthen the local peace constituency and enhance indigenous or community-based conflict resolution processes and mechanisms. These included support for local initiatives toward the establishment of

peace zones, particularly in the conflict-affected provinces of Mtn. Province, Tarlac, Bondoc Peninsula, Sorsogon, Abra, North Cotabato, Bukidnon, and Agusan del Sur.

Full implementation of existing final peace agreements

The Office of the Presidential Adviser on the Peace Process (OPAPP) continued to monitor and coordinate closely with the ARMM and other concerned agencies in resolving the issues impeding the implementation of the Phase 2 of the GRP-Moro National Liberation Front (MNLF) Peace Agreement. The OPAPP also assisted the Organization of Islamic Countries (OIC) fact-finding mission in assessing the status of the said peace accord. A technical working group was created to formulate a framework in pursuing the GRP-MNLF Re-Affirmation of the Cessation of Hostilities.

On the GRP-Cordillera People's Liberation Army (CPLA) Peace Agreement of 1986, the Philippine government and the CPLA signed last December 2006 a Joint Declaration on the Continuing Implementation of the 1986 Peace Accord to further integrate CPLA members and three companies of CAFGU Active Auxiliaries into the AFP regular force.

Implementation of an enhanced rehabilitation program to reintegrate former rebels into mainstream society

Under the National Reintegration Program, the government, through the OPAPP, granted nearly PhP1.3 million worth of livelihood assistance to 170 former rebels (FRs), as well as scholarship grants to 100 FRs and their next-of-kin.

The OPAPP, in coordination with concerned agencies, formulated a Social Integration Program (SIP) for former rebels covered by the peace agreements, as well as for current members of armed groups who would like to return to normal civilian life. A draft Executive Order (EO) for the creation of a

Committee on SIP and for the adoption of the said framework was endorsed to Malacanang for the approval of the President. The OPAPP also initiated the preparation for the pilot-testing of the program in the province of Sulu in Mindanao.

PEACEBUILDING AND CONFLICT PREVENTION

Rehabilitation and development of conflict-affected areas

The President issued EO 569 defining the role of the Regional Kalahi Convergence Groups, with the Presidential Assistants as Regional Peace Advisors, as regional mechanisms for the implementation of the comprehensive peace process. The said directive strengthened the link between national government and the LGUs toward a more effective conflict prevention and peace-building program.

Moreover, the Kalayaan Barangay Program was launched in the provinces of Laguna, Batangas, Sorsogon, and Albay. A total of PhP454 million has been released to the AFP Engineering Brigade to initiate the core infrastructure projects under this program.

By conducting workshops on conflict analysis and peace program planning, the OPAPP, under the GOP-UNDP Conflict Prevention and Peacebuilding Programme, spearheaded the integration of peacebuilding concepts into the local government planning process. The participants in these workshops were the regional line agencies, the LGUs and the civil society organizations from eight priority conflict-affected regions: CAR, 3, 4-A, 4-B, 5, 6, 7, and 8. In addition, the program supported various peace-building and conflict prevention projects being carried out by the LGUs and civil society groups in Mtn. Province, Abra, Apayao, Ifugao, Quirino, Tarlac, Mindoro, Bohol, Negros, Antique, Iloilo, Aklan, Maguindanao, Surigao, and Zamboanga. These projects included, among others, various trainings on conflict analysis, peace planning, and conflict resolution.

In Mindanao, various programs and projects were also implemented in conflict-affected areas. Some of these were the Action for Conflict Transformation (ACT) for Peace (previously known as the Special Zone for Peace and Development or SZOPAD), which covered 15 provinces and 14 cities in Mindanao, the ARMM Social Fund Project (ASFP), and the Integrated Sulu Roadmap for Peace Building and Conflict Prevention. These projects sought to provide assistance to more than 12,600 families from various communities that were affected and displaced by the outbreak of armed hostilities in Sulu.

Furthermore, the first phase of the Mindanao Trust Fund-Reconstruction and Development Program (MTF-RDP) was implemented in six target pilot areas. This was geared to enhance the capability-building efforts of the program's key stakeholders, including the Bangsamoro Development Agency (BDA), the project implementing body identified by the MILF to determine, lead and manage the rehabilitation and development projects in the conflict-affected areas in Mindanao. New Zealand, Canada, Australia and the World Bank committed a total of US\$2.697 million for this phase.

The government also strengthened its Comprehensive Program for Children Involved in Armed Conflict (CIAC) to further address the issue of illegal recruitment of children as combatants in armed struggle through prevention, release, rehabilitation, and reintegration interventions. New policies and monitoring instruments were adopted. Meanwhile, the National Commission on Indigenous Peoples (NCIP) conducted various program enhancements as well as capability trainings for service providers, with the aim of improving the Commission's effectiveness in documenting cases of IP-CIAC victims and in turning them over to appropriate bodies/agencies for assistance.

Other sectoral programs on peace and development were implemented by concerned health agencies, social welfare agencies, and agricultural agencies.

Catch-up program for the ARMM and affirmative action for Muslims

The OPAPP continued to supervise, coordinate, and monitor the implementation of the Reformulated Mindanao National Initiatives (Mindanao NATIN). On the operationalization of Regional Economic Zone Authority (REZA), the OPAPP convened concerned agencies to resolve the issue of budgetary support for the Mindanao NATIN.

Healing and reconciliation programs, peace education and advocacy, and promotion of interfaith dialogues

The OPAPP, in coordination with the Department of Education (DepEd), continued the implementation of the national peace education program which involved the production and distribution of peace education exemplars. Peace education workshops for teachers in conflict affected areas were conducted in Regions 2, CAR, 5, 7, 9, 10, 11 and 12. To strengthen the program, the President issued the EO 570, which called for the institutionalization of peace education in basic and teacher educations.

The OPAPP also spearheaded various peace advocacy activities, such as the regional fora on peace process held nationwide, and the continuing media-based peace education and information campaigns. The OPAPP also launched in December 2006 a national peace portal called *Pilipinas Peace Net*.

On interfaith dialogue and cooperation, the Philippine government co-convened the Cebu Dialogue on Regional Interfaith Cooperation for Peace, Development and Human Dignity, gathering 200 participants from 15 countries in Asia and Oceania. In addition, the OPAPP, in coordination with DFA and PCVE, as well as civil society partner organizations, succeeded in formulating a Philippine Plan of Action on Interfaith Cooperation, 2006-2010.

PROSPECTS AND DIRECTIONS FOR 2007

With human security as the main framework, 2007 shall see the furtherance of peace efforts especially at the ground level. The postelections scenario, in particular, is expected to provide opportunities for engaging new leaders and actors in attaining the goals and objectives of the peace process, as well as for continuing with the advocacy for a legislated national peace policy.

Policy initiatives during the year in review, especially EO 569 (Regional Kalahi Convergence Groups as regional mechanisms for the implementation of the comprehensive peace process) and EO 570 (institutionalization of peace education in basic and teacher education), shall be fully implemented. The government shall specifically ensure that the various peace negotiations are on track to fully deliver the remaining commitments under existing final peace agreements, and that adequate measures aimed at lowering, if not totally eradicating, armed violence are put in place and fully observed. Moreover, compliance with relevant international agreements, such as those on human rights, interfaith cooperation and children involved in armed conflicts, shall be closely monitored.

2007 will see the implementation of new programs geared to support the peace process, including the implementation of the "Development Study for Socioeconomic Rehabilitation and Development of Conflict-Affected Areas in Mindanao" which involves, among others, the formulation of a Comprehensive Bangsamoro Development Plan. With funding assistance from the Japanese government, the OPAPP, together with the Bangsamoro Development Agency, will act as the implementing body of the program.

Chapter 15

Peace and Order

To help attain peace and order in the communities and in the country to boost investment, the Department of the Interior and Local Government (DILG), Philippine National Police (PNP) and other law enforcement agencies implemented various programs, projects and activities in 2006. Campaigns were undertaken against crimes such as kidnap-for-ransom (KFR), illegal drugs, bank robbery, and street crimes. These campaigns, accompanied by the release and distribution of firearms, basic equipments and facilities, effectively decreased crime incidence by 7.2 percent in 2006. Crime solution efficiency rate in 2006 was 88.6 percent.

ASSESSMENT

THE LAW ENFORCEMENT PILLAR

Pursue professionalization of the PNP

In order to address the current shortage of PNP personnel, batches of recruitment were done in 2006 to attain the targeted Police-Population ratio of 1:525 by 2010 and 1:500 by 2012. For the first batch, 3,000 personnel were sworn into office during the 1st semester of 2006; while the second batch, 4,500 personnel were sworn in on December 1, 2006. The second batch represents the vacancies in 2005 and 1st Semester of 2006 to replace the uniformed PNP Personnel who were removed from the service due to normal attrition, such as retirement, death, separation, resignation and termination. Only 1,400 additional PNP personnel are needed to meet the targeted 8,400 by 2010. The new appointees underwent the Public Safety Basic Recruit Course (PSBRC) at the Philippine Public Safety College (PPSC) for six months and another six months of field training. In 2006, the Police-Population ratio was 1:718, thus, there is a need to intensify

the recruitment of more PNP personnel to meet the target.

Under the Letter of Instruction (LOI) Patnubay, which calls for continuous guidance to PNP personnel through proper counseling and promotion of high ethical standards and professionalism, 2,279 uniformed personnel were made to undergo a retraining program on Values and Leadership Course at the PNP Reformatory School while 78,134 trained under the Moral/Spiritual Ascendancy Program and 18,176 under the Personnel Career Development Training in 2006. Sixteen PNP personnel were rated POOR in their Performance Evaluation Rating (PER).

Also through the program, a total of 3,153 administrative cases against PNP personnel were resolved out of the 6,025 pending administrative cases in 2005 and 2006.

The DILG and PNP pursued career training and development programs which focus on addressing identified training needs and reducing backlogs in the conduct of mandatory courses. These programs target a number of 15,454 participants or a 2.9 percent increase in 2006.

Some 13,430 uniformed personnel from PNP, Bureau of Fire Protection (BFP) and Bureau of Jail Management and Penology (BJMP) graduated from various degree and mandatory training courses as of December 31, 2006. An accomplishment rate of 89 was recorded in this initiative.

With regard to the targeted 20,491 or 22 percent increase in the number of participants in specialized courses for 2006, only 1,218 uniformed personnel from PNP, BFP and BJMP were trained in various Specialized Training Courses as of December 31, 2006. The lack of budget was cited for

TABLE 15.1 CONSENSUS CONDUCTED FOR PNP AND BJNP PERSONNEL

Mandatory Education & Training Courses	Clientele	No. of Participants		
		Completed	On-going	Total
Degree Course - Total		13,320	4,534	17,854
Bachelor of Science in public safety (Cadetship)	PNP, BFP, BJMP	177	926	1,103
Career courses - Total		13,143	3,608	16,751
Officer Courses		2,913	408	3,321
Public Safety Officers Senior executive Course	PNP	161	214	375
Public Safety Officers Advance Course	PNP	689	114	803
Fire Officer Advance Course	BFP	49		49
Jail Officer Advance Course	BJMP	39		39
Public Safety Officer Basic Course	PNP	1,179	80	1,259
Fire Officer Basic Course	BFP	84		84
Jail Officer Basic Course	BJMP	36		36
Public Safety Officer Orientation Course	PNP	584		584
Jail Officer Orientation Course	BJMP	92		92
Non-Officer Courses		10,230	3,200	13,430
Public Safety Officer Career Course	PNP	80	61	141
Fire Officer Career Course	BFP	55		55
Jail Officer Career Course	BJMP	44	106	150
Public Safety Senior Leadership Course	PNP	847	650	1,497
Junior Leadership Course	BJMP	918		918
Senior Supervisory Course	BJMP	129	35	164
Junior Supervisory Course	BJMP	142		142
Fire Protection Supervisory course	BFP	310	2,006	2,316
Public Safety basic Recruitment Course	PNP	7,409		7,409
Fire Basic Recruitment Course	BFP	296	342	638

Source: DILG

TABLE 15.2 SPECIALIZED TRAINING COURSES CONDUCTED, 2006

Specialized Training Courses	Clientele	No. of Participants		
		Completed	On-going	Total
Jail Basic Recruitment Course	BJMP	416		416
Fire Arson Investigation and Inspection Course	BFP	409		409
Public Safety Crime Investigation and Detection Course	PNP, BJMP	231		231
Narcotics Investigation Course	PNP, BJMP	97		97
Traffic Investigation Course	PNP, BJMP	65		65

Source: DILG

the small number of PNP personnel trained in these courses.

To further enhance the capability and efficiency of the PNP to establish a highly efficient, competent and credible police force, various in-service trainings in the areas of law enforcement and police services were conducted in 2006 (Table 15.3).

In addition, 135 PNP personnel received foreign training/seminars from January to September 2006. These cover: FBI Training Session, Enforcement of Intellectual Property Rights, Large Vehicle Bomb Post Blast Investigation, Advanced Leadership Seminar, Asia-Pacific Center for Security Response to Terrorism Course, Narcotics Unit Commander Course, Computer Facilitated Crimes against Children, A Police Role in Combating Terrorism, Complex Financial Investigation, Combating Domestic and Transnational Terrorism, Advanced Post Blast Training-

Forensic Assistance and Advanced Counter-Terrorism Investigation Program.

The rationalization of the role and functions of PNP vis-à-vis National Police Commission (NAPOLCOM), PPSC and DILG, on the other hand, was continued. The PNP Reorganization Plan is still pending in Congress.

Effective and Credible Law Enforcement

The acquisition of basic equipment and facilities, and the upgrading of crime prevention infrastructure and technology, are necessary for effective and credible law enforcement. The shortage in basic equipment and facilities and upgraded crime prevention technology equipment remained a problem. In 2006, only 7,220 pieces of assorted short firearms were procured and distributed to National Support Units (NSUs) and Police

TABLE 15.3 LAW ENFORCEMENT AND POLICE SERVICES COURSES CONDUCTED, 2006

Title of Training	No. of Classes	Total No. of Participants	Ave. no. of Pax per Session
1. Police Responders Course	65	3,503	54
2. Organized Crimes Investigation	60	2,935	49
3. Community Oriented Policing System	69	3,665	53
4. Anti-Narcotics Enforcement Seminar	76	3,806	50
5. Police Intervention Technique Seminar	81	4,526	56
6. IDPA Pistol/Rev Proficiency Classification Trng.	238	38,897	163
7. Bomb Identification and Detection Seminar	406	18,246	46
8. Traffic Accident Investigation Course	61	2,779	46
9. Police Patrol Seminar	63	3,132	50
10. Comm. Organizers Trng. For Chief of Police	50	1,754	35
11. Crisis Response Seminar	53	2,760	49
12. Police Investigator's Refresher Course	70	3,229	46
13. Traffic Accident data Collection Training Course	57	2,727	48
14. International Human Rights	39	2,086	53
15. PROs Other Programmed Courses/Seminars	584	16,873	29
16. PROs Unprogrammed Courses/Seminars	5,070	83,754	17
17. ISO Related Training (PNP wide)	49	4,845	99
18. NSUs Unprogrammed Courses/Seminars	356	10,352	29
19. NSUs Programmed Courses/Seminars	584	6,127	37
20. Moral Recovery and Value Formation Program	10,953	78,134	13
21. Seminar on GAD	6,208	261,219	42
22. Barangay Tanod Training Program	7,246	61,487	8

Source: DILG

TABLE 15.4 CRIME RATE, 2005-2006

Indicator	Jan.-Dec. 2005	Jan.-Dec. 2006
Reported incidents/cases	76,758	71,226
Cases solved	68,151	63,075
Solution Efficiency Rate	88.8%	88.6%
Index Crime	44,081	41,576
Non-index Crime	32,740	29,650
Average Monthly Crime Rate	7.53	6.98
<i>Source: DILG</i>		

TABLE 15.5 KIDNAP-FOR-RANSOM (KFR), 2005-2006

Indicator	Jan.-Dec. 2005	Jan.-Dec. 2006
No. of reported KFR incidents	48	44
KFR cases solved	19	11
KFR solution efficiency rate	39.60%	25.00%
No. of KFR personalities neutralized	78	31
<i>Source: DILG</i>		

TABLE 15.6 ILLEGAL DRUGS, 2005-2006

Indicator	Jan.-Dec. 2005	Jan.-Dec. 2006
Operations conducted	12,488	9,938
- Buy bust operations	6,635	5,946
- House raids/searches	5,688	3,797
- MJ plantation raids	165	195
No. of cases reported	9,346	6,725
No. of persons arrested	15,554	11,199
No. of cases filed in court	5,758	4,446
Total DDB value of confiscated illegal drugs and paraphernalia (in Php 000)	Php 2,041,146,675	Php 1,823,375,324
<i>Source: DILG</i>		

Regional Offices (PROs). Compared to the 1,897 firearms procured in 2005, there was an increase in the number of firearms in 2006. Despite the shortage, the targeted percentage decrease per annum in the number of syndicated crimes like kidnapping, trafficking, bank robbery, and common crimes against persons and property was attained in 2006.

It can be gleaned from Table 15.4 that despite the small number of firearms and other

basic equipment and facilities procured and the trainings undertaken by the PNP personnel last year, crime incidence decreased by 7.2 percent from 76,758 reported cases in 2005 to 71,226 cases in 2006. However, crime solution efficiency rate in 2006 recorded a slight decline of 0.2 percentage points to 88.6 percent.

KFR incidents decreased by 8.3 percent from 48 cases in 2005 to 44 cases in

TABLE 15.7 BANK ROBBERIES, 2005-2006

Indicator	Jan.-Dec. 2005	Jan.-Dec. 2006
Bank robbery incidents	34	21
Cases solved	14	6
Bank robbery solution efficiency rate	41.2%	28.6%
Persons neutralized	40	12
Source: DILG		

TABLE 15.8 STREET CRIMES, 2005-2006

Indicator	Jan.-Dec. 2005	Jan.-Dec. 2006
Street crime incidents/cases	14,569	11,042
Cases solved	12,294	9,421
Street crimes solution efficiency rate	84.40%	85.30%
Source: DILG		

2006, wherein 11 or 39.6% of the 2005 KFR incidents were solved. Thirty-one alleged suspects were arrested and appropriate criminal charges were filed in court.

About 9,938 operations against illegal drugs were conducted in 2006 yielding PhP1.823 billion worth of confiscated illegal drugs. A total of 11,199 pushers and users were arrested and 4,446 drug-related cases were filed in court.

Incidence of bank robbery dropped by 38 percent from 34 incidents in 2005 to 21 incidents in 2006. Twelve bank robbery cases were solved reflecting a 28.6 percent solution efficiency rate in 2006.

Street crime incidence decreased by 24 percent from 14,569 incidents in 2005 to 11,042 incidents in 2006. Of the reported incidents in 2006, 9,421 were resolved registering a street crime solution efficiency rate of 85 percent or an increase of 0.9 percent over last year. Street crimes include robbery (*tutok kalawit*, *ipit kotse*, robbery in *estribo*, *bukas kotse* and snatching), theft (*laglag barya*, *salisi*, pickpocketing, taking of parts and accessories of motor vehicles), swindling/estafa (*budol-budol*, vending of fake commodities) and physical injury (gang wars, frat wars and mugging).

Carnapping incidents dropped by 14 percent from 1,503 stolen vehicles in 2005 to 1,288 in 2006. Of the 1,288 vehicles stolen, 351 were recovered registering a recovery efficiency rate of 27 percent. Five carnapping syndicates were neutralized, 168 suspects were arrested and 129 cases were filed in court.

A total of 502 crime syndicates/groups were neutralized, 1,451 persons arrested and 497 cases were filed in court in 2006.

On the campaign against communist terrorists (CTs), the police figured in 39 encounters against CTs that resulted in the killing of 22, capture of 7 and the recovery of 26 firearms and 6 explosives. In other operations against CTs, 59 were arrested, 5 were killed, and 83 surrendered; 47 firearms were also recovered.

The Three-Tiered Defense System, the PNP's basic framework for counter-terrorism, was key to the success of the PNP's programs. Joint operations with the Armed Forces of the Philippines (AFP) resulted in the arrest of three alleged Abu Sayyaf Group (ASG) members identified as Macarimbang, Sandigan, and Sammy Gampong who were about to board the Super Ferry 3 at Polloc Port, Parang, Maguindanao; two improvised explosive devices were recovered from their

TABLE 15.9 CARNAPPING, 2005-2006

Indicator	Jan.-Dec. 2005	Jan.-Dec. 2006
Stolen vehicles	1,503	1,288
Stolen vehicles recovered	489	351
Recovery efficiency rate	32.5%	27.3%
Syndicates neutralized	6	5
Suspected Carnappers Arrested	199	168
Cases filed in court	117	129
Average lost per day	4.12	3.53

Source: DILG

TABLE 15.10 ORGANIZED/SYNDICATED CRIME GROUP, 2005-2006

Indicator	Jan.-Dec. 2005	Jan.-Dec. 2006
Syndicated crime group neutralized	376	592
Persons arrested	111	1,451
Firearms confiscated	153	181
Cases filed in court	482	497

Source: DILG

possession on August 27, 2006. Sultan Kudarat Police arrested MILF bomb experts Harris Daguindil and Malindo Sindatukan in Tacurong City on September 15, 2006 by virtue of a warrant of arrest for frustrated murder, while Zamboanga City Police, Navy and Coastguard seized 24 sacks of ammonium nitrate from MV Katrina 3 that came from Jolo, Sulu on September 18, 2006. The chemicals were allegedly intended for bombing attacks by the ASG to divert the military from ongoing operations against terrorists in Sulu.

