



SOCIOECONOMIC REPORT 2005



NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

About the Cover

The year 2005 showcased the resilience of the economy. Despite challenges coming from various fronts, gross domestic product grew by a healthy 5.0 percent.

The photos on the cover showcase some of the reforms undertaken by the government to put development on surer footing. These include promotion of science and technology in the schools, initiatives to ensure fiscal stability, public health, more efficient mass transport, and improved agricultural practices.



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**NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
June 2006**

Acknowledgment

The Socioeconomic Report 2005 (SER) is the result of collaboration among the various NEDA staffs: Agriculture Staff (AS), Development Information Staff (DIS) Information, Technology Coordination Staff (ITCS), Infrastructure Staff (IS), Management Staff (MS), Project Monitoring Staff (PMS), Public Investment Staff (PIS), Regional Development Coordination Staff (RDCS), Social Development Staff (SDS), and Trade, Industry and Utilities Staff (TIUS). Overall coordination was done by the National Planning and Policy Staff (NPPS).

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Air Navigation Service
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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
Department of National Defense - Office of Civil Defense
Department of Public Works and Highways
Department of Science and Technology
Department of Social Welfare and Development
Department of the Interior and Local Government
Department of Tourism
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 (SER) 2005 summarizes what has been achieved during the year to meet national goals and targets spelled out in the Medium-Term Philippine Development Plan. We believe in management by objectives, so we regularly compare these goals on paper with accomplishments on the ground.

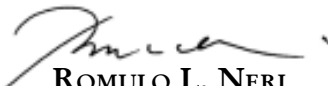
To track these developments, we gathered reports from the various agencies of government. Our NEDA sector staffs then sifted through the data, analyzed performance gaps, and highlighted areas needing the most improvement. Indeed, information on failure was just as important as accounts of success.

In broad strokes, the year 2005 revealed how resilient the economy was. It was a time marked by high oil prices, political drama, a crippling El Niño drought, a severe slowdown in our exports, and price pressure from the expanded value-added tax (EVAT). Despite all these challenges, gross domestic product grew by a healthy 5.0 percent. A tough economy made it through tough times. Powering growth were massive inflows from overseas workers, foreign direct and portfolio investments, a booming outsourcing industry and the rediscovery of mining, among others.

The year saw the government's will to push through with difficult fiscal reforms. EVAT was implemented despite the threat of political fallout. The state went after tax evaders and smugglers and restrained government spending. The reforms brought the fiscal deficit to a record low, surpassing the targets set for the year. The original plan was to close the deficit by 2010; but at the current rate of reform, it would be closed by 2008. This determination impressed investors, raised the country's credit ratings, and boosted the peso. The strong peso in turn blunted the impact of inflation unleashed by tight oil and the EVAT.

The challenge for 2006 is to sustain the reform momentum and to use the hard-earned fiscal revenues to invest judiciously in infrastructure and top social priorities. Ordinary families must benefit from the recent economic gains. This means more jobs in the market, cheaper food on the table, higher scores on the report card.

We wish to thank all the agencies that provided us their data and reports. We trust that they will be cooperative next year as we all work together to upgrade the living standards of the Filipino people.