THE COMMUNITY PILLAR

In order to improve coordination between interagency intelligence and counter-intelligence linkages, the DILG, PNP and other law enforcement agencies established more community-based crime prevention programs, namely: (a) People's Action Team Responding On-Line (PATROL 117), with calling centers located in 22 cities nationwide and equipped with state-of-the-art

telecommunication facilities in four cities which are capable of responding to emergency calls and assistance via landline and telecommunications; (b) PNP Complaints Referral Action Center thru PNP Text 2920 and PCRG Webpage, also being maintained by PNP. About 4,121 text messages and e-mails concerning requests for assistance and information reports were promptly acted upon by the PNP in 2006; (c) Intensified police visibility with the maintenance of 3,365 COPS Kababayan Centers/Police Community Precincts nationwide since 1994 wherein PNP personnel spent 207,380,412 man-hours conducting day and night mobile and foot patrols especially in crimeprone areas; and (d) Partnership with the Federation of the PNP Accredited NGOs (FPAN) and Confederation of Community-Oriented Policing System NGOs, Inc. (CCOPS).

Community-based institutions (CBIs) organized and functional in the LGUs were instrumental in helping maintain public safety in the communities. These CBIs are listed in Table 15.11.

TABLE 15.11 COMMUNITY-BASED INSTITUTIONS IN LGUS, 2006

Community-Based Institutions (CBIs)	No. of LGUs with Functional CBIs			
	Province	City	Municipality	Barangay
Local Special Bodies				
a. Local Development Council	63	107	1,162	16,968
b. Local School Board	54	107	1,107	5,180
c. Local Health Board	60	90	1,086	3,486
d. Local Public Bidding and Awards Committee	50	85	921	3,486
e. Local Peace and Order Council	67	108	1,248	24,910
f. People's law Enforcement Board	32	85	1,063	3,835
Anti-Drug Abuse Council/Committee	54	99	1,177	22,753
Disaster Coordinating Council	64	89	1,106	20,674
Local Council for the Protection of Children	56	78	854	17,040

Source: DILG

Continuous and intensified police operations through improved intelligence/counter-intelligence, community oriented policing and investigation services

The DILG maintained the Barangay Intelligence Networks (BINs). As of 2006, 15,772 BINs were organized and maintained. Thus, almost 78 percent was accomplished starting 2004-2006 from the targeted 6,000 barangays per annum, with 41,982 barangays nationwide. In 2006, almost 88 percent of the targeted barangays with BINs were organized and maintained. But the service of warrants of arrest efficiency decreased by 3.41 percent in 2006, i.e., from 79.64 percent in 2005 to 76.23 percent in 2006. In order for the various modus operandi of crime syndicates to be tracked down, the DILG established a database on Case Management and Intelligence System (CMIS) and Criminality/Threat Groups.

POLICY DIRECTIONS FOR 2007

In 2007, the DILG shall focus its efforts on reducing crime incidence and improving crime solution efficiency through enhanced professionalization of PNP personnel and services. There shall be an increase in the number of uniformed PNP personnel trained

and provided with benefits. Police stations shall be equipped in addressing security threats. Necessary measures shall be undertaken to ensure that all barangay tanods who are members of the Civilian Volunteer Organizations (CVOs), which assist in law enforcement activities, are properly screened before they are deputized by the PNP.

The PNP, on the other hand, will continuously implement in 2007 and onwards its commitments as indicated in the Medium-Term Philippine Development Plan (MTPDP). It will vigorously pursue anticriminality projects by reducing street crimes by way of increased police visibility through police security containment ring system and integrated beat patrol system; sustained night operations; and continuous conduct of police outposts in crime prone areas. It will strengthen police stations and intensify anticrime operations as well.

On anti-insurgency, the PNP shall conduct active support roles in internal security operations by dismantling the politico-military structures of local communist terrorists through the special operations team; conduct of intelligence projects against high value targets; and pursuing a legal offensive through interagency legal action groups.

On antiterrorism, the PNP will sustain the implementation of the Three-Tiered Defense System, which is the PNP's

basic action framework against terrorism, to strengthen intelligence sharing through linkages with other regional intelligence communities and international/bilateral exchanges.

On police community relations, the community-oriented policing system shall remain to be a major program in crime prevention.

Chapter 16

Rule of Law

The Judiciary, through the initiative of the Supreme Court (SC), continued the implementation of the Action Program for Judicial Reform (APJR) Project in 2006. Some of the project's components have been completed while others are ongoing. The Judiciary registered significant gains in the year 2006, especially in reaching out to indigent sector through the continued implementation of the Justice on Wheels Project and the tremendous support for the rehabilitation of the internally displaced persons (IDPs) and communities in Southern Philippines through the Justice Centers set up therein.

On the prosecution pillar, the Department of Justice (DOJ) intensified the recruitment of prosecutors. It only needs 18 percent more in 2007 to achieve the goal of having 500 prosecutors in three years from 2005. DOJ Action Centers (DOJAC) were fully operationalized in different regions in 2006. Through this Center, poor people can easily seek legal advice, opinions and services free of charge in line with the DOJ program to improve free legal assistance to the public.

The performance of the Bureau of Corrections (Bucor) in 2006 was highly satisfactory. Highlights of its accomplishments include establishment of computerized inmates' database and improved jail and prison facilities, among others.

Despite these achievements, efforts and initiatives to achieve the goals of the three pillars of the criminal justice system, public perception remains poor.

ASSESSMENT

The SC, DOJ and Bucor should strongly pursue and strengthen their programs and projects with focus on attaining increases in investment and raising investor confidence through a more responsive judicial system.

THE COURTS PILLAR

Support to the APJR Projects

In decongesting court dockets, the SC aimed to establish eight new Philippine Mediation Centers (PMC) nationwide and conduct training of mediators in 2006. Of the targeted eight units, only six were established. Three reorientation seminars for the newly accredited mediators, their oath taking, and the inauguration of the PMC units in Tacloban and General Santos cities took place in March and June 2006, respectively. Four PMC units were also opened in Koronadal City (Marbel) and Lake Sulu, both in the province of South Cotabato.

Tapping retired judges to assist in decongesting court dockets was also undertaken to push through with the one-time comprehensive fasttrack decongesting activity. A concept paper on the project was prepared for resource mobilization. A draft bill on the "judges-at-large" was formulated by the Office of the Court Administrator (OCA) for referral to Congress and the Senate.

The first Mobile Court under the Justice on Wheels Project concentrated its operations in 2006 on children in conflict with

the law in Metro Manila, particularly those in Bicutan. Two additional buses were procured for deployment in Bohol and Mindanao. The Court, through Administrative Circular No. 72-2006, issued the guidelines for the deployment, jurisdictional structure and administrative support of the new mobile courts. In 2005, these courts heard a total of 294 cases and released 160 children in conflict with the law and in 2006 heard 75 cases and released seven detainees.

In support of the Alternative Dispute Resolution (ADR), a total of 32 model courts were constructed in two pilot sites in the cities of Bacolod and San Fernando, Pampanga as of March 31, 2006. A total of 21 Regional Trial Court (RTC) judges (13 in Bacolod and 8 in San Fernando) and 11 Municipal Trial Court in the Cities or MTCCs (7 in Bacolod and 4 in San Fernando) have mediated through the Court-Annexed Mediation (CAM) and Judicial Dispute Resolution (JDR) process. Furthermore, 44 additional ADR model courts were established in areas adjacent to these cities. There were 88 mediators (49 male and 39 female) practicing the innovative approach as part of the court-annexed system of ADR and there were 84 mediators on both sides. For the past two years, a total of 4,210 cases have already been referred for mediation. Of the 1,571 cases that have undergone JDR, around 60 percent has been successfully settled. Meanwhile, the module on Orientation on ADR in Family Courts and Training of Family Court was finalized. Conduct of training is targeted in 2007.

Table 16.1 shows that despite the initiatives and efforts to reduce court case loads and to decongest court dockets, many cases needing resolution are still pending. Nevertheless, the 775,980 pending cases in 2005 has been reduced to 753,360 cases as of October 31, 2006. To achieve decongestion, the resolution of pending cases must be intensified and hastened by the SC and all other lower courts.

Improving functional administrative and operating structures in the Judiciary

The SC and other lower courts through the Independence and Defining the Accountability of the Judiciary-Component A: Fiscal and Administrative Autonomy of the Judiciary sought to establish pilot offices in Region 7. After consultations with the region's executive judges, the SC en banc approved the pilot implementation of the decentralized administrative structure through Administrative Memorandum (AM) No. 06-11-09-SC dated November 14, 2006. The AM called for the following: (a) establishment of the organizational infrastructure to support the pilot implementation; (b) establishment of Judiciary Autonomy Fund; (c) adoption of the staffing pattern of pilot offices; (d) designation of the Court Administrator as the Implementation Head of the Pilot Project; (e) definition of the Court Administrator's authority and responsibility; and (f) definition of the relationship between the pilot project operations and the regular functions of the OCA.

Under the Judicial Reform Support Project (JRSP)-Component C: Strengthening Institutional Capacity, the World Bank conducted a Project Implementation Review and Support Mission from November 13 to December 22, 2006. The review sought to assess the status of corrective measures to address the implementation problems identified by the previous Mission in June of the same year. The bottlenecks have been addressed and corrected and the Information and Communications Technology (ICT) component showed positive progress.

In 2006, implementation of two pilot Hall of Justice (HOJ) courts in Lapu-lapu City and Angeles City moved forward. The SC, from July to November 2006, sought to ensure completion of all major contracts, including the rehabilitation and construction of the Manila HOJ before December 2009.

The topping off ceremony for the Lapu-lapu City HOJ was held in November 2006 with 27.88 percent of the physical plan

TABLE 16.1 SUMMARY REPORT OF CASES FROM JANUARY TO NOVEMBER 2006

Courts	Pending Cases as of 12/31/2005	Case Inflow				Case Outflow			Pending Cases as of 10/31/2006
		Cases Newly Filed	Cases Revived/ Reopened	Cases Record From Other Salas/CTS	Cases Decided/ Resolved	Cases Archived	Cases transferred to other Salas/CTS		
SUPREME COURT	6,191	4,773	114		4,314		236	6,528	
COURT OF APPEALS	21,883	6,404	0	0	7,233	0	0	21,054	
SANDIGANBAYAN	2,145	356	33	13	391	17	19	2,120	
COURT OF TAX APPEALS	777	263	7	0	317	0	0	730	
REGIONAL TRIAL COURT	350,159	152,610	11,286	15,486	119,798	36,088	13,253	360,402	
METROPOLITAN TRIAL COURTS	140,539	56,736	8,311	3,973	41,211	34,002	1,949	132,397	
MUNICIPAL TRIAL COURTS IN CITIES	114,419	60,072	8,605	2,403	52,637	24,760	3,326	104,776	
MUNICIPAL TRIAL COURTS	76,609	25,391	2,094	675	25,747	7,680	2,207	69,135	
MUNICIPAL CIRCUIT TRIAL COURTS	62,924	19,403	1,912	960	21,873	4,800	1,452	57,074	
SHARIA DISTRICT COURTS	49	44	0	1	34	0	0	60	
SHARIA CIRCUIT COURTS	285	349	11	169	376	82	2	354	
TOTAL	775,980	326,401	32,373	23,680	273,931	107,429	22,444	754,630	

Source: JRO-Judgement Division
Statistical Reports Division
Court Management Office

Source: JRO-Judgement Division
Statistical Reports Division
Court Management Office

completed while the construction of the Angeles City HOJ started in November 2006 and has been 2.65 percent completed.

Meanwhile, the Integrated Electronic Library System (e-library), is already available online. The e-Library's CDs are being distributed to judges every six months. The e-Library which boasts of extensive subjects on the country's legal system, is now accessible to users in the judicial system.

Provide sufficient public information and collaboration with society

The information, education, and communications (IEC) system was launched on August 23, 2006 to provide sufficient public information in extending access to justice for the poor. The Memorandum of Agreement (MOA) on the system was approved by SC en banc on November 14, 2006 and signed by Court Administrator (CA) Christopher O. Lock. Project orientations were conducted in the five project sites. A draft Administrative Order designating the Clerk of Courts as Municipal Court Information Officers is being reviewed by Court Management Office for submission and approval. The IEC Guidelines has been drafted and is being reviewed by the members of the Technical Working Group (TWG) for submission to the SC Committee on Public Information. Both are expected to be approved in the 1st quarter of 2007. The equipments (37 desktop computers, printers and voltage regulators) procured by Department of Social Welfare and Development (DSWD) were already delivered to the Supreme Court and currently housed at the OCA Property Warehouse for inspection and distribution in 2007.

In addition, the Public Education on the Rule of Law Advancement and Support (PERLAS) Phase 1 Project was completed in the 2nd quarter of 2006. This consisted of the drafting of exemplars for elementary and secondary schools and a High School Student Manual. The pretesting of the exemplars shall cover Phase 2.

Provide access to justice by the poor especially by the Internally Displaced Persons (IDP) and by the people in Mindanao area

A Justice Center was constructed in Malabang, Lanao del Sur to extend support and rehabilitate IDPs and communities in Southern Philippines. Five Justice Centers were renovated in Autonomous Region in Muslim Mindanao (ARMM) particularly Cotabato City, Marawi City, Zamboanga City, Jolo, Sulu, and Isabela, Basilan. Various office equipments such as desktop computers, fax machines, filing cabinets, AVRs and printers were procured and distributed. Legal literacy and education seminars on the ARMM Justice System and workshops with local sectors to discuss and develop reform alternatives in ARMM were successfully conducted.

To promote and strengthen the Shari'a Justice System, the SC has created the Department of Shari'a and Islamic Jurisprudence within the Philippine Judicial Academy (PHILJA) in April 2006. The Department shall be an instrument in continuing legal reforms in the administration of the Code of Muslim Personal Laws (CMPL). PHILJA has conducted the 1st and 2nd of five training programs on Strengthening the Implementation of the CMPL in July and September 2006 in the provinces of Zamboanga and Davao, respectively. The King Faisal Center for Islamic, Arabic and Asian Studies (KFCIAS) with the support of Asia Foundation has implemented the Strengthening the Shari'a Legal Education System Project. KFCIAS, located in Mindanao State University (MSU) in Marawi City, will publish two issues of an academic journal on the CMPL. Meanwhile, the Center is collecting and preparing articles for the first issue of the journal.

The SC in coordination with the courts and DILG with PMO and PHILJA created the Katarungan Pambarangay Management Council to strengthen the Barangay Justice System.

Strengthen the building of linkages and understanding between the community and other pillars of the criminal justice system to improve administration of and access to justice

In order to strengthen linkages and understanding between the community and other pillars of the criminal justice system and improve administration of and access to justice, the SC conducted a National Forum on Access to Justice through the Reforms in the Five Pillars of the Criminal Justice System in 2006. The Forum served as: (a) a venue for the various agencies and organizations comprising the five pillars of justice to share the current state of their pillar, focusing on reform programs and innovations and best practices in addressing constraints and issues; (b) a learning opportunity for these agencies/organizations on how similar or related issues are addressed from the perspective of other jurisdictions; and (c) a venue for discussing interrelated issues concerning the delivery of mandated services and forge agreements through a covenant consisting of concrete steps that each pillar will pursue in an agreed short to medium-term timeframe on how these issues will be addressed. A Covenant of Commitments was forged among the five pillars of the Criminal Justice System.

In addition, the SC launched its so-called “Medium-Term Development Plan for the Criminal Justice System”. In 2006, a Core TWG was formed composed of the designated representatives from the five pillars of criminal justice system, namely: (a) Law Enforcement: Philippine National Police (PNP), National Bureau of Investigation (NBI), Philippine Drug Enforcement Agency (PDEA); (b) Prosecution: National Prosecution Service (NPS)-Department of Justice (DOJ), Office of the Ombudsman (OMB); (c) Courts: OCA, Court of Appeals (CA), Court of Tax Appeals (CTA), Sandiganbayan (SB), Program Management Office (PMO); (d) Corrections: Bureau of Corrections (Bucor), Bureau of Jail Management and Penology (BJMP), Parole and

Probation Administration (PPA), Board of Pardons and Parole (BPP); (e) Community: Public Attorneys Office (PAO) and DSWD.

Action planning workshops were conducted among the five pillars. These were followed by a Validation Workshop that came out with a draft Final Report on December 11, 2006. The Final Report on the Plan was submitted to SC on December 15, 2006.

THE PROSECUTION PILLAR

The DOJ intensified the recruitment of prosecutors to expedite the resolution of cases in 2006. On top of the 208 prosecutors recruited in 2005, 203 more prosecutors signed up in 2006 closing the total number of recruited prosecutors at 82 percent of the targeted figure of 500 as stated in the Medium-Term Philippine Development Plan (MTPDP). Complementing the increased number of prosecutors were 31 and 38 Associate Prosecution Attorneys recruited in 2005 and 2006, respectively.

On the professionalization of Prosecution Offices, Mandatory Continuing Legal Education (MCLE) trainings were conducted in Cagayan, Baguio City and Cebu City. This is part of the first program for the continuing legal education of prosecutors.

Two separate training workshops were undertaken in 2006 to provide prosecutors with investigative techniques on handling child abuse cases. In late 2006, another training for handling gender-based violence cases in order to promote gender sensitivity in preliminary investigation and court trial was conducted. Prosecutors were also provided with technical reference materials in the form of booklets and manuals on Republic Act (RA) No. 9208 or the Anti-Trafficking of Persons Act of 2003. Last year, some 5,300 booklets and 1,850 manuals were printed and distributed.

In 2006, the DOJ Information Systems Strategic Plan (ISSP) was initially implemented. The partial requirements of the computer hardware infrastructure of the Prosecution Case Monitoring Systems were

procured. Meanwhile, the monitoring program shall consider the design of the former National Crime Information System. The updated procedures and requirements on reporting systems as determined by the ongoing organizational development study for the National Prosecution Service (NPS) shall also be considered.

To improve free legal service, the DOJAC was fully regionalized in 2006 and continues to provide said service to the public. In upgrading skills of Public Attorneys (PAs), the PAO conducted the MCLE training for 1,030 PAs. In support of this undertaking, the Secretary of Justice, Prosecutors, and PAs continued giving legal advices and information through radio, television and print media (tri-media) to enhance public knowledge on all legal matters and issues in 2006. Another initiative was the conduct of lectures and seminars for policemen on legal procedures, law, and tactical investigations without violating due process. This initiative was undertaken upon the invitation of the National Police Commission (NPC) and was planned to be conducted nationwide.

A comprehensive management study of the NPS was undertaken to include case inventory and reporting systems and organizational development. The study aimed to assess current procedures and systems and provide responsive and adequate policies in three areas of concern: (a) reporting and performance monitoring system; (b) organization and staffing; and, (c) resource management. This undertaking supported the DOJ in the inventory of all cases for preliminary investigations, evaluation and petitions for review.

Lastly, to maximize the utilization of the Katarungan Pambarangay, two trainings were conducted to educate barangay officials on legal matters that may arise in their respective jurisdiction. PAs have actively participated in the ongoing propoor programs of the government specifically in the “Serbisyo Muna” program.

THE CORRECTIONS AND REHABILITATION PILLAR

The Bucor has established the computerized inmates database which facilitated the processing of inmates carpetas. In 2006, it processed 4,575 prisoner carpetas, 80 percent of which was forwarded to the BPP for action. The records system was improved to avoid delay in the release of prisoners. In addition, Bucor has transferred a total of 1,430 inmates from New Bilibid Prison (NBP) to penal farms to address the congestion problem.

To improve jail and prison facilities, Bucor purchased one 25-seater Coaster and seven passenger vans in 2006 to facilitate the transportation of prisoners attending court hearings and Bucor officials and employees on official business. However, the construction and improvement of new and existing facilities were deferred in view of the approved transfer of the NBP from Muntinlupa to Tanay, Rizal. An aggregate of 47 jail offices and 176 jails cells were repaired and improved while 28 jail facilities were constructed from January to September 2006.

Jail and prison inmates were provided with basic needs from January to September 2006 and benefited from various rehabilitation projects and activities.

TABLE 16.2 INMATES PROVIDED WITH BASIC NEEDS, 2006

Basic Needs of Inmates	No. of inmates
Food subsistence	60,856
Dental services	43,332
Health education	43,332

TABLE 16.3 INMATES-BENEFICIARIES, 2006

Rehabilitation projects/activities	No. of Inmates-beneficiaries who benefited
Livelihood programs	11,926
Educational/vocational trainings	9,918
Recreational/sports activities	54,421
Religious activities	58,907
Guidance and counseling services	2,491
Therapeutic community modality	5,664

The enhanced Therapeutic Community Program, as a tool in behavior modification therapy, is now applied to all inmates at RDC even to those whose cases are not related to illegal drugs.

With respect to the strengthening of its rehabilitation programs for prisoners, Bucor continued to provide formal and informal education to inmates in coordination with the Department of Education (DepEd), Commission on Higher Education (CHED), and schools, namely: Perpetual Help University, Muntinlupa National High School and Itaas Elementary School in 2006. Bucor also provided elementary and secondary education, entrepreneurship and sociology courses to inmates. Last year, 11 percent of the 6,525 or 746 enrollees graduated from the formal and informal education program.

In 2006, education programs of inmates focused more on vocational or skills training instead of the formal tertiary education like the modular distance-learning program offered in 2005 by the University of Santo Tomas (UST). This was implemented in order to raise the chances of inmates to earn a living upon release from prison. Vocational trainings were undertaken at the NBP Medium Security Camp and at the Correctional Institute for Women (CIW) in coordination with the Technical Education and Skills Development Authority (TESDA) and other NGOs through lectures and on-the-job training programs.

Peace and order generally prevailed inside prison camps. There was a marked increase of 22.6 percent in the number of pardonees/parolees/probationaries assisted by

the PPA in job placement, livelihood, vocational, and skills training in 2006 compared with 13,364 in 2005.

Some field officers also assisted a significant number of probationers/parolees/pardonees in education programs as shown by the sharp rise in the number of participants in formal studies, and basic activities conducted by civic and religious organizations. The PPA reported an increase in the number of participants from 2,685 in 2005 to 4,899 in 2006 for the formal studies or audit education programs and from 28,367 to 72,331 for self-development and value formation sessions, respectively.

In 2006, some 36,736 probationers/parolees/pardonees rendered community services through the environment protection program, tree planting, clean and green, and beautification projects. In the same year, some 3,138 probationers/pardonees/parolees participated in the Therapeutic Community Program.

POLICY DIRECTIONS FOR 2007

For 2007, the Judiciary will continue to address the issues and challenges on the efficient and effective administration of justice identified in the Action Program for Judicial Reform. Reform efforts will focus on the six reform areas: judicial systems and procedures, institutions development, human resource development, access to justice, integrity infrastructure, and reform support systems.

Recognizing the importance of a strong, independent judiciary, greater efforts

will be exerted towards implementing reform measures that would ensure judicial independence while defining its accountability. The judiciary will pursue activities that would operationalize its constitutionally-mandated fiscal autonomy which is key to its independence. The Supreme Court has approved a decentralized administrative structure for the judiciary. This decentralized administrative structure with its corresponding administrative and financial management systems will be piloted in the 7th Judicial Region for fine-tuning of the policies and processes, and stabilization of operations.

The Judiciary will likewise continue to improve efficiency and effectiveness of operations, promote continuing human resource development, strengthen the judiciary's integrity infrastructure, and improve access to quality, speedy, impartial and affordable judicial services particularly by the poor and marginalized. These will involve tracking existing projects such as: (a) case management and adjudication; (b) court administration; (c) administrative and operating structures in the judiciary; (d) legal research facilities; (e) infrastructure development; (f) human resource development; (g) coordination among the five pillars of justice; (h) gender mainstreaming; (i) alternative dispute resolution mechanisms; and (j) stakeholder support for the reform program.

Improved administration of justice is a concern that transcends all sectors of society and cannot be realized through reforms in the judiciary alone. Over the past years, the judiciary has initiated activities to strengthen collaboration with the other pillars of justice. In 2007, the five pillars of justice will develop a justice sector development strategy that will address the issues and challenges to attain an efficient and effective administration of justice.

On the prosecution pillar, the DOJ will continue to expedite the recruitment process for Associate Prosecution Attorney positions to augment the existing pool of prosecutors. It will also continue the procurement of computer hardware and the second component of the ISSP, in preparation for the development of the Prosecution Case Monitoring System. Likewise, it will continue its active role in the efforts of the National Council on the Administration of Justice (NCAJ) in improving the criminal justice system.

The DOJ will continue to enhance skills and competence of PAO lawyers and staff through workshops and seminars in 2007. The DOJ and the PAO will continue to conduct regular trainings among barangay officials to educate them more on the Barangay Justice System. For a knowledgeable public service, the DOJ will continue the operation of the Regional DOJ Action Centers nationwide.

The Bucor will continue to repair and renovate different prison facilities and offices by establishing industrial shops inside the prison compounds. This initiative is in coordination with private vocational schools to facilitate skills training of inmates. Other activities include the construction of a new NBP Hospital to improve the medical and health services for the inmates and the employees as well, and expansion of inmates' dormitories to ease congestion. It will also focus on educational programs that will help inmates earn a living upon release and continue the improvement of prisoners' carpentas/prison records system. It will likewise strengthen security measures through intensive campaign against smuggling of contraband inside the prison compound, recruitment of more correctional guards, and installation of security gadgets to monitor entry of illegal drugs and other prohibited items inside the prison compound and other facilities.

Chapter 17

Education and Skills Development

The education sector's performance in 2006 can be characterized by stronger collaboration among stakeholders of basic education (i.e., private sector, civil society, NGOs and LGUs) and improved access to tertiary education. The achievements focused mainly on: (a) improving the learning outcomes; (b) reforming policies and systems; and (c) continuing the implementation of development programs, projects and activities in support of the Medium-Term Philippine Development Plan 2004-2010 and the Millennium Development Goals. The advances in education focused on the twin goals of universal coverage for school-aged children and the improvement of the quality of learning, including improvement of access for both basic (formal and alternative learning system) and tertiary education.

ASSESSMENT

EARLY CHILDHOOD AND BASIC EDUCATION

The sector aims to universalize the coverage of early childhood education and to standardize preschool and day care centers. There was thus continuous collaboration among concerned agencies, primarily among the members of the National Early Childhood Care and Development (ECCD) Council which include the Department of Education (DepEd), Department of Social Welfare and Development (DSWD) and the LGUs.

As of December 2006, ECCD coverage reached 77 provinces and 29 cities. In varying stages in the ECCD processes, a total of 56,000 day care children benefited from the Expanded Pre-School Education since its launching on June 8, 2005. Similarly, the DepEd's early childhood education, which covers 5-year old preschoolers, has reached a

total of 176,300 children through the DepEd Preschool Program and the Education Service Contracting Scheme which were accommodated in 7,052 organized classes.

In addition, following the adoption of the Basic Education Sector Reform Agenda (BESRA) in 2005, specific policy actions within the five Key Reform Thrusts (KRTs) of the BESRA were identified. This led to the formulation of ten policy papers.

The policy papers include those on Teacher Education and Development Program, the National Learning Strategies for the Filipino and English Languages, and the Framework and Standards for Promoting Effective School-Based Management. These present significant recommendations to address the goal of attaining the desired learning outcomes and prescribe new ways of doing business in basic education. For easy reference of the general public, these are currently being converted into handbook format.

The implementation of the needed reforms in basic education was assisted by the World Bank-funded National Program Support for Basic Education (NPSBE). The NPSBE, which was approved in October 2006, will finance existing budgetary items of DepEd within the four components of the program. These are: (a) strengthened school-based management; (b) improved teaching effectiveness; (c) enhanced quality and equity through standards, assessment and support; and (d) effective resource mobilization.

Furthermore, the Philippine Education For All (EFA) 2015 Plan was approved in 2006. Presently, this serves as the country's blueprint for basic education. It is a vision and holistic program of reforms aimed at improving the quality of basic education for every Filipino. Alongside this Plan is the development of a draft Sector M&E Framework that will monitor the progress towards the attainment of the EFA goals.

In terms of enrolment, the number stood at 19.25 million children for formal basic education in 2006. Two-thirds (12.91 million) of this represents elementary enrolment while about one-third (6.33 million) represents secondary enrolment. This figure is slightly higher than the 2005 figure by 0.38 percent (72,969 children).

An assessment of the situation points to poverty as the main cause of this lower-than-expected increase. This is further exacerbated by the high cost of schooling-related expenditures. High school students seeking employment to augment family income also contributed to the low increase in enrolment.

To ensure that there are enough places for students in the public schools, the government through the DepEd, in partnership with various government agencies and NGOs collectively provided a total of 14,724 classrooms nationwide through various sources such as the Regular School Building Program, ODA-assisted projects (TEEP, SEDIP, SEMP) and other school-building projects.

The number of classrooms constructed during the year is much beyond the yearly

target of 6,000 classrooms set in the MTPDP. Likewise, the continuing adoption of double-shift classes at 1:50 significantly contributed to the reduction in classroom backlogs from 17,873 in 2005 to 8,684 in 2006. This also provided for the decline of seats shortage from 3.9 million units to 2.24 million. Furthermore, DepEd undertook the repair and rehabilitation of schools affected by typhoons using funds from the School Building Program and its MOOE.

A complimentary program, the Government Assistance to Students and Teachers for Private Education (GASTPE) provided financial subsidy to students who could not be absorbed by the public schools. This program also helped decongest the public secondary schools. As of 2006, a total of 1,584 private high schools actively participated in GASTPE.

The GASTPE program now comes in two modes: the Education Service Contracting Scheme (ESCS) which began in the early 1990s and the Education Vouchers Scheme (EVS) which started only in 2005. As of 2006, the ESCS has benefited a total of 446,202 students. The number of ESCS slots provided during the year is higher than the yearly target of 50,000 students. On the other hand, the number of vouchers distributed under the EVS was 58,143, much lower than the target of 100,000 vouchers. This was attributed to the late implementation of this scheme and the lack of advocacy on the utilization of the vouchers. These vouchers were distributed to Grade 6 graduates whose schools are feeder-schools to overcrowded public high schools in their respective localities.

The provision of additional teacher positions was successfully carried out during the year. With the creation of 7,237 teacher items in 2006, teacher shortage declined from 20,874 in 2005 to 10,517 in 2006. Efforts to further enhance the teaching and learning practices in schools particularly in the areas of English, Science and Math were continuously undertaken. Under the National English Proficiency Program (NEPP), a total of 2,279 teachers were trained in 2006. In line with

the Joint DepEd-CHED Order No. 3, the DepEd engineered the Experiential Learning Courses (ELCs) as the core reforms of practice-oriented and school-based preservice curriculum. Due to legal problems, there was no textbook procurement in 2006, hence, the textbook-pupil ratio of 1:1 for the five subject areas (English, Science, Math, Filipino and Makabayan) was maintained except for English III and IV which had a ratio of 1:2.

The participation of the private sector continued to be strengthened in addressing the perennial problems of the public education system. With the relaunching of the Adopt-A-School Program in 2006, the number of active partners promoting basic education increased tremendously from 155 in 2005 to 763 in 2006. The total value of donations generated in 2006 reached PhP400 million, more than double the 2005 donations of PhP170 million.

The DepEd continuously implemented alternative modalities for delivering formal basic education services. This is in keeping with the goal of inclusive education and increasing the access of economically and socially disadvantaged groups to education services — especially those who have difficulties in attending the formal schools. The alternative delivery modes (ADM) implemented by the Department include the Distance Education for Public Elementary Schools, Multi-Grade Program for Open High School and Project EASE (Easy and Affordable Secondary Education) and the Modified In-School Off-School Approach (MISOSA). Likewise, DepEd continued the alternative learning system (ALS) through the Strong Republic School–Distance Learning (for children in areas with unstable peace and order conditions), Basic Literacy Program, Accreditation and Equivalency Program and Balik-Paaralan for Out-of-School Adults (BP-OSA). The last two programs are conducted through modular learning and mobile teachers or community-based instructional managers for children, youth and adults who are in difficult situations.

To improve the holding power of schools (school participation and retention), the Food For School Program (FSP) under the Accelerated Hunger Mitigation Plan (AHMP) was continuously implemented through the DepEd and its partner agencies (i.e., DOH, DSWD, NFA and LGUs). The program started during the last quarter of 2005. It is a form of food subsidy that provides a daily ration of 1 kilo of fortified rice to families through preschool and Grade 1 pupils. The program covered 6,304 public schools nationwide benefiting 111,584 preschool and Grade 1 children. It distributed a total of 25,338 bags of rice.

Likewise, health personnel were mobilized to engage in the Universal Medical and Dental Project for Grades 1 to 3 children. About 4.2 million pupils (70%) from Grades 1 to 3 were examined. They were either given immediate treatment or were provided with health cards to enable them to seek medical and dental assistance from qualified providers. Part of the project is to diagnose children reported to have either hearing or visual impairment.

The quality of formal basic education is far from the desired level based on the results of the National Achievement Test (NAT) scores of public school students in Grade 6 and 4th year high school in SY 2005-2006. On a per subject area basis, the scores expressed in mean percentage scores for Grade 6 are as follows: English - 54 percent; Math - 53.66 percent and Science - 46.77 percent. The scores are worse in high school: English - 47.73 percent; Math - 47.82 percent and Science - 37.98 percent. These results imply that the children learn only half of what they are supposed to learn through schooling.

To address these low student competency levels, the DepEd scaled up major programs and projects to reach out to more learners such as the Every Child A Reader Program (ECARP) which is designed to make every child an effective reader by Grade 3 (i.e., reading at their own level/pace and with comprehension). In support of the ECARP, a policy action was implemented by the DepEd

called the “no read, no move” policy. Here, only effective readers get promoted to Grade 4 and the best teachers in the schools were assigned to the first three grades. Parallel programs include the provision of adequate textbooks and reading materials for teachers and students, and the establishment of library hubs in selected divisions where nearby schools can loan hundreds of reading books. The adoption of ICT in basic education was continuously carried out through computer laboratories for use during computer-aided instructions. As of 2006, about 87 percent of public high schools (4,170) were provided with computers, 40 percent (1,930) with Internet connectivity while 15 percent (513) were linked with local area networks. Computerization of high schools represented a significant improvement from last year’s level of 73 percent.

The formulation of the standard curriculum for Madrasah Education was undertaken to make the education of Muslim students at par with their non-Muslim counterparts. Following this, massive training of madrasah teachers and mentors were conducted to familiarize them with this curriculum. Training of teachers and supervisors who will look after the program was also conducted. Furthermore, books for Islamic Education and Arabic Language teaching have been developed and pilot-tested in various parts of the country. The program is in partnership with recognized Muslim authorities and other government agencies and NGOs.

TECHNICAL VOCATIONAL AND TRAINING

The 1.74 million students recorded in 2006 is a modest increase from the previous year’s 1.68 million enrollees in technical vocational education and training (TVET) courses. Also, the number of graduates slightly decreased by 1.01 percent to 1.34 million students from the 1.35 million students who graduated in 2005.

A downward trend was likewise seen in the number of apprentices trained under the *Kasanayan sa Hanapbuhay* (KasH) or Apprenticeship Program and the Dual Training System (DTS). Only about 62,399 persons out of the targeted 100,000 apprentices were trained in 2006, from a total of 101,514 persons trained in 2005. The 2006 accomplishment was 37.6 percent short of the target and 38.53 percent lower than 2005’s record. Only about 472 apprentices were absorbed under the DTS program, as compared with the 2005 record of 1,243 apprentices. Both the KasH and DTS programs are enterprise-based training programs. They intend to provide the required basic skills and work experience to new entrants in the labor force, thereby increasing their chances for employment.

A total of 13,860 grants under the Private Education Students Financial Assistance (PESFA), and 4,952 scholarship slots under the Asian Development Bank-Technical Education and Skills Development Project (ADB-TESDP) were distributed nationwide benefiting financially-disadvantaged but deserving TVET students. The Jobs-Directed Scholarship (JDS) Program, a subcomponent of the TESDP Student Loan Fund, benefited a total of 1,279 students. Likewise, about 43 scholars were served under the *Iskolar ng Mahihirap na Pamilya* (IMP).

Another special scholarship program called PGMA Training for Work Scholarship Project (TWSP) yielded 22,355 graduates from the total of 33,517 enrollees. Interestingly, some 6,569 of those who graduated have already been gainfully employed. The PGMA-TWSP intends to provide skills and competencies to job seekers through training programs that are directly connected to existing jobs to gain immediate employment. Among the priority occupations catered by this program are: call center agents, medical transcriptionists, software developers, animators and welders.

The “Ladderized Interface Between TVET and Higher Education” provided by Executive Order (EO) 358 implemented in

2005 was further expanded to cover 181 partner tertiary education institutions. These institutions have adopted 293 ladderized programs in eight disciplines including: information technology; hotel and restaurant management/tourism; engineering; health; education; maritime; agriculture; and criminology. Moreover, out of the 9,560 enrollees, 4,264 students of the ladderized programs were given funding assistance. This was largely attributed to the increased collaborative efforts between the Technical Education and Skills Development Authority (TESDA) and the Commission on Higher Education (CHED), the lead agencies involved in institutionalizing equivalency pathways in the provision of manpower development.

There was an upsurge in the number of programs registered under the Unified TVET Registration and Accreditation System (UTPRAS). The figures increased from 1,672 programs in 2005 to about 3,496 institution-based programs and 107 enterprise-based programs in 2006. Similarly, the number of workers that has undergone competency assessment and certification was recorded at 237,546 persons in 2006. Of these, a total of 145,688 were certified across all occupations representing a 61.33 percent certificate rate. This is slightly greater than the 50 percent certificate rate recorded in 2005.

To further enhance TVET curricula and learning environment, 38 competency-based curriculum exemplars (out of the targeted 79 curriculum exemplars for 2006) and 20 learning materials (out of the targeted 24 learning materials for 2006) were developed.

To strengthen TVET governance, the existing four industry working groups (IWGs) were maintained. They continued to be active partners in competency standards development and planning for the development of required skills in their respective sectors. As a result, the National Sectoral Skills Plans were developed and

completed in the previous year. With these, handbooks on: (a) Competency-Based Curriculum; (b) Development of Competency Standards; and (c) Conducting Competency-Based Assessment were also developed to serve as reference manuals for TVET students and clientele.

The *Negosyong Pang-Agrikultura sa Eskwela* (Community-Based Enterprise Development) yielded a total of 42,260 persons that were trained in entrepreneurship development. To ensure active collaboration with TVET partners, three co-management schemes/arrangements were coordinated by the TESDA Training Centers Taguig Campus Enterprise (TTCTCE) in 2006.

To improve the provision of education and training, partnerships with TVET stakeholders (TESDA, industry, LGUs, students/trainees) in harnessing manpower skills and potentials must be maintained. The co-management of TESDA-administered training institutions with industries and LGUs should be continued in preparation for the eventual devolution of the agency's training functions to prospective partners.

HIGHER EDUCATION

The higher education subsector performed better compared with the preceding year. The total enrolment in higher education increased by 2.04 percent from 2.40 million in SY 2004-2005 to 2.45 million in SY 2005-2006. Enrolment in the private higher education institutions (HEIs) increased by 2.25 percent from 1.58 million to 1.62 million. Similarly, public HEIs posted a 1.62 percent increase in enrolment from 819,190 to 832,484 over the same period. Enrolment in identified priority disciplines¹ in higher education, especially in medical and allied courses, registered a two-percent increase from 1.53 million in SY 2003-2004 to 1.56 million in SY 2004-2005. The number of graduates also increased from 375,867 in SY 2003-2004 to 401,222 SY 2004-2005.

¹ Higher education priority disciplines for AY2005-2006 are Maritime Education, Information Technology, Agriculture and related fields, Teacher Education, Engineering and Health Sciences.

To widen the access of economically and socially disadvantaged groups to education and training, the government provided various scholarship and student financial assistance programs. Here, a total of 41,712 beneficiaries were served. This number is less than one percent (.68%) short of the 42,600 target beneficiaries for 2006, but is a significant improvement compared to the 33,180 beneficiaries last year. In addition, a total of 9,776 undergraduate (2,094 graduated this year), 365 MS and 212 PhD scholars in science and technology (S&T) were served through Science Education Institute (SEI) scholarship programs.

Other major programs intended to widen access to higher education include the Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP), the Ladderization Program (LP) and the Distance Education (DE). The ETEEAP, through its 88 deputized HEIs all over the country, has produced 501 graduates this year, reaching the total of 2,438 since its institutionalization in SY 1999-2000.

For LP, CHED issued the Policies, Standards and Guidelines (PSGs)² containing the procedures in granting authority to HEIs to operate ladderized programs. Similarly, PSGs (CMO No. 27, s. of 2005) for Distance Education (DE)³ were issued. It is currently being implemented through 17 HEIs. The PSGs aim to ensure that implementing institutions give equal attention to quality while allowing wider access to programs. CHED lodged under the Technical Panel for Distance Education the concerns on Transnational Education Arrangements for which PSGs and Centers of Excellence (COEs) selection instruments are still being drafted.

The subsector also continued to implement several programs towards quality improvement. Under the College Bridge Program (Pre-Baccalaureate Program),

modules and other training materials for English, Math and Science were developed and 63 pre-Baccalaureate teachers were trained. A total of 500 students were given financial assistance to undertake the pre-Bac programs.

In terms of knowledge development, a total of PhP13.5 million was allocated to support instruction and research capability building, networking, extension, and linkage activities of the Centers of Excellence/Centers of Development (COEs/CODs) for Agriculture. An additional 40 HEIs (18 CODs and 22 COEs) were identified for nine disciplines for science and mathematics programs. The Institutional Monitoring and Evaluation for Quality Assurance (IQuAME)⁴ documents (e.g., primer and self-evaluation documents for assessors and HEIs) were finalized based on the results of pilot monitoring of HEIs in 2005. Follow-up training and mobilization workshops in preparation for the actual monitoring and evaluation of HEIs were carried out at the regional level. The CHED aims to institutionalize the system through improvements based on the lessons learned from 2006 implementation.