ROMULO L. NERI
Secretary of Socioeconomic Planning

Acronyms

ACT	Action for Conflict Transformation
ADB	Asian Development Bank
AEDS	Automated Export Declaration System
AFIS	Automated Fingerprint Identification System
AFMA	Agriculture and Fisheries Modernization Act
AFMP	Agriculture and Fisheries Modernization Plan
AFP	Armed Forces of the Philippines
AFPDDC	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
ANI	Action for Nutrition Improvement
APC	Asset Participation Certificate
APCSS	Asia Pacific Center for Security Studies
APJR	Action Program for Judicial Reform
ARC	agrarian reform community
ARF	Agrarian Reform Fund
ARF	ASEAN Regional Forum
ARMM	Autonomous Region in Muslim Mindanao
ASDS DPP	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
ASYCUDA	Automated System for Customs Data
ATO	Air Transportation Office
ATTF	Anti-Terrorism Task Force
AUSAID	Australian Agency for International Development
BAC	Bids and Awards Committee
BALS	Bureau of Alternative Learning System
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 Course
BFAR	Bureau of Fisheries and Aquatic Resources
BFP	Bureau of Fire Protection
BI	Bureau of Immigration
BIN	Barangay Information Network
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
BOC	Bureau of Customs
BOI	Board of Investments
BoP	Balance of Payments
BOT	Build-Operate-Transfer
BPA	Beijing Platform for Action
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
CADT	Certificate of Ancestral Domain Title
CALT	Certificate of Ancestral Land Title
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
CDA	Cooperative Development Authority
CDAP	Comprehensive Delineation Action Plan
CDM	Clean Development Mechanism
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 and Education
CHEDIS	CHED-Information System
CIA	CARP-Implementing Agency
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
CLUP	Comprehensive Land Use Plan
CMMI	Capability Maturity Model Integration
CMP	Community Mortgage Program
CMT	Change Management Team
CMTS	Cellular Mobile Telephone Service
CNC	Certificate of Non-Coverage
CNS/ATM	Communications, Navigation, Surveillance/Air Traffic Management
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
CPI	consumer price index
CPIP	Credit Policy Improvement Program
CPLA	Cordillera People's Liberation Army
CLPIMS	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
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	DA-Halal Food Industry Development Committee
DAI	digital accessibility index
DAP	Development Academy of the Philippines
DAR	Department of Agrarian Reform
DARAB	DAR Adjudication Board
DBCC	Development Budget Coordination 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
DHUD	Department of Housing and Urban Development
DICT	Department of Information and Communications Technology
DILG	Department of the Interior and Local Government
DMIA	Diosdado Macapagal International Airport
DND	Department of National Defense
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
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
DTOMIS	Drug Test Operations Management Information System
E-BESE	Employees' Confederation of the Philippines (ECOP) BESE
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
EDC	Energy Development Corporation
EER	Efficiency and Effectiveness Review
EHP	Early Harvest Program
EIS	Environmental Impact Statement
e-NGAS	Electronic National Government Accounting System
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 project
FARMC	Fisheries and Aquatic Resources Management Councils
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 and Technology Services
FMD	foot and mouth disease
FNRI	Food and Nutrition Research Institute
FOSARV	Follow-On Search and Rescue Vessel Acquisition Project
FPAN	Federation of PNP Accredited Nongovernment Organizations
FPW	Framework Plan for Women
FRMP	Fisheries Resource Management Project
FSF	Financial Sector Forum
FSI	Foreign Service Institute
FTI	Food Terminal Incorporated
GAA	General Appropriations Act
GAD	gender and development
GAMABA	<i>Gawad sa Manlilikha ng Bayan</i>

GDP	gross domestic product
GenCo	generation companies
G-EPS	Government Electronic Procurement System
GFI	government financial institutions
GIP	Government Internship Program
GIR	gross international reserves
GIS	Geographic Information System
GITR	Global Information Technology Report
GK	Gawad Kalinga
GNP	gross national product
GOCC	government-owned-and-controlled corporations
GPPB	Government Procurement Policy Board
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
HDMF	Home Development Mutual Fund
HEI	higher education institutions
HGC	Home Guaranty Corporation
HIV	human immunodeficiency virus
HLURB	Housing and Land Use Regulatory Board
HRISP	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
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 Culture 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
IDR	Integrity Development Review
IEE	Initial Environmental Examination
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
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
ISM	International Safety Management
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
ITCs	Industry Tripartite Councils
ITECC	Information Technology and E-commerce Council
ITFP	IT 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
JSPM	job-skill matching program
JURIS	Judicial Reform Initiative Support
KALAHl	<i>Kapit-Bisig Laban sa Kahirapan</i>
KALAHl-CIDSS	<i>Kapit-Bisig Laban sa Kahirapan</i> -Comprehensive and Integrated Delivery of Social Services
KARZones	(KALAHl) Agrarian Reform Zones
KasH	<i>Kasanayan at Hanapbuhay</i> Program
KIG	Kalayaan Islands Group
KKB	<i>Kapangyarihan at Kaunlaran sa Barangay</i>
LAMA	Land Administration and Management Authority
LBP	Land Bank of the Philippines
LELEDFI	Lino Ed. Lim Educational Development Foundation, Inc.
LIAC	Local Inter-Agency Committee
LMC	labor management council
LPRAP	Local Poverty Reduction Action Planning
LRA	Land Registration Authority
LTl	Land Tenure Improvement
LTO	Land Transportation Office
LUC	Local Universities and Colleges
LWUA	Local Water Utilities Authority
LYDP	Local Youth Development Councils
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
MDGs	Millennium Development Goals
MEDCO	Mindanao Economic Development Council
MFI	microfinance institution
MIAA	Manila International Airport Authority
MILF	Moro Islamic Liberation Front
MMBFOE	Million Barrels of Fuel Oil Equivalent
MMDA	Metro Manila Development Authority
MMS	multimedia messaging service
MMUSP	Metro Manila Urban Services for the Poor Project
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
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