In operationalizing Quality Assurance Mechanism through Accreditation, Benchmarking and Monitoring of HEIs, a total of 100 accreditors were trained under the Higher Education Development Project-Quality Assurance (HEDP-QA). Guidelines for funding assistance to HEIs for accreditation were also approved. With this, a total of 113 HEIs were given financial assistance for accreditation amounting to PhP13 million.

International benchmarking of B.S. in Electrical Engineering curriculum was undertaken in collaboration with the academe and industry partners. Parallel to this, benchmarked curricula for B.S. in Civil Engineering, B.S. in Electronics and Communications Engineering and B.S. in

² CMOs No. 35, 36, 37 and 38, series of 2006

³ DE is a mode of educational delivery whereby teacher and learner are separated in time and space, and instruction is delivered through specially designed materials and methods using appropriate technologies, and supported by organizational and administrative structures and arrangements.

⁴ The IQuAME looks into the effectiveness of the institution in its entirety, particularly, the development of institutional systems that ensure quality of HEIs' academic programs and services through institutional monitoring and evaluation.

Mechanical Engineering programs were already finalized with the incorporation of additional relevant courses.

There are also improvements in the graduate programs. Local and foreign networks were established to upgrade curricular contents of various fields and professions. Likewise, twinning programs/faculty exchanges were implemented and the Mutual and Recognition Agreement on Academic Degrees with the Ministry of Education of the People's Republic of China (PROC) was negotiated. Presently, CHED is awaiting a counterdraft from PROC prior to signing by heads of agencies.

For the College Faculty Development Program, CHED provided scholarships and financial assistance to college faculty members pursuing doctorate or masters degree programs in priority fields, namely: English, Mathematics, Natural Science, Social Sciences, Engineering, Information Technology/System and other CODs/COEs disciplines. A total of 513 program recipients were served under the Higher Education Development Project-Faculty Development Program with a total funding support of PhP145.73 million.

As an integral part of the rationalization effort and capacity building of state universities and colleges (SUCs), assistance and support were provided for the application and utilization of their matured technologies and Income-Generating Projects (IGPs). Financial assistance totaling PhP23.84 million was given to three selected SUCs with proven viable IGPs. CHED has also started the application of the Normative Financing (NF) formula to 50 percent of the SUCs' MOOE for 2006 budget. The NF uses cost-per-student as basis for allocations for SUCs to deliver quality programs.

Another major initiative is the restructuring of the existing SUCs into Regional University System (RUS). This has been jumpstarted in Region 11 with the involvement of all the four SUCs in the region. A total of PhP6 million was allocated for the implementation of their complementation programs. A draft bill was prepared for the

RUS Pilot Project in Region 11 with the planned integration/amalgamation of the four SUCs.

The integration of CHED-supervised Institutions (CSIs) to their host SUCs was also assessed in collaboration with heads of the concerned CSIs and host SUCs. This was done to identify implementation gaps and recommend policy options for improvement/enhancement in their overall management, governance and operational efficiency.

The Medium-Term Development Plan for Higher Education (MTDPHE) 2005-2010 was formulated through a series of multisectoral workshops and consultations involving both private and public HEIs and other stakeholders in higher education. The MTDPHE provides the development and policy directions and implementing framework for the realization of the vision and mission of higher education. It was already approved by the Commission en Banc (CEB), presented to the Social Development Committee and scheduled for printing in early 2007.

The Technology Commercialization Program (TECHCOM) is one of CHED's high-impact projects. This aims to strengthen the SUCs and HEIs to alleviate poverty, generate employment and increase food production. From the allocated budget of PhP50 million for 2006, PhP28.071 million was granted to 38 SUCs for technology transfer and commercialization.

The SUC-Local Government Unit (LGU) University Network with Local Government for Agricultural Development (UNLAD) was also introduced. Its objective is to empower the farmers and fisherfolks towards global competitiveness through the provision of technologies and relevant information.

In line with UNLAD and TECHCOM, CHED also launched other programs for the SUCs which include pump-priming projects such as Biofuel Research and Enterprise Development, Call Centers Establishments, Internet Cafes for Selected SUCs and Corporatization Project.

PROSPECTS AND POLICY DIRECTIONS FOR 2007

EARLY CHILDHOOD AND BASIC EDUCATION

Deliberate efforts to address the low probability of attaining the MDG goal of universal access to primary education shall be pursued. With the basic education sector reforms taking shape alongside the national government's commitment to prioritize public spending for basic education, a lot is seen to be accomplished in 2007. These should include the issuance of appropriate policy instruments that will support the implementation of the recommended sector reforms at various levels. Much will depend, however, on the present administration to pursue the implementation of such reforms.

The government will be more proactive and will invest more resources in getting all school-aged children into schools. This will be done initially through the household head count of school-aged children known as the "Basic Education Survey". This will ensure, among others, that no Filipino will be left out of the basic education system (preschool included), whether through the formal system — both public and private schools or through the alternative learning system. Moreover, there will be a review of the EVS under the GASTPE which will be undertaken with the end view of improving the voucher utilization.

The Technology and Livelihood Education (TLE) in high school will be strengthened to prepare high school leavers for the world of work. This will involve upgrading of facilities, capability building of teachers and enhancement of the curriculum. Likewise, the proposed tech-voc education program initiative of the DepEd will be harmonized with the Career Pathways program within the framework of the existing Revised Secondary Education Curriculum (RSEC).

TECHNICAL VOCATIONAL EDUCATION AND TRAINING

In preparation for the eventual devolution of TESDA's training functions to prospective partners, the government will continuously implement the comanagement of TESDA-administered training institutions with the private sector, LGUs and other TVET stakeholders. Likewise, in support of the proactive job-skills matching paradigm, the strengthening of convergence and procedural integration within the Department of Labor and Employment shall be pursued, especially in the exchange of information on overseas employment and local markets for in-demand occupations to immediately address manpower shortage and/or surplus.

All TVET programs offered by both public and private technical-vocational institutions shall be registered under the UTPRAS starting March 2007. Moreover, the enactment of the Enterprise-Based Education and Training Act will be pursued to integrate all enterprise-based trainings like on-the-job-training, apprenticeship, dual training system, and similar training modalities.

HIGHER EDUCATION

Clear-cut policies on Transnational Higher Education (THE) programs and entities operating in the Philippines, including those offered in the cyberspace, should be formulated. Scope and specific nature of government regulation on the basis of targeted market and clientele groups must be arranged with their principal overseas owners and proponents.

The restructuring of existing SUCs into Regional University Systems (RUS) as prescribed by various rationalization studies, including the Philippine Education Sector Study, will be actively pursued to improve the operational efficiency and economic rationality of the public higher education system. Stronger advocacy in Congress should also be done to elicit greater support. This is for faster replication of this initiative in other regions

and to widely spread the coverage of quality assured HEIs.

The provisions and rules governing all state-funded scholarship will be rationalized and systematized. For example, there are those based on merit and talent and those based on need. Moreover, the Normative Financing Formula will be applied in allocating 75 percent of MOOE budget for the SUCs.

Advocacy among Teacher Education Institutions (TEIs) to implement the new teacher Education Curriculum and the Experiential Learning Courses (ELC) will be accelerated and strategically conducted.

The government will ensure the participation in advocacy programs of the Philippine National Health Research System, through the DOST-PCHRD, and in the Finalization of the Proposed Philippine National Health Research System Bill.

Chapter 18

Science and Technology

In 2006, the science and technology (S&T) sector continued to accelerate knowledge creation and transfer, and promote technology-based entrepreneurship through various programs and activities. These notwithstanding, bold and well-funded initiatives are needed to spur economic growth and development. Thus, there is a need to increase the budget for S&T and education and encourage private investments in S&T, particularly research and development (R&D).

ASSESSMENT

The government, through the Department of Science and Technology (DOST), adopted an eight-point agenda in 2006 to focus and maximize its limited financial and human resources on the generation and diffusion of innovative knowledge and technologies, development of human resources of S&T, and the provision of S&T services. The eight action items in the Agenda cover: (a) priority R&D areas; (b) technology transfer; (c) high impact programs in the regions; (d) inventors assistance; (e) promotion of innovation; (f) development of innovative human resources; (g) facilities upgrade; and (h) policy development and advocacy.

KNOWLEDGE CREATION AND TRANSFER

The R&D and technology transfer activities in 2006 still focused on priority areas identified in 2005, specifically on biotechnology, information and communications technology (ICT), environment, alternative energy, and health/medical products.

Biotechnology emphasized on agriculture and health while ICT provided the

rural communities with wider access to information, better delivery of essential information on disaster mitigation, and ensured better performance of computer network for R&D applications.

On the other hand, studies on the environment covered water desalination, biosensors for environmental quality monitoring, microbial degradation of plastic and other municipal wastes, and clean production technologies, among others. Alternative energy activities and researches focused on alternative feedstock for biofuels, performance testing of fuel-saving devices/additives, alternatives to liquefied petroleum gas, and integrated R&D programs on *Jathropa* sp. Health-related activities were directed at vaccine development, cancer genetics, and herbal medicine.

To increase private sector participation in R&D, researches were contracted out to private firms. The cost of these researches carried out by DOST were cofinanced by private firms. A total of 47 researches were contracted during the first semester of 2006.

The human resources for S&T were developed to increase the number of qualified S&T/R&D personnel. The Specialized Science Secondary School Program of the

Philippine Science High School (PSHS) System benefited 2,916 students in 2006, which is higher by three percent from the number of awardees in 2005. This was attributed to the increasing PSHS campuses in the country that offer complete four-year levels such as the PSHS–Ilocos Campus. Another PSHS campus was constructed in Cebu, raising its total number of campuses to nine. On the other hand, DOST scholarship programs managed by the Science Education Institute (SEI) benefited 7,590 undergraduate, 26 masters and 48 doctorate degree students.

DOST continued providing S&T services to the public such as testing and calibration, disaster preparedness and hazard mitigation, and ICT-based services in 2006. A total of 8,283 small and medium enterprises (SMEs) availed of the agency's testing and calibration services. DOST also promoted S&T services by conducting 71 technology fairs and exhibits and 215 S&T fora. Attached agencies such as the Philippine Atmospheric Geophysical and Astronomical Services Administration (PAGASA) and the Philippine Institute for Volcanology and Seismology (PHIVOLCS) continued to provide timely and accurate information on weather and climate as well as earthquakes and volcanic events, respectively. A nationwide network of 58 weather stations, six volcano observatories and 59 seismic stations were operating in 2006.

The DOST-Philippine Research, Education and Government Information Network (PREGINET) project continued to provide ICT-based client services. The project served as a platform for R&D networking,

national grid computing, e-learning, and deploying innovative online services. Meanwhile, the Development Academy of the Philippines (DAP) also continued to carry out activities to maximize the country's ICT infrastructure especially in knowledge creation and dissemination. DAP developed electronic materials that can be readily accessed by faculty and students, and used to complement classroom learning activities and research work. These materials can also be used to develop online certificate courses that the Academy is developing. These courses which will be completed by 2007 focused on management research and analysis, preparatory economics, and preparatory finance.

TECHNOLOGY-BASED ENTREPRENEURSHIP

The DOST promoted technology-based entrepreneurship by implementing the following programs: (a) the Small Enterprise Technology Upgrading Program (SETUP), (b) the Techno-Gabay Program; and (c) the Technology Innovation for Commercialization (TECHNICOM) Program. SETUP aims to upgrade the productivity and innovative capacity of SMEs by providing S&T services like acquiring and upgrading the technology, packaging, labeling and developing of the products, identifying and developing product standards, technical consulting and training, and networking and linking assistance. In 2006, SETUP assisted 718 existing SMEs to acquire and upgrade their technologies. It also helped establish 105 new SMEs, generating

TABLE 18.1 SMALL ENTERPRISE TECHNOLOGY UPGRADING PROGRAM ACCOMPLISHMENTS (ACTUAL VERSUS TARGET)

PERFORMANCE INDICATOR	2005		2006	
	TARGET	ACTUAL	TARGET	ACTUAL
No. of existing firms assisted	715	727	601	718
No. of new firms established	58	66	85	105
Employment generated (man-month)	13,912	23,397	21,186	22,840

Source: Department of Science and Technology

22,840 man-months of job opportunities (Table 18.1). As in the previous year, SETUP's accomplishments exceeded its targets.

Meanwhile, the Techno-Gabay program intensified S&T applications in farming communities all over the country by establishing and maintaining Farmers' Information and Technology Services (FITS) centers, with the help of local government units (LGUs) and rural-based organizations. Under this program, the total number of FITS centers established reached 202 in 2006, as against 173 in 2005. The FITS centers provided computer-aided information and training services on farming technologies that have been successfully tested and showcased by selected farmer-scientists in local areas.

The TECHNICOM program, on the other hand, facilitated commercial application of technologies developed by the S&T community through technology verification, prototyping and pilot-testing; supporting the preparation of technology commercialization plans and patent applications; and technical training. Under the TECHNICOM program, business plans, feasibility studies and technology commercialization plans were completed. Technology commercialization activities in 2006 include fabrication of bamboo veneer lathe, locally-designed digital wood moisture meter, and multicrop processing machine. Fortified and pilot-scaled ready-to-drink tropical fruit and vegetable juice blends were prepared through aseptic processing and packaging. Electric-powered vehicles for urban mass transport in the Cavite Export Processing Zone were also developed.

The Knowledge Networking Towards Enterprising Agricultural Communities (K-AGRINET) program, a collaborative undertaking among the Philippine Council for Agriculture, Forestry and Natural Resources (PCARRD), Philippine Rice Research Institute (PhilRice), Department of Agrarian Reform (DAR), and DAP, continued to introduce ICT as a tool to access information, modern technologies and indigenous knowledge in the agriculture, forestry and natural resources sectors. In 2006, the program expanded its

services by launching, among others, the e-Consortia and the e-Farm. The e-Consortia, enhanced regional R&D by improving ICT resources of 14 regional consortia of PCARRD. On the other hand, the e-Farm organized a system allowing farmers to deliver their goods and deal with produce traders. The e-Farm is also the e-commerce portal of the FITS centers

The Department of Agriculture's *Ginintuang Masaganang Ani* Program for Fisheries continued to promote mariculture activities in the country. In 2006, the program established three new mariculture parks located in Aurora, Albay, and Davao del Norte, aside from the four mariculture parks established in 2005. The program also conducted 5,015 techno-demonstration projects, of which 731 projects were cofinanced by LGUs.

The Knowledge Emporium of the National Economic and Development Authority (NEDA) continued to promote better productivity in industry, farming communities, and among SMEs. This facility served as a one-stop web portal for sharing and exchanging productivity-enhancing technologies and experiences. As of 2006, a total of 552 documented best practices and technologies was posted in the Emporium.

POLICY DIRECTIONS FOR 2007

Even with the sector's efforts to enhance the country's competitiveness in S&T, there are still many gaps to be addressed. The country needs bold and well-funded R&D initiatives to strengthen the country's economy. Thus, the government should continuously increase the budget for S&T and education. Majority of the budget for S&T should be allocated for R&D and scholarships, considering sectoral priorities and the absorptive capacities of R&D institutions.

Moreover, S&T interventions of the DOST Eight-Point Agenda should be intensified. The field of specialization under the S&T scholarship programs should be reviewed to consider the current technology needs of Philippine industries. The proposed

rationalization of the existing structure of the DOST, merging all its sectoral councils into one, should be studied to strengthen coordination of S&T activities in the public sector and across the public and private sectors.

The University of the Philippines in Diliman should be developed as a science complex with a technology park to help promote and encourage investments in R&D. The proposal to allow R&D institutes as well as S&T service institutes to use part of their revenues to maintain or upgrade their facilities should also be considered.

Chapter 19

Culture

Social infrastructures in support of culture and development programs were strengthened in 2006. Activities were geared towards improved public and private sector partnership involving various national and local level government agencies and nongovernment organizations (NGOs). Advocacy support for the UN Millennium Development Goals (MDGs) also figured prominently in most of the major activities. While the meager budget allocated to culture agencies presented serious challenges in the implementation of programs, the active support of private sector partners contributed much in realizing many of the sectoral goals.

ASSESSMENT

Efforts in conserving the cultural heritage in different parts of the country were bolstered through the institutionalization of a Technical Assistance Program (TAP). Supported by the National Commission for Culture and the Arts (NCCA), TAP provided selected communities, schools, churches and other local level institutions with resources to conserve their heritage and to collaborate with conservation professionals on surveying, preserving and managing local monuments and sites. Its nationwide implementation resulted in 19 projects covering the conservation of heritage churches and light houses, establishment of libraries and archives, assessment of visual art collections, and conduct of basic museology trainings. In particular, the restoration of the pillars and baptistry of the San Vicente Ferrer Church in Dupax, Nueva Vizcaya, conservation of the ceiling and dome paintings of the San Juan Bautista Church in Jimenez, Misamis Occidental, and the documentation of the Torogan in Lanao were completed. However, while a more systematic government conservation program was put in place, the mishandling of a number of heritage

sites still persisted due to the lack of public awareness on proper and effective conservation practices.

Support for Schools of Living Traditions (SLTs) remained a priority in ensuring the transmission of important cultural traditions. Aside from sustaining three ongoing SLT projects, four new ones were initiated. Specifically, these SLTs located in various regions focused on: Mandaya musical instruments; Iranon loom weaving; Ilocano tambor and pito musical instruments; Kalanguya performing arts; Bago dances, songs, and musical instruments; Jama Mapun mat weaving; and Tikog weaving.

Coordinative and technical work on several proposed cultural policies and laws continued to be undertaken among the NCCA, the Office of the President (OP), the Senate and House of Representatives, and other concerned entities. These include the passage of the proposed Omnibus Cultural Heritage Law and the creation of a Philippine Cultural Heritage Conservation Council, which aim to protect our national cultural heritage by strengthening the conservation mandate of the NCCA and its affiliated cultural agencies and securing police power

for the Commission in deputizing local and national law enforcement agencies in implementing penalties to those who violate the country's cultural heritage. Other cultural policies to be formally approved are the UNESCO Covenant for the Protection and Promotion of Cultural Diversity and the Agreement between the Republic of the Philippines and the Holy See on the Cultural Heritage of the Church.

In support of cultural education, training and workshops on curriculum and instructional materials development for selected teachers were continued in partnership with NGOs. Activities to improve teaching techniques and approaches to the Makabayan subject and developing a better perspective on Filipino culture were held. Relatedly, the NCCA, in partnership with the Department of Education-Division of Ifugao and UNESCO, have so far organized 19 Hudhud SLTs in public elementary schools covering seven municipalities of Ifugao. This is part of the implementation of the three-year action plan to safeguard and promote the Hudhud Chants, which was proclaimed by UNESCO as one of the Masterpieces of the Oral and Intangible Heritage of Humanity.

Through the National Library network, some 300 public libraries and schools also benefited from the dissemination of more than 50,000 copies of publications and electronic materials on culture and arts. Since 2004, more than 100,000 books and other instructional materials out of the targeted 1.3 million for the medium term have already been distributed to public schools and libraries.

Technical assistance was also extended to various cultural communities to help them develop and eventually sustain their own cultural programs and projects. Implemented activities mainly involve community consultations and orientation seminar-workshops in different community clusters, namely, in Northern Cultural Communities (Bolinao, Bontoc/Northern Kankanaey, Bugkalot, Gaddang, Ibaloi/Southern Kankanaey, Ifugao, Isinay, Isnag, and Kalinga); Agta/Ayta Cultural Communities in Agusan/

Surigao, Antique, Bataan, Boracay, Guimaras, Iloilo, Negros Occidental, Pampanga, and Zambales; Muslim Cultural Communities (Iranon, Jama Mapun, Kaagan, Kolibugan, Maguindanao, Palawani/Molbog, Sama, Sama Bangingi, Sama Badjao, Sangir, Tausug and Yakan); Southern Cultural Communities (Manobo/Dibabawon, Arumanen, Bagobo, B'laan, Bukidnon/Higaonon/Talaandig, Matigsalog, and T'boli); and Kapatagan Cultural Communities in Bicol, Northern and Western Mindanao, Southern Tagalog, Tarlac/Pampanga/Zambales, and Western Visayas.

To heighten critical awareness and pave the way for the appropriate policy response on issues of cultural rights, a National Indigenous Peoples Congress (with the theme, "Appropriating Indigenous Cultures in the Philippines: Festivals and Other Spectacles") was convened in October in celebration of the Indigenous Peoples (IP) Month. It was held to promote the integrity of cultural symbols and meanings of tangible and intangible traditions of IPs. It was attended by cultural workers, academics and scholars, media practitioners, artists, and IP representatives, providing a forum for productive interactions, review and assessment of the various modes of appreciation of indigenous cultural materials. Significantly, the Congress paved the way for the formulation of policies on the various modes of appropriation and on the protection and promotion of the 110 recognized traditional communities in the country, which currently accounts for more than 12 million of the Philippine population. One of the most important policy recommendations of the Congress is the need to clarify and evaluate the NCCA and the National Commission for Indigenous Peoples' (NCIP) role and accountability when it comes to cultural rights, particularly in the area of policy formulation and rights protection.

Recognizing the huge potential of cultural resources in promoting good governance, 31 local governments, including private sector representatives and institutions, were assisted by the NCCA in implementing culture and arts planning workshops,

awareness seminars, and cultural mapping. As part of the government's advocacy on the UN Millennium Development Goals (MDGs), the League of Municipalities of the Philippines (LMP) in cooperation with the NCCA and the United Nations Development Program (UNDP) mounted the Longest Mural on the UN MDGs. The mural was showcased during the UNESCO-International Theater Institute World Congress and Theater Olympics, which was hosted by the Philippines this year. It had the mobilization of cultural diversity for the attainment of the UN MDGs as thematic focus.

Activities to promote greater public access to the arts and artistic expression were sustained under the *Sining Panglahat* outreach program, which seeks to provide artists and performing groups with opportunities to present their work before regional audiences and encourage the participation of the wider public, particularly the less-privileged. For this year, about 25 outreach activities were implemented benefiting some 20,000 people. A number of projects, such as the Cultural Caregiving activities, were also utilized to advocate important development issues such as poverty alleviation, peace-building, cultural rights, and the UN MDGs. In the area of artistic excellence, seven individuals in the field of visual arts (Benedicto "Bencab" Cabrera), sculpture (Abdulmari Asia Imao), literature (Bienvenido Lumbera), film (Fernando Poe, Jr.), dance (Ramon Obusan), architecture (Idelfonso Santos, Jr.), and fashion design (Ramon Valera) were conferred the *Orden ng Pambansang Alagad ng Sining* (Order of the National Artist) in recognition of their significant contributions in the development of Philippine arts. To promote and sustain the works of national artists (NA), a comprehensive program of assistance was implemented to encourage them to create new works and/or promote and restage their existing works. This year, support was given to NA Virgilio Almario (for the publication of two books of poetry), NA Eddie Romero (for the post-production of a film), and NA Salvador Bernal (for the preparation of a book on his theater designs).

The growth of the so-called "creative industries" was pursued by promoting appreciation for traditional arts and crafts and establishing venues to bridge the gap between the makers and the market. In line with this, for example, the NCCA established active partnerships with the known Filipino handicrafts store Tesoro's on the marketing and sale of the products of the *Gawad sa Manlilikha ng Bayan* (GAMABA) awardees, particularly woven textile products, mats, silvercrafts and other traditional crafts from their communities.

PROSPECTS AND POLICY DIRECTIONS FOR 2007

Culture programs and projects should continue to be rationalized, prioritizing those that produce greater benefits and impact. With regard to the overall efforts in mainstreaming culture considerations in development and governance, there is a need to refine current strategies to reach out to more agencies and surface the relevant cultural issues in the different sectors. The processing and subsequent implementation of the policy recommendations of the 2006 National IP Congress should be prioritized.

Alongside efforts to finally pass the proposed Omnibus Cultural Heritage Law, the promotion of sustainable heritage conservation approaches should be more actively promoted. Particular attention should be given in building-up the local communities' capability in conserving and preserving their cultural resources. This entails a more conscious effort in transferring expertise and knowledge of sound conservation principles to those involved in the actual management of sites and other forms of heritage. This will not only make the process of conservation more efficient but also minimize the incidence of mishandling and application of inappropriate interventions, which pose a serious threat to the integrity of heritage resources and add to the cost of conservation.

Improving cultural education - across formal, nonformal, and informal channels - forms part of the delivery of quality education. This should be advocated to a wider audience of educators and policy makers in consonance with the growing clamor for education reforms. While interventions in this area are presently being implemented, these should be constantly assessed in terms of impact and responsiveness to the actual needs of educators and learners alike. These should also be taken into consideration in the implementation in 2007 of the Philippine Cultural Education Plan (PCEP).

Much economic benefit can be gained from the development of creative industries and tourism in heritage sites and special local events (not to mention its value as an informal means of education). However, emerging issues on commoditization and ethics - which basically involve addressing the tensions between economic profit and protecting cultural rights and the integrity of cultural heritage - should be recognized. As these activities are pursued in collaboration with industry, trade, and tourism agencies, concerned culture agencies should take the lead in ensuring that the said issues are sufficiently addressed.

Chapter 20

Anti-Corruption

The execution of key punitive anticorruption measures was sustained through continued collaboration with civil society organizations (CSOs) in 2006. Memoranda of Agreements (MOAs) were also signed between target government agencies to amplify the impact of these measures. These MOAs aim to increase the number of reports of violations of higher-level officials. More services were also implemented and made available through the Internet. These measures contributed significantly in speeding up public transactions and minimizing opportunities for corrupt practices.

The Senate concurrence with the ratification of the UN Convention Against Corruption (UNCAC) in November 2006 represented the government's efforts in complying with international standards in curbing corruption. Key government agencies also continued providing resource materials to the media and the academe in the promotion of the anticorruption agenda. However, more CSOs must be involved in the information dissemination campaign of the agencies tasked to handle programs on anticorruption.

On the other hand, alternative measures must be undertaken to address the low level of compliance of government agencies in setting up electronic systems such as the Government Electronic Procurement System (GEPS) and the New Government Accounting System (NGAS). Moreover, IT profiles of the participating government agencies, pertaining to hardware and software requirements, must be reviewed thoroughly so that necessary adjustments can be made to increase the level of compliance.

ASSESSMENT

IMPLEMENT PUNITIVE ANTI-CORRUPTION MEASURES

Expand and institutionalize lifestyle checks in government

The Presidential Anti-Graft Commission (PAGC) continued programs and initiatives against corruption in terms of resolution of cases; solicitation of the participation of CSOs; capability building; and maintenance of the database of Statement of Assets and Liabilities (SALN), personal data sheet (PDS) and appointment papers of presidential appointees. By the end of 2006, the PAGC was able to compile the SALN, PDS and appointment papers of 3,762 presidential appointees from 92 government offices. The availability of this information contributed positively in the processing of complaints or requests for lifestyle checks (LSC). The PAGC, moreover, resolved and forwarded a total of 92 cases to the Office of the President (OP) for final resolution. These cases consisted

of 64 regular cases, 12 cases related to LSCs, and 16 regular cases with LSCs.

To expand the lifestyle check efforts of the government, the PAGC also entered into agreements with two CSOs, namely: the Volunteers Against Graft and Corruption (VAGC) and the Fellowship of Christians in Government (FOCIG), for their participation in the conduct of LSC. PAGC investigators, meanwhile, participated in a training course on the use and customization of software for detecting fraud and corruption in procurement contracts.

Showcase BIR and BOC in the fight against graft and corruption

The Bureau of Internal Revenue (BIR) introduced new services available through the Internet. The BIR's e-services include an interfacing support system, the Electronic Filing and Payment System (eFPS), that allows participating government agencies to file BIR Form 1600 via the Internet. A total of 259 local government units (LGUs) availed of this service. The e-TIN was also introduced to enable taxpayers to inquire about their tax identification number (TIN) as well as provide online registration to professionals. A facility for filing complaints was also introduced by the BIR through the e-Complaint system.

In 2006, formal charges were filed against 84 BIR personnel as against 46 charges filed in 2005. Eighteen of these cases were graft-related while 66 were nongraft-related. For the Bureau of Customs (BOC), 13 LSC cases and one plunder case were filed during the period of January 2001 to December 2006.

The Interim Internal Control Office (IICO), created in 2005, continued to conduct personnel and financial audit in various offices under the Office of the BOC Commissioner and 14 ports of entry. As a result, audit findings identifying violations in rules and regulations were issued. As of December 2006, 10 ports submitted reports of compliance and justification, and will be subjected to further validation in 2007. These internal control

functions will be integrated into the Planning and Management Systems Control Office, proposed for upgrading in the BOC's Rationalization Plan (RP). The IICO will continue to function as created, pending approval of the RP.

Create an Anti-Corruption Body in the nature of ICAC and emulate its best practices

The PAGC continues to adopt the three-pronged approach of Hong Kong's Independent Commission Against Corruption (ICAC) in its mandate. Three Executive Orders (EO) were signed in 2006 to strengthen the capacity of the PAGC. EO 531 dated May 31 2006, aims to strengthen the PAGC and expand its mandate to include: (a) EO 292 (Instituting the Administrative Code of 1987) as one of the laws within its jurisdiction; (b) filing of appropriate criminal complaints to the Office of the Ombudsman (OMB) or the Department of Justice; (c) oversight functions over the implementation of integrity development and enhancement plans of the entire bureaucracy; (d) development and conduct of public awareness and information campaign; and (e) recommendation for the issuance and adoption of appropriate policies that would strengthen anticorruption efforts and hasten the arrest/prosecution of corrupt officials. EO 531-A dated August 23, 2006, authorizes the PAGC to move for reconsideration in accordance with established rules regarding quasi-judicial bodies. Lastly, EO 531-B, dated December 23, 2006, authorizes the PAGC to investigate presidential appointees in the Armed Forces of the Philippines (AFP) and Philippine National Police (PNP) upon the order of the President.

Support the SOLANA Covenant

The Civil Service Commission (CSC), the Commission on Audit (COA) and the OMB renewed their commitment to anticorruption efforts through the signing of

the SOLANA Covenant II on July 15, 2005. This renewed commitment was reflected in the decrease in malversation cases filed against erring government personnel. In 2006, COA filed 20 malversation cases involving PhP65 million with the OMB as against 57 malversation cases filed in 2005, involving PhP116 million. The COA also issued a total of 323 notices for disallowances amounting to PhP150 million, suspensions amounting to PhP189 million as well as charges of PhP111 million. The COA also continued monitoring the liquidation of PhP7.3 billion or 62 percent of the PhP11.69 billion total of the prior year's cash advances. On the other hand, PhP19.77 billion or 83 percent of the PhP23.77 billion total cash advances granted for 2006 were also monitored.

Comply with international standards in fighting corruption

One of the targets of the MTPDP 2004-2010 is the immediate ratification of the UN Convention Against Corruption (UNCAC). The Senate concurred with the ratification of the UNCAC through Senate Resolution 108 on November 6, 2006. The highlight of the UNCAC provision is institutionalizing asset recovery as a new method in defeating corruption.

IMPLEMENT PREVENTIVE ANTI-CORRUPTION MEASURES

Strengthen the integrity infrastructure of public sector institutions

The World Bank (WB) grant for "Strengthening of Internal Audit Units (IAUs) for Effective Procurement Monitoring and Enforcement" was signed in June 2005. The first phase of this project, the "Survey of Internal Audit Activities in Government Agencies" was completed in 2006. The survey aims to gather information on the current state of internal audit and its related services in government agencies.

Meanwhile, the Integrity Development Review (IDR) was continued

through the joint efforts of the PAGC, Development Academy of the Philippines (DAP), COA, the Department of Budget and Management (DBM), and CSC. In 2006, the IDR was conducted in five agencies, namely: the BOC, BIR, Department of Public Works and Highways (DPWH), PNP, and the Land Transportation Office (LTO). Moreover, 60 IDR assessors were trained during the implementation of the IDR. These reviews were made possible through the European Commission-Office of the Ombudsman "Corruption Prevention Project". The Integrity Development Action Plan (IDAP) was also continuously implemented. The IDAP prescribes 22 anticorruption measures for prevention, education, investigation and strategic partnership. By the end of 2006, a total of 119 agencies, including attached agencies and regional offices, started the implementation of the IDAP, as against the 41 agencies that have implemented the IDAP in 2005.

To promote the participation of the public in the government's anticorruption efforts, the PAGC updated its website to accommodate complaints sent through e-mail. As a result, PAGC received a total of 52 e-mails composed of complaints, inquiries, requests and other matters that need to be addressed by PAGC. Ten of the complaints received through e-mail became full-blown cases and are currently under investigation.

The COA, on the other hand, formally adopted the use of the Risk-Based Financial Audit (RBFA) through COA Resolution. 2006-003. The development of its manual and template was completed in 2006, as well as the conduct of the training for 4,215 auditors. These participants represented about 83 percent of the entire core audit personnel of the national and corporate sectors. The RBFA focuses audit time and resources on more delicate and risk-prone areas and activities of an agency. It also focuses on raising the quality of the COA audit service and be at par with international standards.

Fully implement the Government Procurement Reform Act

The new version of the Government Electronic Procurement System (GEPS) was launched on November 25, 2006. Version 1.1 of the GEPS offers enhanced functions to support a more efficient, convenient and transparent procurement process. As of December 31, 2006, the extent of GEPS participation are as follows: 83.97 percent of national government agencies (NGAs); 92.31 percent of state colleges and universities (SUCs); 51.11 percent of government-owned-and-controlled corporations (GOCCs); and 5.5 percent of local government units (LGUs). Lack of participation from other agencies can be attributed to nonregistration into the system and lack of Internet connection.

The Planning, Monitoring and Evaluation System (PMES) for procurement was also modified into the Government Procurement Policy Board-Online Monitoring and Evaluation System (GPPB-OMES). As a monitoring tool, the OMES will provide immediate feedback to the GPPB on reform impact. It will also provide signals where an agency may require technical assistance. The GPPB-OMES was launched on November 15, 2006.

Collaborations with CSOs, to enable them to acquire training in monitoring the procurement process, were sustained. The DBM contracted the Procurement Watch Inc. (PWI) on February 28, 2005 to develop a Standard Training Module (STM) on procurement, anchored on the provisions of the Government Procurement Reform Act. This STM will be used in the Training of Trainers to be conducted by the PWI. Eight regional trainings were conducted, two each in Luzon, Visayas, Mindanao and NCR. The trainings were conducted to sustain the expansion and capacity building of a pool of competent Bids and Awards Committee (BAC) observers.

In December 2006, a five-year grant from the WB was approved for the conduct of the "Professionalization Program for Public

Procurement Practitioners". The GPPB is tasked to tap the technical expertise of a local academic institution in drafting a module for a standardized certification course on procurement. This certification course is intended for the procurement personnel of the government.

To ensure cost-efficient design of projects and monitoring of project costs, a value-engineering manual was published by the GPPB. The GPPB accredited 13 SUCs to conduct the trainings for this manual, beginning April 2006. Meanwhile, recommendations to address the variances of cost and estimates for major infrastructure projects were discussed during the Country Procurement Assessment Report (CPAR) Second Update Mission. Technical assistance from the WB was proposed to improve the skills as well as train engineers in estimating bid prices for these projects.

Implement the New Government Accounting System (NGAS) to strengthen public financial accountability

The installation of the e-NGAS fell short of the 2006 target. Installation in 51 agencies or only 6.4 percent of the 797 target agencies is still ongoing. The low level of compliance is largely due to hardware incompatibility and difficulty in the purchase of licensed software. However, the deployment of trained personnel as part of the e-NGAS roll-out teams exceeded its 2006 target by 71 percent. The COA deployed 224 trained personnel as part of the e-NGAS roll-out teams as against the 160 personnel targeted for deployment. A total of 15 classes were also conducted on the e-NGAS for COA and non-COA personnel while 136 interagency classes were conducted for more than 8,000 non-COA participants. The COA also began developing accounting-related operating systems, namely, the operating systems for Cash Receipts, Cash Disbursements and Non-Cash operations. A simplified Payroll System was also pilot tested at COA.

Improve frontline services to simplify and speed up agency processes

The DBM drafted an EO directing all government agencies and GOCCs to establish Quality Management Systems (QMS) applicable to the Philippines, and certifiable with the ISO 9001:2000. As of January 2007, the draft EO was endorsed to the OP. The LGUs and SUCs are also encouraged to establish ISO-QMS and to be certified accordingly. The Legislature, Judiciary, and the Constitutional Offices are also encouraged to develop ISO-QMS and to pursue certification. The QMS is expected to contribute positively in the effective execution of frontline services for the public.

The BIR, on the other hand, established a system that will allow automated monitoring of manually issued Letters of Authority (LA), as well as Letter Notices (LN) generated by the current BIR Reconciliation of Listings for Enforcement (RELIEF) System and the Third Party Matching (TPM) BOC Data Program. This system will benefit all Revenue District Offices (RDOs), whether computerized and noncomputerized, by providing them access to a central repository of records of LAs and LNs via the Internet. As of December 2006, a total of 3,014 LNs were included in the Information Delivery Portal of the system.

PROMOTE ZERO TOLERANCE FOR CORRUPTION

Conduct Ethics Compliance, Awareness Raising and Values Formation Seminars in Public Institutions

The PAGC acted as a coordinative and support body of the Presidential Council on Values Formation (PCVF). It introduced the PCVF to various agencies also involved in ethics compliance and values formation. The PAGC also assisted the PCVF in drafting project proposals for the PhP1-billion anticorruption fund from the OP. The Career Executive

Service Board (CESB), in turn, conducted 19 Executive Leadership and Career Executive Service (CES) Learning and Nurturing Programs for 603 CES officials. More CES officials participated in these learning programs, as reflected in the 215 officials who participated in the programs in 2005.

Funds from the European Commission (EC) enabled the OMB to develop its anticorruption communication plan. The funds from this Project were used to, among others, develop and air three episodes of the Integrity TV show, as well as conduct essay and song competitions with anticorruption as theme. Moreover, five issues of Integrity newsletters were disseminated, and teaching modules on corruption prevention for elementary and high school students were also developed and printed.

Expand Multisector Alliance to Promote Zero Tolerance

The PAGC conducted briefings, provided resource materials, and participated as resource speaker in various conferences, meetings and media interviews with CSOs, government agencies, associations and academic institutions, to sustain awareness and promote the advocacy against corruption. The PAGC also organized 26 briefings for these sectors across the country, while its Chairperson served as resource speaker for 86 conferences and various interviews with the media.

More collaboration between government agencies and CSOs were also undertaken. The FOCIG set up a Tax Service Desk in their Quezon City Office to answer queries of taxpayers regarding tax payments. A MOA was also signed between FOCIG and BIR Revenue Office Region 7 to enable FOCIG to assist in their information dissemination campaign. The FOCIG also collaborated with the PCVF for the conduct of the “Purpose-Driven Life” Seminars for various government personnel wherein 75 civilian personnel and 53 internal auditors of the AFP participated in these seminars. The

Transparency and Accountability Network (TAN) also collaborated with the OMB and the PAGC for the development of a Lifestyle Check Manual for CSOs. The manual will facilitate the involvement of CSOs in the LSC program of the government. It is also intended to translate the government's existing lifestyle check tools into layman's terms.

PROSPECTS AND POLICY DIRECTIONS FOR 2007

The COA will continue to work on the migration of e-NGAS to a multiplatform set up to be able to cater to all agencies, regardless of their IT platform. In this scheme, software-licensing costs will no longer be a burden to the agencies. The COA will also continue the promulgation of the Philippine Government Accounting Standards (PGAS) to ensure transparency and comparability of information in financial statements. The COA will likewise continue the use of the Government-Wide and Sectoral Performance Audits (GWASPA). Government-wide audit is the simultaneous examination of a management function, activity or programs in a number of government agencies. On the other hand, sectoral audit refers to an audit of programs or activities that are delivered by more than one government agency and is expected to provide an overall picture of how

various segments of a program are implemented and possibly lead to the identification of areas where improvements can be introduced.

The Career Executive Service Board (CESB), in turn, will continue with the implementation of the Career Executive Officer Examination, in coordination with the CSC. The CESB is also in the process of finalizing the Senior Executives Development Program, and will target its implementation in 2007.

The PAGC, representing the government's efforts to widen the impact of anticorruption measures, will forge partnerships with the Anti-Money Laundering Council (AMLC), National Bureau of Investigation (NBI), and the PNP-Criminal Investigation and Detection Group (CIDG). The PAGC will likewise develop and pilot test an anticorruption scorecard to facilitate a more effective monitoring of the anticorruption efforts of government agencies. The implementation of the PAGC-WB Project on Strengthening of Internal Audit Units (IAU) for Effective Procurement Monitoring and Enforcement will continue. Moreover, PAGC targets to complete the following project components: (a) quality assessment of IAU functions in selected agencies and development of a Quality Assurance Program for IAUs; (b) development of an Internal Audit manual; and (c) development of a National Training Program and Certification for Internal Auditors.

Chapter 21

Bureaucratic Reforms

The government continued to implement reforms towards a more effective, ethical and accountable bureaucracy. Most of these reforms were set to be achieved by 2005 but targets were not attained, even in 2006. The reforms have yet to be fully completed or mainstreamed in the bureaucracy. Some of the reforms are ongoing, while others are still being developed or legislated. To achieve the intended impact of these reforms within the medium term, the government needs to accelerate the implementation of these reforms in 2007.

ASSESSMENT

PURSUING THE PROGRAM ON RATIONALIZING AND IMPROVING PUBLIC SERVICE DELIVERY

Implement Executive Order (EO) 366

The Medium-Term Philippine Development Plan (MTPDP) 2004-2010 targets to: (a) conduct the strategic review of the operations and organizations of the Executive Branch; (b) implement impact mitigation measures for affected personnel; and (c) develop capability-building programs for

retained personnel in 2005. These targets were not completed in 2005, but were continued in 2006.

In 2005, only 25 organizations or 22 percent of the 112 target organizations have completed their strategic review and submitted their rationalization plans (RPs) to the Department of Budget and Management (DBM). As of December 31, 2006, the number increased to 78 organizations or 70 percent of the target. Out of the 78 RPs submitted, 12 have been approved, nine were returned for revision, and 57 were being evaluated by the DBM. However, a total of 34 organizations have yet to submit their RPs, 85 percent of which are government-owned or controlled corporations (GOCCs) (Table 21.1).