NGAS	New Government Accounting System
NGC	National Government Center
NGO	nongovernment organization
NGVPPT	Natural Gas Vehicle Program for Public Transport
NHA	National Housing Authority
NHIP	National Health Insurance Program
NHMFC	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 Corporation
NNC	National Nutrition Council
NPC	National Power Corporation
NPCC	National Price Coordinating Council
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
NCT	National Cultural Treasures
NTESDP	National Technical and Skills Development Plan
NTP	notice to proceed
NWAR	National Warrant of Arrest Registry System
NWIN	National Water Information Network
NWRB	National Water Resources Board
NWTF	Negros Women for Tomorrow Foundation
NYC	National Youth Commission
OAV	overseas absentee voting
OBU	Offshore Banking Units
OCD	Office of the Civil Defense
ODA	official development assistance
ODS	ozone depleting substance
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 of Senior Citizens Affairs
OSND	Office of the Secretary of National Defense
OSSC	One-Stop Shop Committee
OTOP	One-Town-One-Product
OUSIC	Office of the Undersecretary for Internal Control
OWWA	Overseas Workers Welfare Administration
P/MWSU	Provincial/Municipal Water and Sanitation Unit

PACAP	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
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
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
PNCO	Police Non-Commissioned Officers
PNOC	Philippine National Oil Company
PNP	Philippine National Police
PNP CLG	PNP Crime Lab 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
PPO	Parole and Probation Office
PPRA	Program Performance Review and Analysis
PPSC	Philippine Public Safety College
PPSJ	Philippine Province of the Society of Jesus
PPTA	Preparatory Project Technical Assistance
PRRC	Pasig River Rehabilitation Commission
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Philippine Services Coalition
PTA	Philippine Tourism Authority
PTCA	Parents-Teachers-Community Association
PTE	public telecommunications entity
QUEDANCOR	Quedan and Rural Credit Guarantee Corporation
RATE	run after tax evaders
RATS	run after smugglers
RCO	revenue collection officer
RDC	Rehabilitation and Diagnostic Center
RELIEF	Reconciliation and Listing of Establishments
RH	reproductive health
RICA	Revised Investment Company Act
RIPS	Revenue Integrity Protection Service
RKCG	Regional KALAHI Convergence Group
RNA	rapid needs assessment
RORO	roll-on/roll-off
ROW	right-of-way
RPMM	<i>Rebolusyonaryong Partidong Manggagawa ng Mindanao</i>
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
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

SMS	short messaging services
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 Arterial Road
STORA	Supplementary Toll Reparation Agreement
SUC	state universities and colleges
SULONG	SME Unified Lending Opportunities for National Growth
SUWCP	Street and Urban Working Children Program
SWATEOD	Special Weapons and Tactics-Emergency Operation Division
SWG	special working group
SY	school year
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 champions
TLRC	Technology and Livelihood Resource Center
TOE	Table of Organization and Equipages
TOP	trial operation program
TOR	terms of reference
TransCo	Transmission Corporation
TSKI	<i>Taytay sa Kauswagan</i> , 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-ASPA	UN and the American Society of Public Administration
UNCAC	United Nations Convention Against Corruption
UNDP	UN Development Programme
UNFPA	United Nations Population Fund
UP MSI	University of the Philippines Marine Science Institute
UPISSI	UP-Institute of Small Scale Industries
UP-NIP	UP 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	Violence Against Women 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

The economy once again proved its resilience as it emerged stronger than expected notwithstanding the combined adverse effects of unfavorable weather conditions, escalating fuel costs, and the political turmoil that affected the country in 2005. The marked improvement in the fiscal and BOP position resulted in respectable improvement of the economic fundamentals, necessary for macroeconomic stability. The rise in the inflation rate, however, tempered growth's direct impact on the quality of life.

Growth prospects for 2006 remain bright provided the continued measures of fiscal consolidation, stringent measures to control inflation rate and policy directives to sustain economic growth are implemented as planned.

Domestic production, as shown by gross domestic product (GDP), also slowed down to 5.0 percent growth from 6.2 percent in 2004, falling short by 0.3 percentage points of the MTPDP target for the year. Economic growth was

TABLE A. 2004-2005 GDP GROWTH FOR SELECTED ASIAN COUNTRIES
(In Percent)

	2004	2005
Philippines	6.2 ^{a/}	5.0 ^{a/}
Malaysia	7.2 ^{a/}	5.2 ^{a/}
Indonesia	5.1	5.6
Thailand	6.2 ^{a/}	4.5

^{a/} Revised
Sources: National Statistical Coordination Board (Philippines), National Economic and Social Development Board (Thailand), BPS-Statistics Indonesia (Indonesia), Department of Statistics (Malaysia)

Gross National Product (GNP), which includes production of Filipinos abroad, slowed down to 5.6 percent but within the MTPDP target of 5.5-6.4 percent. Overseas Filipino Workers' (OFW) remittances, which have increasingly served as the economy's cushion from the threats of soaring world oil prices and sluggishness of the export sector, reached US\$10.7 billion this year and contributed significantly to GNP growth.

constrained by the escalating prices due to high fuel cost and the weak demand for electronics in the world market. Exports remained sluggish as electronic products, which comprise 66 percent of total merchandise exports, declined. Nonetheless, this year's economic performance fared beyond the general market's 4.8 percent growth expectation. This is also at par with the overall performance of the ASEAN 4, which on the average expanded by 5.1 percent in 2005.

TABLE B. AGGREGATE ECONOMIC PERFORMANCE

INDICATORS	2004 ACTUAL	MTPDP TARGET	2005 ACTUAL
Gross National Product, growth rate (%)	6.7 ^{b/}	5.5-6.4	5.6 ^{b/}
Gross Domestic Product, growth rate (%)	6.2 ^{b/}	5.3-6.3	5.0 ^{b/}
Investment/nominal GDP (%)	17.0	16.8 ^{a/}	14.6
Inflation rate (%)	6.0	4.0-5.0	7.6
91-day T-bill rate (%)	7.34 ^{b/}	7.5-8.5	6.36
Fiscal balance (% of GDP)	-3.57	-3.6	-2.5
Consolidated Public Sector Deficit (% of GDP)	-4.77	-6.0	-1.96
Exports of goods, growth rate (%)	9.8 ^{b/}	10.0	2.3
Imports of goods, growth rate (%)	8.0 ^{b/}	12.0	7.4
Current Account Balance (US\$ Mn)	1626 ^{b/}	1134	2354
(% of GDP) ^{d/}	1.9	1.2	2.4
Gross International Reserves (US\$ Bn)	16.5 ^{d/}	16.0	18.5
Poverty Incidence (% of families)	-	24.35-25.04	-
Unemployment rate (%) - old definition	11.8	11.9	11.3
- new definition ^{e/}			7.8
Memo items:			
Dubai oil prices. Average (US\$/bbl)	33.64	32.96	49.31
P/\$ exchange rate	56.04	55-57	55.09

^{a/}Development Budget Coordinating Committee forecast, as of September 20, 2005

^{b/}Revised

^{c/}GDP figure as of January 2006, ratio computed by BSP

^{d/}Adjusted figure to effect the adoption of International Accounting Standards

^{e/} Average of April, July and October Labor Force Surveys

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

SECTORAL DEVELOPMENTS

The Agriculture, Fishery and Forestry sector grew at a slower pace of 1.8 percent from 5.3 percent in 2004, below the MTPDP target of 4.2-5.2 percent. The combined effect of unfavorable weather conditions and the high cost of commercial fertilizers adversely affected agricultural crops. Consequently, palay grew by only 0.7 percent while corn contracted by 3.0 percent. Banana production, benefiting from the expansion of commercial banana farms and the efforts of the Bureau of Plant Industry to develop new varieties, grew by 11.8 percent from 4.9 percent a year ago. Meanwhile, the fisheries subsector remained healthy and

posted an output growth of 6.0 percent in 2005 due mainly to the strong production of seaweeds and the establishment of new fishcages for milkfish production. Commercial and municipal fisheries experienced an increase in fishing trips and abundant catch of several aquatic species.