TABLE 21.1 STATUS OF SUBMISSION AND EVALUATION OF RATIONALIZATION PLANS
As of December 31, 2006

	No. of Organizations	No. of RPs Approved by the DBM	No. of RPs Returned for Revision	No. of RPs being Evaluated	No. of RPs not yet Submitted
Departments	21	2	1	15	3
Other Executive Offices (OEOs)	29	5	1	21	2
GOCCs	62	5	7	21	29
Total	112	12	9	57	34

Source: DBM

To mitigate the impact of EO 366 on government personnel, the government focused on the following measures: (a) provision of timely and adequate retirement/separation benefits; (b) facilitation of placement of personnel who opted to remain in government service; and (c) implementation of the Skills/Livelihood and Investment Program (SLIP).

To facilitate the release of benefits to affected personnel, the DBM and Civil Service Commission (CSC) forged agreements with the Government Service Insurance System (GSIS) and Home Development Mutual Fund (HDMF). They also enjoined government entities to reconcile with GSIS the records of the affected personnel, and to inform the latter of the procedures for claiming the benefits.

To facilitate the placement of affected personnel, the CSC provided the necessary guidelines while the DBM posted on its website the list of agencies and corresponding vacant positions that may be filled up through the placement mechanism. The interagency SLIP Team, on the other hand, assisted selected Change Management Team (CMT) members, Human Resource Development Officers and affected personnel through livelihood, credit, investment, job facilitation and counseling programs.

For retained personnel, the CSC continued to conduct its regular trainings such as civil service induction and orientation; values development; skills development for supervisory, middle management and clerical levels; and distance learning program.

Implement the Organizational Performance Indicators Framework (OPIF)

The MTPDP aims to implement the OPIF-based budget and personnel performance management system (PMS) in 2005. By 2006, the government was still rolling out these reforms to selected government organizations.

The DBM expanded the development of OPIF-based budget from 13 pilot

organizations in 2005 to 20 organizations in 2006. These organizations include the Departments of Agrarian Reform (DAR), Agriculture (DA), Budget and Management (DBM), Education (DepEd), Energy (DOE), Environment and Natural Resources (DENR), Finance (DOF), Foreign Affairs (DFA), Health (DOH), Interior and Local Government (DILG), Justice (DOJ), Labor and Employment (DOLE), National Defense (DND), Public Works and Highways (DPWH), Science and Technology (DOST), Social Welfare and Development (DSWD), Tourism (DOT), Trade and Industry (DTI), and the National Economic and Development Authority (NEDA). The OPIF-based 2007 budgets of these organizations were presented to Congress.

After the pilot test among its personnel in 2005, the CSC rolled out the PMS to 12 organizations in 2006. These organizations were Bangko Sentral ng Pilipinas (BSP), Career Executive Service Board (CESB), DAR, DENR/National Mapping Resource and Information Authority (NAMRIA), DOE, DOST, DOTC, Land Transportation Office (LTO), Land Transportation Franchising and Regulatory Board (LTFRB), NEDA, National Statistics Office (NSO), and Power Sector Assets and Liabilities Management Corporation (PSALM).

Rationalize the pay of government workers

The target in the MTPDP is to rationalize the compensation of government workers by 2005. In 2006, this was filed as a legislative proposal. Congress adopted the revised position classification and compensation system based on the CSC and DBM studies in 2005. To rationalize position classification, enhance performance orientation, and develop an affordable classification and compensation system, House Bill (HB) 5918 and Senate Bill (SB) 2495 and 2496, entitled "Government Classification and Compensation Act of 2006", were filed in both Houses of Congress on November 2006. A Technical Working Group (TWG) formed by the House

Committee on Appropriations is still studying and refining these bills.

Passing the Reengineering Bill

The target set in the MTPDP is for the passage of a more comprehensive Reengineering Bill to reform the bureaucracy and public service delivery. In 2006, this was still being legislated. The House Committee on Government Reorganization approved the consolidated Reengineering Bill on January 25, 2006, subject to an amendment to the composition of the proposed Commission on Government Reengineering. The proposed body will formulate the reengineering plans of agencies and sectors, which would then be reviewed by the President for approval and implementation. The House Committee on Appropriations is still deliberating on the bill.

Improving the governance of GOCCs/ Other Government Corporate Entities (OGCEs)

By 2005, the government should have issued an EO strengthening the oversight of Departments over government-owned-and-controlled corporations (GOCCs) and should have also rationalized the compensation of GOCCs and government financial institutions (GFIs). However, these targets were not achieved even in 2006.

The DBM and DOF drafted an EO that would strengthen the overall supervision of the Office of the President (OP), and the operational responsibility of the Departments/agencies, over GOCCs and other government corporate entities (OGCEs). However, this EO has not yet been issued. On the other hand, the legislative measures that would rationalize the compensation of GOCCs/GFIs are still pending in Congress.

Ongoing proposals include the “Government Classification and Compensation Act of 2006” that will standardize the compensation of all government officials and employees, including those in GOCCs/GFIs.

The proposed “Fiscal Responsibility Bill”, on the other hand, will provide for a cap on the total personnel expenditures of each GOCC, as a percentage of its net operating revenue (*See Chapter 7, Fiscal Strength*).

Improving the Level of Professionalism, Meritocracy, Accountability and Competence in the Civil Service

Develop and implement a market-driven and performance-based government compensation and incentive framework

Aside from rationalizing the government classification and compensation system to correct the distortions and inequities in the current system, the MTPDP also intends to rationalize existing retirement benefits and laws by 2006. So far, the DBM has reviewed the legal and regulatory framework of existing retirement and pension laws.

Improve merit-based recruitment, performance evaluation and promotion

The MTPDP targets to implement the Ethics-Based Assessment Test and the Human Resource Information System Strategic Plan (HRISSP) by 2005. Both reforms were still at the development stage in 2006.

After pilot-testing the Ethics-Oriented Personality Test (EOPT) within CSC in 2005, the CSC also tested the EOPT in other organizations such as BJMP, DENR, SSS, DBP, BSP and the City Government of Marikina in 2006.

The HRISSP aims to develop the Civil Service Personnel Information Database System (CSC-PIDS) as well as the Government-Wide Human Resource Management Information System (GRHMIS). The CSC continued to develop both systems in 2006.

Strengthen the civil service legal framework through the updating of the Civil Service Code

The proposed Civil Service Code of the Philippines that include HB 0798 and 0081 and SB 1045 and 1142, are still pending in Congress.

Strengthen the civil service policy oversight and implementation

The MTPDP targets to conduct capability-building programs for human resource management officers (HRMOs) in 2005. By 2006, the CSC was still revising the Competency-Based Training 1 (CBT1) for HRMOs, after its pilot testing in 2005.

Push for reforms that aim to strengthen the career executive service

The target in the MTPDP is the passage of HB 3687 and SB 1889, establishing the career executive system by 2005. However, these bills are still pending in both Houses of Congress. Meanwhile, to strengthen the career executive service, the government implemented other measures such as: issuance of (a) CESB Resolution 619 (“Omnibus Resolution Expressing Grave Concern on Personnel Actions in Violation of CESB and CSC Laws, Rules and Regulations”); and (b) CESB Resolution 640 (“Rules on Reassignment and Transfer of Career Executive Service Officers or CESOs who are Presidential Appointees Occupying Career Executive Service or CES Positions”), in light of personnel actions that were deemed inconsistent with civil service policies.

The CSC and the CESB drafted the guidelines for the implementation of the unified third level examination, which aims to attain efficiency, effectiveness and uniformity in the administration of third level examinations and grant of eligibility.

The CESB also continued to pursue the Third Level Champions (TLC) Program, that aims to actively involve CESOs and third level eligibles in meeting the CESB’s mandate

and addressing common issues affecting them. This Program was pilot tested in 15 departments.

The CESB also conducted the 2006 Search for Outstanding Career Executive Officers (CEOs), the winners of which participated in a Customized Short Term Study and Observation/Placement Program in Australia, through the assistance of the Philippines Australia Human Resource Development Facility (PAHRDF).

Strengthening the institutional capacity of the agriculture, agrarian reform and natural resources (AARNR) service agencies

Review and revise the procedures and processes of the regulatory agencies

For each major regulatory issuance, the MTPDP target has set specific percentage reduction in the average processing time by 2010: (a) export permit for fresh/chilled/frozen fishery products (60%); (b) permit to import for traditional imported commodities (40%) and for new commodities recently given market access, and is required to pass through pest-risk analysis (50%); (c) renewal of licenses/registration for fertilizer and pesticide products (35%); (d) analysis of pesticide residue for common and regular pesticides (75%); (e) analysis of pesticide formulated products for common and regular pesticide (38%); (f) accreditation of seed growers (33%); (g) seed analysis and certification tags (40%); and (h) accreditation of meat establishments (28%).

Towards this end, the DA launched the Electronic Sanitary and Phytosanitary Certification System (ESPCS), a web-based application for permits and certifications. The DA is still finalizing the system design and requirement of the ESPCS.

Establishing and promoting the independence of regulators

The MTPDP targets to implement reforms by 2006 that would strengthen the National Water Resources Board (NWRB), among others, as a regulator.

Four projects that aim to build the capability of the NWRB were completed in 2006. These are: (a) Integrated Quality Management Development Program; (b) Long-Term Training on Hydrogeology; (c) Institutional Strengthening for the Adoption of Integrated Water Resources Management (IWRM) Using the River Basin Approach; and (d) Institutional Strengthening for Effective Economic Regulation, which generated the draft economic regulatory guidelines including primers.

The NWRB, Department of the Interior and Local Government (DILG), Local Water Utilities Administration (LWUA), and the Philippine Association of Water Districts (PAWD) also completed the Expansion of Benchmarking of Towns Water Utilities in the Philippines. The database developed by the project will then be transferred to the NWRB.

In compliance with EO 123 (“Reconstituting the NWRB”), the NWRB submitted a revised organization structure for its Secretariat to the DBM. This would be subject to the approval of the President through the DBM and CSC.

Harnessing the full potential of ICT for faster and efficient delivery of government services

Strengthen/streamline/restructure ICT-related agencies

To ensure the effective coordination and implementation of the national ICT agenda, the MTPDP aims to establish the Department of Information and Communications Technology (DICT) and the institutional strengthening of the National Telecommunications Commission (NTC) by 2005. The legislative measures creating the DICT and reorganizing the NTC are still pending in Congress.

Enact supportive laws and policies

The MTPDP targeted the passage of the Cyber Crime and Cyber Fraud Prevention

Law and the Freedom of Information Law; and the development and adoption of the National Information Security Plan in 2005. However, the government did not achieve these targets even in 2006. The Cyber Crime and Cyber Fraud Prevention Law and Freedom of Information Law are still pending in Congress. On the other hand, the National Information Security Plan is still being developed.

Enhance access to government information and service through e-Government frontline services

The MTPDP targeted to put online critical services identified under the Government Information System Plan (GISP) as well as the establishment of the community e-Centers (CeCs) in all municipalities and selected barangays by 2010. So far, the government has been working towards the achievement of these targets.

For instance, the e-Government Portal is still being constructed and will consist of the e-Services Portal (e-Serve) and the e-Payment Gateway (e-Pay). The e-Serve will consist of the services of 11 priority agencies such as the BIR, DFA, NBI, SSS, GSIS, PagIbig, PHIC, LTO, DOST-Philippine Council for Industry and Energy Research and Development (PCIERD), OP-PMS, and DTI-Bureau of Trade Regulation and Consumer Protection (BTRCP).

The CICT identified 110 pilot local CeCs wherein 100 are in the municipalities, eight are in the provinces, and two are in the cities. Ninety-eight of these are already operational while 12 are still being established.

ICT-enable LGUs to the barangay level

To achieve this target by 2010, the DILG will develop the Local Government Unit Information Portal (LGUIP) to serve as gateway of information and e-services of the DILG and LGUs. Part of the LGUIP development in 2006 was the nationwide rollout of the Local Governance Performance Management System (LGPMS) and the

enhancement of the LGPMS web-based system.

Institutionalize knowledge management and productivity frameworks in the bureaucracy

The MTPDP aims to have the Performance Excellence Framework or Total Quality Management and Quality Management System (QMS) adopted by 60 government organizations by 2010. In October 2006, the President issued Administrative Order (AO) 161 enjoining all government agencies, GOCCs and LGUs to establish International Organization for Standardization (ISO)-aligned QMS. So far, five government organizations have adopted ISO-aligned QMS. These are: the Civil Aeronautics Board (CAB); Department of Health–Bureau of Health Facilities and Services (DOH-BHFS); Land Bank of the Philippines (LBP); Land Transportation Office (LTO); and Philippine Council for Industry and Energy Research and Development (PCIERD).

PROSPECTS AND POLICY DIRECTIONS FOR 2007

Given the targets of bureaucratic reforms defined in the MTPDP 2004-2010 and the corresponding status in 2006, the government needs to accelerate the implementation of these reforms in 2007 to improve the bureaucracy and public service delivery within the medium term.

Pursuing the Program on Rationalizing and Improving Public Service Delivery

The government should complete the submission, evaluation, approval and implementation of the RPs, in accordance with EO 366. These should be done simultaneously with the impact-mitigating measures for all stakeholders in the Rationalization Program, including the development of holistic capability-building programs for retained personnel.

The government will rollout the OPIF-based budget and PMS to other government organizations. It will also refine the major final outputs (MFOs) and performance indicators (PIs) of the pilot organizations and its attached agencies for the 2008 budget preparation. These should also be included in the individual performance targets of government personnel through the PMS.

To complement these reforms, the government needs to rationalize its position classification and compensation system as well as its oversight function over GOCCs/OGCEs. More thorough reforms in the bureaucracy and public service delivery would entail the passage of the Reengineering Bill to cover operations and organizations that were established through legislation.

Improving the level of professionalism, meritocracy, accountability and competence in the civil service

The government will implement the interventions developed for the improvement of the civil service. These include the Ethics-Based Assessment Test, personnel databases (i.e., CSC-PIDS and GRHMIS), and CBT1 for HRMOs. To strengthen the career executive service, the CESB will continue to implement programs that include the unified third level examination, TLC Program, and the Search for Outstanding CEOs. The passage of the proposed Civil Service Code and Career Executive System Bill will also help strengthen the civil service legal framework.

Strengthening the institutional capacity of AARNR service agencies

The DA should pursue the development and implementation of the ESPCS to reduce the average processing time for AARNR regulatory issuances.

Establishing and promoting the independence of regulators

The NWRB should sustain and build on the capabilities it has developed through its recently completed projects, and apply these capabilities in the exercise of its functions as a regulator.

Harnessing the full potential of ICT for faster and efficient delivery of government services

To further enhance public access to government services through the ICT, the government will continue to develop and

implement the local CeCs. It will also pursue the development of the e-Government Portal and LGUIP. It will also continue establishing ISO-aligned QMS in government organizations, as provided in AO 161. These reforms, however, have to take into consideration the changes in government operations and organizations resulting from the Rationalization Program.

The legislative measures that have to be passed are the bills creating the DICT and the reorganization of the NTC; and the proposed Cyber Fraud Prevention Law as well as the Freedom of Information Law.

Chapter 22

Defense Against Threats to National Security

In 2006, the participation of the Department of National Defense (DND) in various international engagements has opened possibilities for potential sources of defense materials for the Armed Forces of the Philippines (AFP) Capability Upgrade Program. With the development of Security Engagement Board that will oversee RP-US engagements, non-traditional security issues such as counter-terrorism, disaster relief, pandemics and antinarcotics operations were likewise addressed.

The AFP was a reliable partner of the government in its peace and development efforts in 2006. Its participation in various humanitarian and peacekeeping efforts of the United Nations has contributed to the security and stability of other countries as well.

ASSESSMENT

THE PHILIPPINE DEFENSE REFORM (PDR)

For 2006, the PDR developed a framework that will achieve the vision of a strong, professional and responsive defense establishment capable of addressing both current and emerging threats.

Under the framework, the PDR has identified the reform foundation. The AFP underscored the conclusion of the RP-US Joint Defense Assessment (JDA) which revealed shortfalls in the AFP capability to address insurgency and terrorism. Competencies and tools that will ensure effective implementation of the reform tasks were identified and acquired. These include continuing group dynamics among members of the reform team; formal training through lectures; seminars and workshops on financial reporting, performance measures and project management; and the utilization of change management framework and process modeler.

To date, the Plans of Action and Milestones (POA&M) have already been approved for implementation except Program 6 or AFP Modernization, which still needs the approval of the Defense Secretary. A POA&M generally outlines the goals and objectives of each program, a series of actions and corresponding deliverables, and a set of measures to evaluate both progress of the programs and the intended outcomes.

To promote PDR, the DND has conducted advocacies among the AFP leaderships and field units especially the Unified Commands because they are both the implementors and beneficiaries of the reforms. The media has also been tapped to generate public acceptance for PDR while the support of government departments and agencies was solicited. The academe was also engaged to generate inputs on the reform.

The PDR undertook the “Quick Wins” projects to immediately address a concern or deliver an urgent requirement. Some notable “quick win” projects that are currently being implemented are the Multi-Year Capability System (MYCaPS), Battalions of Excellence, Intelligence Modernization Program, Health Services Support System, AFP Purchase Card, AFP Munitions Center, Development of Institutional Capability on Project Management, Transition Assistance Project (TAP), and Interim Nationwide Data Communication Infrastructure.

The Multi-Year Defense Planning System (MYDPS) was established in 2006. It allows a multiyear continuity of capability plans and programs for the defense and military establishment instead of an annual perspective on capability development. This means that plans and programs will be provided with a multiyear budgeting scheme, which highlights sustained and stable capability development in the longterm.

Phase II of MYCaPS was established to institutionalize an effective and efficient Defense System of Management (DSOM) which fosters collaborative efforts and facilitates timely and informed decision making. The objective management framework shall establish linkages among strategic planning, capability development and acquisition planning, operational planning, resource planning and financial management and execution planning processes. The four mutually supporting systems to be developed in Phase II of MYCaPS are the following: (a) Defense Strategic Planning System; (b) Defense Capability Assessment and Planning System; (c) Defense Acquisition System; and (d) Defense Resource Management System.

On August 11, 2006, then Secretary of National Defense (SND) Avelino Cruz approved the ten-year strategic plan developed by the AFP Intelligence Community, referred to as Improvement and Revitalization of the Intelligence System (IRIS) or the AFP Intelligence Road Map 2016 by issuing Department Order (DO) No. 21 to guide development of intelligence and modernization strategies under the PDR framework.

The DND developed a Personnel Management System which is one of the biggest PDR programs in scope. It aims to fill the gaps in the current system and processes by establishing an effective and efficient personnel management system that is responsive to defense requirements and missions. At the same time, it encourages force development for a competent and professional defense and military establishment. This system will: (a) develop leadership at all levels

and nurture organizational culture, work ethics and value systems that will support and sustain solid reforms; (b) stabilize key AFP leadership positions; and (c) systematically provide and place personnel with appropriate expertise. These objectives are expected to optimize personnel costs and institutionalize efficiency in personnel management.

The DND completed the Defense and Security Policy Framework (DSPF) that was circulated to various stakeholders including Department of Foreign Affairs (DFA), Office of the National Security Advisor (ONSA) and National Intelligence Coordinating Agency (NICA). The framework will lay down comprehensive policy statements to guide the DND-wide organization on defense resource management. Furthermore, it determines the shape, size and force mix of the AFP and the way it fights, focusing on the bilateral and multilateral engagements with strategic security partners and collaborative efforts during interagency planning and operations. The DSPF links the Defense Department to the wide-realm of national security policy and strategy as one of the key products of the Multi-Year Capability Planning and Execution System (MYCaPES) - the overarching system of systems at DND.

In relation to MYCaPES, which is a joint effort of the DND and US Department of Defense, two seminar-workshops were conducted to provide the AFP with awareness and technical analyses of: (a) identifying mission area assessments; (b) potential approaches; and, (c) alternatives to address a wide variety of resource management and defense acquisition problems.

OPIF is a high-level process that helps agencies demonstrate the relationship between the goods and services that it delivers (through its Major Final Output and Public Expenditure Programs) and the results that is working towards sectoral and societal goals and organizational outcomes.

To undertake the reform program, PDR requires considerable resources to effect large-scale reforms. The establishment of the PDR framework entailed setting mechanisms

and standards for the implementers to institutionalize and sustain solid reforms.

The PDR's current assessments are built on factual data and appropriate analytical tools such as Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis and the Doctrine, Organization, Training, Material, Personnel, Leadership and Facilities (DOTMPLF) system checklist.

AFP CAPABILITY UPGRADE

To support the Battalion Upgrade Program and ensure that battalions are manned with suitable personnel in terms of age, rank and physical fitness, Secretary Cruz issued DO No. 31 dated November 22, 2006 designed to reduce average age and ensure the suitability of troops in the field by strictly implementing existing regulations on attrition, particularly AFP Circular No. 13 dated July 15, 1991 and AFP Circular No. 17 dated October 2, 1987, in order for the AFP to recruit younger enlisted personnel to support field units. The AFP was directed to gradually but strictly implement the said attrition clause in the circular. This is necessary to maximize the potential of a viable attrition program as an effective human resource management tool which emphasizes a performance-based attrition system.

Consistent with MYCaPS principles, the DND directed the development of a six-year AFP Capability Upgrade Plan to form part of an 18-year capability-planning horizon. For the first six years, the AFP CUP will focus on enhanced capabilities in the conduct of ISO; the succeeding six years will serve as a transition phase from ISO capability build-up to territorial defense; and the next six years will focus on territorial defense and peacekeeping operations (PKO) thus completing the 18-year horizon.

Procurement reforms in the DND and AFP are being implemented to promote transparency, professionalism and accountability. These include the following related areas namely: (a) Centrally-managed Defense Acquisition System (DAS) manned by a professional acquisition workforce; (b)

Capability-based Multi-Year Defense Planning System (MYDPS); (c) A strategy-driven Multi-Year AFP CUP to push AFP Modernization; and, (d) Optimization of defense budget and improvement of management controls.

The new version of Defense Planning Guidance for 2007/2008-2013 entitled *Performing As We Transform*, was approved by the Secretary of National Defense on November 24, 2006. This version is intended for internal and external stakeholders and/or offices outside the Department. The initiative aims to inform stakeholder groups of the transformation of AFP combat battalions and the direction towards achieving increases in effectiveness and efficiency through measures such as: (a) outsourcing of noncore functions; (b) integration of reserve force training; and, (c) development of a highly professional civilian workforce.

Major Thrusts/Mission Areas:

a. Internal Security Operations (ISO)

In 2006, AFP's efforts were focused on internal security operations in combating terrorism. Primary efforts against all threat groups were aimed at reducing armed components, dislocating organizational and leadership capabilities, suppressing mass support, influencing networks and disrupting fund generation activities. Among the threat groups, priority effort was focused on the Communist Terrorist Movement (CTM), and the Abu Sayyaf Group (ASG) while supporting the GRP-MILF peace process.

In 2006, the AFP neutralized 870 communist terrorists, 34 of which were top personalities of the CTM. Of these, eight were killed in intelligence-driven combat operations. There were 310 MILF neutralized by the AFP, while 101 ISO-related incidents against ASG were recorded. From the various operations conducted, the AFP gained a total of 757 high-powered and 830 low-powered firearms respectively.

The AFP actively supports the activities of the Ad Hoc Joint Action Group

(AHJAG) which serves as the government's focal mechanism in the interdiction and isolation of criminal elements/syndicates situated within, or near, MILF communities.

On November 29, 2006, the Defense Secretary approved and signed the Strategic Plan to Defeat the Communist Terrorist Movement.

For the legal offensive activities, AFP sent representatives to IALAG Training Teams that will conduct trainings to AFP/PNP/NBI and other concerned agencies throughout the country. The IALAG addressed specific offenses that constitute threats to national security including, but not limited to, cases of rebellion, sedition and related offenses. It also addressed national interest cases including terrorism. Through the initiative of IALAG, civil cases were filed against Sison and the Batasan 5.

b. Territorial Defense

To date, a total of 54 incidents were recorded wherein PhP542.170 million worth of smuggled goods were confiscated by the AFP. Likewise, 51 fishing boats with PhP31.080 million worth of fish catch and fishing paraphernalia were caught for illegal fishing. Additionally, 139,484 board feet of lumber and lumber products worth PhP55.610 million were confiscated and 24 sacks of ammonium nitrate were recovered.

The Naval Intelligence gathered and processed 1,327 Summaries of Information (SOIs) on foreign intrusions/illegal poaching by fishermen from China, Taiwan, Hong Kong, Malaysia, Vietnam and Indonesia entering the waters in Palawan, Batanes and Southern Philippines. Likewise, 48 aerial photo reconnaissance/sovereignty patrols in the Philippine waters were conducted.

During the period, patrol ships and landing ship tank OPCON to WESCOM were utilized for troop relieving, logistical missions and sovereignty patrol at the Kalayaan Island Group (KIG). PN Islander (PN-311) of Naval Forces West was utilized for aerial reconnaissance in the AOR. However, the

Command conducted lesser reconnaissance flights due to the limited availability of OV-10 aircraft.

For 2006, military/fishing vessels from the Philippines were the most frequently sighted in the KIG. Pag-asa island in the KIG is frequently visited by fishing vessels due to its proximity to the area being claimed by the three major claimant countries.

For territorial defense, the NDCC continues to conduct a study entitled "Issues and Concerns in Defining Territorial and Maritime Boundaries with Malaysia and Indonesia" in close coordination with the Maritime and Ocean Affairs Center (MOAC) of the DFA. Aside from maritime boundaries, it also delves into other related issues such as transnational crimes (prevalent in the Sulu-Sulawesi and Malacca marine region), fishing rights, exploitation of marine resources, border patrolling, BIMP-EAGA eco region, and sea-lane routes, among others.

c. Disaster Response

In 2006, the AFP Disaster Response Task Force (AFPDRTF) conducted 217 Search and Rescue Operations, 136 Relief Operations, 93 Rehabilitation/Clearing Operations, 67 Transport Operations and 22 Aerial Reconnaissance. Several air and naval assets, as well as 8,635 AFP personnel, were utilized for the said operations. A total of 73,151 persons were evacuated/rescued/transported.

Aware of the vulnerability of the Philippines to meteorological disasters, the NDCC crafted the Four-Point Action Plan on Disaster Preparedness. The plan identified NDCC's priority programs, paving the way in minimizing, if not preventing the ill-effects of disasters. These measures include the following: (a) upgrading of the forecasting capabilities of PAGASA and PHIVOLCS under the close supervision of DOST. The staff of both agencies attended specialized trainings and formal education sponsored by foreign organizations and the Philippine government. They also strengthened their linkages and networking with foreign

forecasting institutions; (b) the launching of the Public Information Campaign on Disaster Preparedness dubbed as “Safe Ka Ba?”. This campaign exceeded the target of the Office by 70 percent; (c) capacity building for local government which aimed to enhance the knowledge of the local chief executives on the rudiments of disaster management; and, (d) Collaborative Partnership Program as an implementing mechanism in order to strengthen linkages between government and the private sector as partners in relief and rehabilitation.

Likewise, the NDCC strengthened the disaster preparedness capacities of the Municipalities of Real, Infanta, and Nakar, Quezon Province vis-a-vis geologic and meteorological hazards.

The OCD-NDCC facilitated assistance in response to the destructive typhoons in 2006. Thus, the NDCC released rice assistance of 51,999 sacks worth PhP45.8 million, the Calamity Fund/Quick Response Fund (CF/QRF) worth PhP1.99 million and financial assistance for casualty victims (dead and injured) amounting to PhP10.2 million. The relief and rehabilitation assistance amounting to PhP334,178,009.00 million was also received by NDCC from other member agencies.

While the National Defense College of the Philippines also conducted trainings on disaster response and emergency management in cooperation with partner local and international agencies benefiting 388 participants from various government emergency response agencies and concerned private sector groups.

Preparedness is of paramount importance. The Hazards Mapping and Assessment for Effective Community-Based Disaster Risk Management, dubbed as “READY”, should be further enhanced for disaster preparedness. Pursuing the development of a web-based national disaster event database will also enhance the capacity for disaster analysis and decision support in disaster risk management.

The AFP continues to support the OCD-NDCC in almost all disaster and emergency related activities.

d. Support to Nation Building

The AFP continues to improve its relations with LGUs and government agencies through its participation in 284 monthly Peace and Order Councils (POC) and Disaster Coordinating Councils (DCC) in the municipal up to the provincial level meetings. LGU offices were visited and 1,250 interagency coordination activities were conducted. The AFP participated in 188 Government Poverty Reduction/Alleviation Programs (KALAHI).

On AFP efforts to improve relations with NGOs and people's organizations (POs), there were 376 POs assisted and 4,483 meetings attended. These worthwhile activities resulted in improved working relations with NGOs and POs at the local and national levels.

A total of PhP439,750,928.71 was released to the AFP Corps of Engineers for Kalayaan Barangay Program (KBP) projects distributed to the different Area Commands. A total of 367 target barangays received 501 projects consisting of the five infrastructure projects such as “Kalayaan Roads”, two-classroom school buildings, Level II water system facilities, electric and suitable medical facilities. In support of community development, the AFP participated in 31,589 NGO community development activities, conducted 13,530 Medical Civic Action Programs (MEDCAPS), supported 3,225 Engineering Civic Action Programs (ENGCAPS), conducted 1,277 environmental activities, and completed several KBPs.

On September 7, 2006, the President released PhP700 million as additional budget for ISO, PhP300 million of which was allocated for infrastructure works under the KBP in Kalayaan Barangays located in the AORs of the 2nd Infantry Division (ID), 5th ID, 7th ID, and 9th ID.

e. International Defense and Security Engagements

The DND forged defense cooperation arrangements with India and China, providing the Philippines with institutional mechanisms to engage two important global players in the political and security arena. These defense arrangements totaled 16 as of 2006 (US, Australian, Brunei, Canada, Czech Republic, France, Indonesia, Italy, Malaysia, Singapore, South Korea, Spain, Thailand, United Kingdom). The engagement with China is notably historic since only a few countries in the Asia-Pacific region, such as Thailand, have forged defense cooperation arrangements with the nation.

The Defense Secretary's visit to Italy and Spain in June 2006 gained political support for the Philippines from the European Union in terms of the local insurgency campaign. The ASEAN Defense Ministers' Meeting (ADMM) was inaugurated on May 9, 2006 in support of the goal of creating an ASEAN Security Community. The ADMM seeks to promote dialogue and cooperation in defense and security matters to foster regional peace and stability through dialogue and cooperation, give guidance and direction to existing senior officials dialogue and to promote mutual trust and confidence,

During the Shangri-La Dialogue in Singapore in June 2006, the Defense Secretary presented an alternative paradigm in counter-terrorism by isolating the terrorists through programs that drain the pond of injustice, intolerance, poverty, and corruption that breed terrorism. His speech convinced the US and other major powers to revisit their counter-terrorism approaches and also served as precursor to the development of an alternative framework of the RP-US defense and security relationship.

For 2006, the AFP engaged in bilateral defense meetings with the US to strengthen defense relations. In line with this, the RP-US Security Engagement Board (SEB) was established by DND with the support of DFA. Considering the long-standing bilateral RP-

US defense and security relations, the establishment of SEB was conceived as the mechanism for the development of measures and arrangements for bilateral RP-US cooperation in addressing nontraditional security concerns.

The 2nd Multilateral Maritime Security Workshop was conducted and jointly hosted by DND-AFP and USPACOM and the Southeast Asian Center for Counter Terrorism (SEARCCT). The workshop aimed to develop single points of contact for maritime surveillance and response to enhance information sharing and coordination in the conduct of border patrols between the coastal States in the Sulu and Celebes Seas. The workshop was attended by PN, PAF PNP MARIG and maritime security agencies from Indonesia and Malaysia in Kuala Lumpur.

f. International Humanitarian Assistance and Peacekeeping Operations

For 2006, the AFP ably complied with its peacekeeping obligations by sending its personnel to various United Nations and European Union missions to serve as Philippine Contingent, Military Observers, PKF Staff, Staff Stress Counseling Officers, Military Training Adviser and Members of Monitoring Missions.

As of December 31, 2006, a total of 665 personnel were contributed by the Philippine Government to UN Peacekeeping Operations comprising of 327 troops (military contingent), 326 (PNP) on police duties while 13 served as Military Observers. For 2006, the Philippines only ranked 27th among Troop Contributing Countries to UN Operations supporting seven UN Missions. However, RP ranked No. 9 among Asian country contributors and placed 2nd to Indonesia in Southeast Asia.

SUPPORT TO THE PEACE PROCESS

The GRP Panel submitted the government proposal to the MILF through the

Malaysian Secretariat on November 10, 2006, and is now awaiting response. The two parties continuously engaged in strengthening advocacy and implementation of interim agreements on the security aspect through the joint mechanisms, while pursuing capability-building programs and confidence-building measures alongside. The GRP Panel continues to hold briefings and consultations in Congress, Senate, the Executive level, the DND as well as with allies and partners in the peace process to gather inputs and to further deliberate on the GRP position.

On the implementation of the GRP-MILF Agreement on the General Cessation of Hostilities (Security Aspect), the AFP participated in several Joint CCCH Meetings. During the 3rd Joint CCCH Meeting, both Committees noted a tremendous reduction of incidents of alleged ceasefire violations since the deployment of the International Monitoring Team in October 2004.

The AFP actively supported the activities of the Ad Hoc Joint Action Group (AHJAG), which serves as the government's focal mechanism in the interdiction and isolation of criminal elements/syndicates situated within, or near, MILF communities. Both Panels extended the mandate of the AHJAG for a period of one year after it expired on June 21, 2006. Among the issues discussed during the 13th GRP-MILF AHJAG Meeting held in November 2006 in Davao City were the validation of the OB watchlists on the MILF, pending joint operations against criminals in MILF areas and the preparation of the annual report.

The DND-AFP continues to support the peace process with the Moro Islamic Liberation Front [MILF] and the Communist Party of the Philippines-National Peoples Army-National Democratic Front [CPP-NPA-NDF] while remaining vigilant and prepared to address insurgent activities and attacks. The DND-AFP adheres to the provisions of the ceasefire and cessation of hostilities agreements especially in monitoring and implementing peace process-related agreements like the Comprehensive Agreement on Respect for

Human Rights and International Humanitarian Law [CARHRIL]. It actively participates in the various activities of the joint committee on the cessation of hostilities, the joint monitoring committee, as well as in the technical working group of the GRP monitoring committee. The DND-AFP also continues to sustain its involvement in implementing the plan of action of the Interagency Committee on Children Involved in Armed conflict [IAC-CIAC].

The DND facilitated the documentation of the Memorandum of Agreement (MOA) on Water Supply for the KBP being undertaken by the government to ensure the immediate transfer of the funds from DPWH to the DND-AFP for the construction of the potable water supply projects. The KBP is part of the convergence efforts of the government in addressing armed conflicts pursuant to Agenda No. 9 of the Government's Ten Point Agenda as threshed out in the National Peace Plan of the MTPDP. Relatedly, the Rapid Needs Assessments (RNA) result of 350 out of 500 conflict-affected barangays were identified by the DND-AFP. The 100 peace agreements obtained from OPAPP that require preparation of the Program of Works (POWs) were officially transmitted to the AFP Chief of Staff for immediate implementation.

ANTI-TERRORISM CAPABILITY ENHANCEMENT

In September 2006, the AFP launched OPLAN ULTIMATUM whereby AFP units in SOUTHCOM/WESTMINCOM were directed to neutralize ASG/JI personalities and destroy enemy capabilities. Assistance in intelligence fusion is being provided by US Forces in this effort.

The Joint Special Operations Group (JSOG) was organized as the AFP's antiterrorism strike force. It consists of three Light Reaction Companies (LRCs): one company from the Special Operations Wing (SPOW) of the Air Force; one company from the Naval Special Warfare Group (NSWG);

one section from the K-9 company and one Explosives Ordinance and Demolition (EOD) company.

Tactical operations conducted by the AFP resulted in 1,820 incidents between the AFP and the communist terrorists, 1,361 of which were AFP-initiated. These resulted in 870 CTs neutralized, 82 captured, 225 apprehended and 354 surrendered. Of the 870 neutralized, 34 of them were top personalities of the CTM.

During the 3rd Quarter of 2006, 286 ASG were neutralized and 73 of their high-powered firearms were recovered. The strength of ASG has substantially declined from a high of more than 1,200 in 2000 to only approximately 400. Furthermore, the AFP continues to enhance AFP units to improve their counter-terrorism capabilities by refocusing the core functions of the units to urban counter-terrorism and defense of facilities against terrorist attacks.

The NDCP continuously conducted terrorism-related fora and trainings. In supporting the ISO capability, the college produced 1,755 MNSA graduates of which 42 percent came from the AFP. They are now well-placed in their respective endeavors playing important roles in internal security operations. For the year, the Institute for National Security Studies (INSS) undertook 77 special projects on various defense and security concerns and issues as research inputs to national security policy formulation with 66 studies already completed and 15 still ongoing.

The DND and AFP personnel participated in several counter-terrorism trainings offered by allies and other friendly countries like US, Australia and UK. These include, among others, the series of trainings on Crisis Management in Counter-Terrorism conducted under the auspices of the RP-UK Crisis Management Assistance Programme (RP-UK-CMAP) and the Comprehensive Security Response to Terrorism (CSRT) Course conducted by the Asia Pacific Center for Security Studies (APCSS) in Honolulu, Hawaii.

The AFP remains engaged with counterparts in the Asia-Pacific Region to enhance the country's self-defense capabilities and ability to operate with forces from partner military organizations.

OTHER CONCERNS

For 2006, the Veterans Memorial Medical Center (VMMC) rendered the medical care and treatment for a total of 126,862 inpatients of which 57,902 are veterans and 50,102 dependents. A total of 218,037 outpatient cases/visits were recorded, of which 84,027 were veterans and 95,041 were dependents. A total of 5,868 inpatients were hospitalized or 16 per day. Medical services for AFP personnel and medical assistance to veterans are likewise being improved by VMMC management. Special privileges for AFP members were granted in coordination with the PhilHealth Insurance Commission.

On the other hand, the Philippine Veterans Affairs Office (PVAO) provided monthly pensions to 261,469 veterans and dependents, educational benefits/burial and hospitalization assistance to 11,020 beneficiaries. The office revised its Educational Benefits policies to allow for a more equitable distribution of said benefits. For 2006, transfer of pensions to surviving spouses were undertaken under the Biyaya Agad Program. A total of 712 Old Age Pension were transferred to surviving spouses and 6,080 were extended burial assistance.

PVAO continuously validated the list of beneficiaries and introduced changes and measures to pursue reforms focused on IT-intervention to improve systems and processes, strengthening of operations and services; review of benefits policies; and personnel and organizational development. These reforms simplified processes and shifted pension delivery from mailing to direct bank remittance. Some legislative initiatives have further been undertaken in cooperation with the AFP to provide prompt, effective and efficient assistance to the families of those soldiers killed-in-action.

The Military Shrines Services (MSS) generated PhP1,451,006 million from entrance collections and rentals in various military shrines during the year. MSS constructed a Multi-Purpose Building in Capas National Shrine.

In order to institutionalize the reforms being implemented by the DND under PDR, the updated national defense policies, principles and concepts applicable to the present were incorporated in the draft bill of the Proposed National Defense Act of 2007, which was submitted by the DND and AFP to the President on July 10, 2006 and subsequently approved and endorsed by the President to Congress. Institutionalizing these key reforms in the law will ensure continuity and stability in the transformation process of the DND and the AFP, notwithstanding any changes in leadership.

POLICY DIRECTIONS FOR 2007

To sustain the reforms and build on the gains so far achieved, the DND will accelerate the pace of PDR and create momentum through a formal policy memorandum. It will also continue the conduct of PDR Strategic Communication to include regular seminars in Unified Commands and Major Services to explain the PDR Road Map, seek their suggestions and encourage reforms within their echelon.

Moreover, it will continue to provide resources to implement the “Quick Win” projects and expand the concept particularly in the area of equipment and platform performance.

On PDR organization and structure, the DND will strengthen and man it with competent military officers and the corresponding Table of Organization positions for AFP Officers detailed at DND performing PDR work.

It will continue to pursue the approval of the new National Defense Act that contains the organizational, structural and personnel management reforms needed to ensure the long-term continuity of PDR.

In the area of international defense and security relations, the DND shall continue to create opportunities through education and training to support the achievement of defense reform goals, particularly the Capability Upgrade Program of the AFP. The DND will also enhance links with foreign defense partners and prioritize projects that impact on the country’s defense and security interests.

Lastly, it will continue the conduct of National Defense and Security Review (NDSR) to review previous AFP campaign plans to make the CPP/NPA/NDF irrelevant and to come up with a holistic and integrated approach involving the whole government and the community. The framework for this activity will correct the traditional stove-piped approach to defense planning.

Chapter 23

Responsive Foreign Policy

The government sustained its efforts in protecting the country's interests by responding to the realities¹ in the global and regional environment. In particular, these realities emphasize the three pillars of foreign policy: (a) improvement and preservation of national security; (b) promotion and attainment of economic security; and (c) protection of the rights, and the promotion of the welfare and interests of Filipinos overseas.

In 2006, the country successfully concluded major bilateral and multilateral agreements aimed to support economic security through stronger international partnerships. To improve national and regional security, the government pushed for the passage of the Anti-Terrorism Bill in Congress. It also initiated the use of interfaith dialogue as a strategy to achieve lasting peace among nations.

Mindful of the millions of Filipinos now living and working all over the world, the government worked closely with other countries to protect their welfare. The government collaborated with international institutions to consolidate efforts against terrorism and trafficking.

ASSESSMENT

PROMOTE AND ATTAIN ECONOMIC SECURITY

Maximize exports and investment opportunities offered by trade agreements

The country continued to pursue free trade and economic partnerships to further

enhance its economic security. Recently, it hosted and participated in the 12th Association of Southeast Asian Nations (ASEAN) Summit and the 2nd East Asia Summit. In addition, the Philippines, as the Chair for ASEAN, initiated the holding of the United Nations-ASEAN (UN-ASEAN) Activity on Development. The country also joined the high-level meeting of the Economic and Social Council (ECOSOC) with Bretton-Woods Institutions, the World Trade Organization (WTO) and the UN Council on Trade and Development (UNCTAD).

In 2006, the historic Japan-Philippines Economic Partnership Agreement (JPEPA) was signed at the sidelines of the Asia-Europe Meeting (ASEM) in Helsinki, Finland. Under the JPEPA, the Philippines became the only country allowed to send health workers to Japan, which is seen to need 7.5 million health professionals by 2010. Unlike other Free Trade Agreements (FTAs), the JPEPA goes beyond market access, as it included the provision to improve economic facilitation measures. These cut across areas such as government regulations and controls, business efficiency, transportation, ICT and financial sector.

¹ The Philippines faces eight realities enumerated in the MTPDP 2004-2010 that characterized its international and regional environment to which it has to respond in order to achieve its developmental goals.

In pursuit of a trade goal of US\$30 billion by 2010, the country also continued to strengthen its economic ties with China. To this end, the Philippines maintained its bilateral and multilateral relations with strategic partners such as China and Russia.

This year, the country also launched road shows and trade missions to major markets, such as the United States, Canada, India, Mexico, Saudi Arabia, and Russia. These shows concentrated on promoting Philippine service exports such as outsourcing, engineering, and architecture.

Energy security is another priority objective that is being advocated through economic diplomacy. The thrust toward developing energy security was highlighted during the State Visit of President Gloria Macapagal-Arroyo to the Kingdom of Saudi Arabia (KSA) in May 2006, where possible technical cooperation between the two countries in developing the Philippine energy sector was explored. The President also invited investors to look into the possibility of putting up an oil refinery in Mindanao. Moreover, the ASEAN leaders agreed on regional cooperation on energy security to ensure a stable and affordable supply during the recently concluded 12th ASEAN Summit. This aimed to help ASEAN member countries reduce their dependence on conventional fuels through intensified energy efficiency programs, expansion of renewable energy systems and biofuel production and utilization.

PRESERVE AND ENHANCE NATIONAL SECURITY

Strengthen strategic relationships with other countries to propel the common commitment to fight against terrorism

The country has taken a proactive stance toward the enhancement of national and regional security. In 2006, the government proposed a legislation to penalize terrorism. The proposed measure seeks to incorporate some provisions of the 12 Multilateral

Conventions on Terrorism to which the Philippines is a signatory.

The strengthening of key bilateral and regional partnerships for counter-terrorism efforts was also pursued by the government. As a member of the Asia-Pacific Economic Cooperation (APEC) forum and chair of the APEC Counter-Terrorism Task Force (CTTF), the Philippines pushed for public-private cooperative partnership as a mechanism for building the counter-terrorism capabilities of the developing member economies in the APEC. The country also worked closely with the United States Embassy in establishing the Security Engagement Board (SEB), which provides a framework for bilateral cooperation on nontraditional security concerns such as international terrorism, transnational crimes, maritime security and pandemics.

The country also focused its relentless efforts in promoting the Philippine-led interfaith initiative as well as enhancing regional and bilateral cooperation for counter-terrorism initiatives. The interfaith initiative, which was introduced by President Gloria Macapagal-Arroyo during her term as president of the UN Security Council in 2005, rapidly gained ground this year. The Philippines has articulated its experience in using interfaith dialogue within its multicultural, multiethnic society, and its conviction that interfaith dialogue can serve as a foundation for lasting peace in various regional and international fora. On March 24, 2006, the country launched the Tripartite Forum for Interfaith Cooperation for Peace in New York, joined by 50 governments, 12 United Nations agencies, and 110 religious nongovernment organizations (NGOs) that have a common commitment to exploring practical measures for the application of interfaith dialogue and cooperation for global peace. The UN General Assembly thus adopted the Philippine initiative on interfaith dialogue through a resolution entitled "*Promotion of Inter-religious and Intercultural Dialogue, Understanding and Cooperation for Peace*" on December 20, 2006.

Contribute to the peaceful settlement of the problems facing Southern Philippines and the rehabilitation of ARMM and Central Mindanao

The country continued to facilitate and coordinate international efforts to sustain the peace process in southern Mindanao. It created opportunities for existing and potential members of the International Monitoring Team (IMT) and the representatives of the Organization of the Islamic Conference's (OIC) Secretary General to visit the southern Philippines and assess the ongoing socioeconomic development in affected areas. This resulted in the OIC's renewed commitment to support the peace process, particularly in terms of developing a socioeconomic environment in Mindanao that would foster peace and eradicate terrorist activity.

Likewise, the government facilitated the formal invitation of several interested countries, such as Japan, Finland, and Sweden to join the IMT. During the celebration of the 50th Anniversary of the Normalization of Philippine-Japan Relations, Japanese Foreign Minister Taro Aso conveyed Japan's intention to join the IMT, and has since deployed a development expert who now serves as Senior Adviser for the socioeconomic aspect of the team. On the other hand, Sweden has indicated its positive consideration of the invitation, and has sent a mission to visit the IMT headquarters in Cotabato City.

In pursuit of its bid for OIC observer status, the Philippines participated in the 33rd Islamic Conference of Foreign Ministers (ICFM) in Baku, Azerbaijan. It also conducted bilateral meetings with Indonesia, Iran, Pakistan, Azerbaijan, and Libya to ensure their support for such bid.

Build capacity of local law enforcement on agencies on counter-terrorism

The government continued to implement the three major capacity-building projects on counter-terrorism: the Counter-

Terrorism Capacity-Building Project (CTCBP), RP-United Kingdom Counter-Terrorism Management Assistance Programme (RP-UK CMAP), and the Philippine Border Management Project (PBMAP).

The Philippine Center on Transnational Crime (PCTC) continued the implementation of the CTCBP project with the support of the Australian Federal Police and the Australian Agency for International Development (AusAID). The CTCBP project will improve the capability of the Philippine National Police (PNP), the PCTC, and the National Bureau of Investigation (NBI) in intelligence sharing, bomb investigation techniques, forensic capacity and other counter-terrorism areas at both strategic and operational levels. Various trainings and workshops were undertaken in counter-terrorism investigation management, case management and intelligence system (CMIS), and executive leadership program.

It also continued implementing the RP-UK CMAP project. In January 2006, the PCTC and the PNP represented the country in Exercise Northern Synergy, a live international exercise held in the United Kingdom. Simultaneously, the PCTC has localized the conduct of CIMSEs and re-echoed crisis and management principles and structures to the local government units (LGUs) in various parts of the country. In March 2006, key officers from the PNP, the Department of National Defense (DND), the Anti-Terrorism Task Force (ATTF), the National Intelligence Coordinating Agency (NICA), the National Security Council (NSC), the Department of Transportation and Communications (DOTC), and the Bureau of Fire Protection (BFP) participated in the RP-UK Consolidation Course sponsored by the British Embassy in Manila. In May 2006, the PCTC and the PNP participated in tabletop simulated antiterrorist exercise called the "Operation Sherwood" which was conducted by the British Embassy in Manila in cooperation with the Australian Federal Police.

To strengthen the border management policies and practices in the

Philippines, the International Organization for Migration (IOM) continued to implement the Philippine Border Management Project (PBMP). This project supports the country's commitment to the global fight against terrorism as well as to facilitate the flow of aliens and citizens. In 2006, the IOM's partner agencies, the Bureau of Immigration (BOI), the Bureau of Customs (BOC), the Department of Foreign Affairs (DFA), the Philippine Center for Transnational Crime (PCTC), the National Intelligence Coordinating Agency (NICA), and the National Economic and Development Authority (NEDA), contributed to the inception of PBMP activities in five strategic pilot sites in Metro Manila, Zamboanga, Davao, Cebu and Laoag. These agencies participated in the review of existing Philippine border management strategies and practices; development of an integrated data migration system (IDMS); development of an information campaign on use of valid travel documents; trainings on performance measurement indicators, facilitation skills, and imposter recognition; and workshops on the relevance and uses of biometrics in identity and passport documentation.

Notwithstanding the efforts to enhance the capacities of local government units on counter-terrorism, this activity should go hand in hand with human rights protection of noncombatants. Effectively addressing the so-called "isolated incidents" of human rights violations in both rural and urban areas would not only gain the support of the people but also deprive the insurgents of a propaganda point used for recruitment.

Develop institutional capacities for culture

The government continued its partnership with other countries to promote cultural diplomacy. However, the proposed creation of the Cultural Affairs Office under the DFA is yet to be approved. While waiting for approval, the DFA, the National Center for Culture and the Arts (NCCA), the Department of Education (DepEd) and the

Commission on Higher Education (CHED) served as an interim body to handle cultural affairs of the country. In 2006, these agencies discussed the proposed Philippine Program for the Cultural Agreement with Egypt and Libya.

Promote mutual understanding and appreciation of cultures

The promotion of Philippine cultural awareness in the international community is one of the country's key strategies to promote trade and tourism. In July 2006, the 2nd Ambassadors/Consuls General Goodwill Tour of the Philippines was held to expose participants to various potential areas in investments, livelihood, business, retirement and tourism in the Philippines. At the domestic front, the government through the DFA, led the *Pagdiriwang Para sa Mga Kaibigan* – a celebration of friendship and partnership with 37 countries from the diplomatic community.

The country's products have also been marketed through the annual Independence Day celebrations in Philippine consulates, which used the celebrations as an opportunity to promote trade, tourism and culture. Various information materials were disseminated to promote Philippine culture, arts and values.

Fostering bilateral ties thru a sustained cultural awareness initiative is one of the strong points in Philippine diplomacy. Efforts to highlight unique Filipino traits, values, products and cultural heritage have yielded positive results in expanding relationships with counterparts in the foreign service.

However, on a regional level, relationships with its ASEAN neighbors need to be further enhanced through agreements to promote cultural exchanges that will broaden understanding of the diverse culture.

PROTECT RIGHTS AND PROMOTE WELFARE AND INTEREST OF FILIPINOS OVERSEAS

To further ensure the security of the Filipinos abroad, the government continually provided consular and legal assistance to them.

Through the DFA, the government monitors events that may either directly or indirectly impact on overseas Filipino communities. In addition, the agency continues to formulate and update evacuation strategies for Filipino communities in conflict-ridden areas. Since the Gulf War in 1990, the Philippine government through the DFA-Foreign Service Posts, has developed and updated evacuation strategies for Filipino communities in the event of crisis situations. These strategies facilitated the successful evacuation and repatriation of over 6,000 Filipinos from Lebanon during the Israel-Hezbollah conflict, and the release of some 90 Filipino seamen and seven Filipino oil workers who were held hostage in Somalia and Nigeria.

Based on lessons learned from the recent conflict in Lebanon and hostage-taking incidents in Africa, it is important to re-examine contingency plans for ensuring the safety of Filipino workers. The initial difficulties encountered in fund releases and working out arrangements for immediate repatriation of Filipinos from danger zones should serve as a wake-up call. Due to limited resources, it would be worthwhile pursuing negotiation with foreign governments, particularly those hosting large number of communities, to reach an agreement for evacuation. It is equally important that the 1996 Crisis Management and Security Manual for Overseas Filipinos be updated.

The government also sought to promote the welfare of overseas Filipinos who were tried and convicted in foreign courts. In 2006, the government negotiated for and secured the commutation of the sentences of six out of 34 Filipinos reported to be on death row. The cases of another 19 Filipinos are currently being negotiated for the possible grant of *tanazul* or forgiveness, a requirement of *shari'ah* courts for the commutation of the death penalty.

On human trafficking, the country joined and/or coordinated the following fora: the ASEAN Workshop on Best Practices of Law Enforcement Cooperation; the 19th Asian

Regional Conference: Interpol-Supporting Law Enforcement Front Line Services; the 6th ASEAN Senior Officials Meeting on Transnational Crime (SOMTC); and the Symposium of East Asian Security Delegation. The government, through the Inter-Agency Council Against Trafficking (IACAT), also organized the First National Conference on Anti-Human Trafficking, which aims to assess the implementation of the national strategic action plan, identify key activities for the next four years and document the best practices in addressing human trafficking.

To further protect the interests of Filipino overseas, the government implemented an information-education campaign to prevent overseas workers from being victimized by criminal syndicates. It issued guidelines/warnings to those seeking employment through the use of the Internet. In 2006, the POEA-Anti Illegal Recruitment Branch closed 12 recruitment agencies, which were confirmed to be engaged in illegal recruitment activities.

The government is also continuously working with other countries for the protection and promotion of the welfare of overseas Filipinos through bilateral agreements with some countries. Series of consultations were undertaken with Japan on consular matters such as visas, immigration policy, Social Security Agreement, Nikkeijin and Japanese-Filipino Children and Protection of Nationals. The government likewise secured Myanmar's commitment during the First Philippine-Myanmar Policy Consultations to facilitate the release of Filipino fishermen caught illegally entering Myanmar waters. The Philippines-Spain Agreement on Cooperation on the Management of Migratory Flows was signed during the visit of President Arroyo to Spain. Another quid pro quo proposal with Jordan on overstaying Filipino workers in Jordan and Jordanians in Philippine prisons is also being reviewed.

Implement the Overseas Absentee Voting (OAV) Law fairly and effectively

The government continued to undertake activities to execute the OAV Law. The Commission on Elections (COMELEC), through the Committee on Overseas Absentee Voting (COAV), started the continuing registration at the different embassies and consulates of the Philippines in October 2005. The target was to generate one million registrants in the voter registration which began on March 17, 2005 until August 31, 2006 and was extended until October 31. By the end of the registration period, there were 142,667 new overseas absentee registrants. During the registration in 2003, there were already 361,443 registrants, a total of 504,110 eligible overseas absentee voters. Statistics showed a remarkable increase in the number of sea-based registrants. In 2003, there were 2,000 sea-based registrants, increasing to 18,404 in 2006. The COAV embarked on an information campaign on the conduct of overseas absentee voting registration through tri-media services, specifically flyers, brochures, and even the media coverage and advertisement services on The Filipino Channel (TFC).

Significant amendments to RA 9189 (Overseas Absentee Voting Act of 2003) are proposed to the House of Representatives and the Senate for enactment. The proposed amendments seek to correct certain flaws in the law such as the manner of voting and registration, and to introduce other innovative modes of voting and registration.

Improve public and consular services

The improvement of consular services, such as the issuance of passports and authentication certificates is likewise a key priority of the government. Aside from providing more efficient services, this will also protect overseas Filipinos who are subjected to intense scrutiny abroad because of the manually prepared and hand-written Philippine passports that are not machine-

readable. Aside from the ongoing development of a machine-readable passport which will provide increased security of personal information, the DFA is continuously working on streamlining its frontline services in an effort to reduce the incidence of fixers.

In 2006, the agency implemented Project 30-15, which effectively reduced the average waiting time for processing and release of authenticated documents to 30 and 15 minutes, respectively. Likewise, Oplan FASTPORT allows the uninterrupted processing and release of passports from 7 a.m. to 5 p.m., Mondays to Fridays.

Through its Mobile Passport Missions, the DFA was also able to offer one-day processing and release of passports in various municipalities and cities across the country.

PROSPECTS AND POLICY DIRECTIONS FOR 2007

A serious comprehensive program for human rights education among the police and the military should accompany the capacity-building efforts to upgrade the capabilities of Philippine law-enforcement agencies. Along with efforts to investigate the killings of militants and journalists, and the crackdown on erring personnel, such program would demonstrate to the international community the country's long-term commitment to human rights. Without such commitment, no amount of road shows and public relations offensives could placate the outcry of human rights groups and the condemnation of the European Union (EU) and the United States on the unresolved killings.

In response to the threats posed by militants from Al-Qaeda and Jemaah Islamiyah, some of whom are allegedly hiding in Mindanao, intelligence networks through the use of local assets would have to be expanded in suspected areas. This could be complemented by setting up a cooperative mechanism for joint border patrols with Malaysia and Indonesia and improving exchange of intelligence to enhance

interdiction of militants crossing the borders of these countries. Lastly, the matter on allegations about militants and other homegrown terrorists being harbored by Moro Islamic Liberation Front (MILF) should be elevated to the highest level and incorporated in the ongoing Government of the Republic of the Philippines-MILF (GRP-MILF) negotiations.

Negotiations would have to start on maritime boundary delineation to comply with the United Nations Convention on the Law of the Sea (UNCLOS) deadline of 2009. This year would be an opportune time to commence preparatory talks with nations where the country has overlapping Exclusive Economic Zones (EEZ) to determine areas of conflict and complementation. The lead-time would give the Philippine negotiating team sufficient leeway to agree on talking points and finalize the country's position on sensitive border claims. Potential flashpoints arising from territorial disputes in the South China Sea, particularly in the Spratlys, among Vietnam, China, Philippines and Brunei could be better resolved within the UNCLOS framework.

There is also a need to decisively tackle the Sabah issue, which has been a perennial

thorn in Philippine diplomacy. A well-coordinated strategy on Sabah should be drawn up in consultation with the heirs of the Sultan of Sulu, concerned agencies and other stakeholders. This will enable the country to enter into negotiations with Malaysia and engage the assistance of the world community, especially UN institutions, to arrive at a peaceful resolution of the controversy.

The lessons learned from the Lebanon experience is a good starting point for reviewing the country's contingency plans to further improve the response times in extracting overseas Filipinos from danger zones. Concrete action measures to ensure prompt and safe repatriation of overseas Filipinos would need to be drawn up. The DFA could also take the lead in drafting Memoranda of Agreement with foreign embassies to assist in the evacuation of OFWs through the provision of transport, food and other supplies. An assessment of the current systems and procedures for remitting emergency funds should also be carried out to come up with appropriate mechanisms to avoid the costly delays in the past. This will ensure that the Philippine embassy and labor officials in war-torn countries could act with dispatch in looking after the welfare of overseas Filipinos.

Chapter 24

Constitutional Reforms

With the goal of instituting constitutional reform within 2006, the Committee on Constitutional Amendments (CCA) of the House of Representatives (HOR) has approved and adopted a Resolution, proposing the revision of the 1987 Constitution. The pertinent provisions in the said Constitution for revision focused on the presidential form and unicameral system of government, electoral and political party system, and on provisions affecting economy and national patrimony. On the other hand, the Senate has pushed through with the enactment of laws that addressed the issues affecting the said reform.

The Committee was authorized to dialogue with its Senate counterpart on issues surrounding charter change by the HOR, as agreed in the April 2006 Legislative Executive Development Advisory Council (LEDAC). Unfortunately, there were no concrete results from these talks. Nonetheless, it was already a big accomplishment that the Senate and the House panels met and started the process of dialogue.

ASSESSMENT

To improve political institutions, electoral, and political party systems in the country and increase foreign investments and domestic employment as well, the CCA through Resolution No. 1230, "Resolution Proposing the Revision of the 1987 Constitution," laid down pertinent provisions of the present Constitution which will be subject to amendment.

The following are the pertinent Articles in the 1987 Constitution which the CCA of the HOR has proposed for amendments pursuant to its goal of having a better Constitution:

A. Reassessment of the current presidential form of government and present unitary system of government:

1. ARTICLE VI & VII – The Legislative Department and the President
2. ARTICLE VI – The (Legislative Department) Parliament
3. ARTICLE VII – The President
4. ARTICLE VII-A – The Prime Minister and the Cabinet
5. ARTICLE VIII – Judicial Department

B. Electoral and political party systems:

1. ARTICLE IX – Constitutional Commissions

C. Review the restrictive economic provisions of the Constitution:

1. ARTICLE XII – National Economy and Patrimony
2. ARTICLE XVI – General provisions

On December 6, 2006, the sponsorship of the amendments by Chairman Constantino G. Jaraula by the plenary was

aborted due to some technicalities. However, the Majority deemed it fit to introduce a new measure, Resolution 1450 – “Resolution Calling for the Convening of Congress to Propose Amendments to, or Revision of, the Constitution upon a Vote of Three-fourths of all its Members, pursuant to Section 1, Article XVII of the Constitution”, as reported in the Committee Report 2142 by the Committee on Rules.

On the same date, Committee Report 2124 was approved by the plenary, the dispositive portion of which was the calling of all members of Congress to meet on December 12, 2006 in the plenary hall of the HOR, Batasan Complex, Quezon City, to propose amendments to, or revision of, the Constitution.

However, due to supervening events and the House Leadership heeding to the clamor and opinion of various religious sectors against the Constituent Assembly mode in amending the Constitution, Resolution 197 which substituted Resolution 1450 was cancelled, withdrawn or abrogated by the House of Representatives on December 11, and archived on December 14 to put to rest the issue. The resolution can be revived anytime.

The Committee thereafter scheduled a meeting on December 19, 2006 for the

deliberation of all measures referred to the Committee on the calling of a constitutional convention. However, this was cancelled due to the necrological service for Congressman Luis P. Bersamin, Jr. scheduled on that day and time.

The Senate of the Philippines, on the other hand, has pushed through with laws in relation to matters affecting the issues on constitutional reforms that include: (a) Republic Act (RA) No. 9639 - Automated Election System; (b) RA No. 9333 – Autonomous Region in Muslim Mindanao (ARMM) Law; and (c) RA No. 9340 – Barangay Election Law.

Despite these efforts and initiatives, the mode of amending the present Constitution remains undetermined. Both houses of Congress have different positions in this aspect with the HOR pushing for a Constituent Assembly and the Senate, Constitutional Convention.

PLANS AND DIRECTIONS

Upon the convening of the 14th Congress sometime in July 2007, the members of the HOR and the Senate shall determine the issues regarding constitutional amendments.