Industrial production on the other hand, slightly picked up at 4.9 percent, lower than the MTPDP target of 5.4 percent. Underpinning industry growth were the growth in mining and quarrying (9.3%) and manufacturing (5.6%), which cushioned the weak performance of the construction (0.9%) and utilities (2.5%) sectors. The government's thrust in

improving the mining policy environment has attracted foreign investments, as shown by three new major projects which started operation in 2005, namely: the Palawan Nickel Project, the Rapu-rapu Polymetallic Project, and the Teresa Gold Project. Construction grew as public construction picked up during the latter part of the year. Nonetheless, growth was weak compared to 2004 with private construction slowing down further to 1.2 percent from 4.8 percent in 2004. Meanwhile, growth of utilities softened amidst the rising cost of oil and regulatory uncertainties.

The manufacturing sector accelerated by 5.6 percent, the highest growth since 2001, on account of the strong growth from both domestic-oriented and export-oriented industries. The textile industry's (13.4%) strong performance in 2005 indicated its ability to compete in a more enabling policy environment, noting the recovery of garment exports from four years of consecutive decline. The surge in output of the petroleum and chemical sub-sectors also pointed to the growing importance of the country's mid-stream industry.

The services sector remained the linchpin of growth despite a slower 6.4 percent growth in 2005 compared to 7.6 percent in 2004. Nonetheless, this performance is within the MTPDP target of 5.7-6.6 percent. The transportation, communications and storage sector slowed down by 7.2 percent from 11.2 percent in 2004. This is attributed to the negative growth of land (-4.1%) and water (-5.7%) transportation sectors. This decline is partially offset as storage and other services incidental to transport accelerated by 18.4 percent and by communication which remained strong at 14.8 percent.

Meanwhile, the finance sector expanded by 13.6 percent from 9.9 percent

in 2004, exceeding the MTPDP target of 6.0-7.0 percent. Banking services, which account for 71.3 percent of the sector, grew by 20.0 percent as banks' income rose mainly due to higher net interest income and non-interest income derived from fee-based and trading activities. The upsurge in remittances stimulated fee-based activities from increased remittance inflows. Commercial banks continued their vigorous campaign to provide banking services to the growing number of Filipino workers abroad through enhanced modes of money transfers, as well as wider network/presence through increased number of remittance centers and tie-ups with foreign financial counterparts resulting in a better capture of remittances.

SOURCES OF DEMAND

Increased household income resulting from the strong OFW compensation inflow helped push private consumer spending and somehow mitigated the impact of higher prices as personal consumption expenditure grew by 4.9 percent, although lower than the 5.8 percent expansion in 2004. Cost push pressures from external and internal sources resulted in a full-year inflation rate of 7.6 percent. With stable private consumption, the trade sector grew by 5.9 percent in the fourth quarter, ensuring a full year growth of 5.6 percent.

The country's merchandise exports however, managed to expand by only 4.2 percent, below the MTPDP target of 8.2-9.2 percent due to the slow growth of semiconductors and electronic microcircuits (4.8%). This showed that the country's undiversified export structure has caused export performance to be highly vulnerable to changes in trade patterns. Amid the political uncertainty resulting

from the impeachment complaint filed against President Arroyo, capital formation declined by 6.0 percent. Nonetheless, hefty year-on-year increases in capital formation were observed among priority sectors such as mining and construction machinery (30.8%), sugarmill machinery (10.1%), telecommunications (18.5%), and transportation (rail, road, air, & water) equipment (41.7%).

FISCAL DEVELOPMENTS

True to its commitment to attain fiscal independence, strengthening the country's fiscal position was the centerpiece of fiscal policy in 2005. The government pushed for the passage and implementation of key fiscal legislative measures and worked towards improving tax collection efficiency while at the same time reined in its expenditures. The efforts paid off as the full-year fiscal deficit of PhP146.5 billion

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

Indicators	2004 Actual ^{a/}	MTPDP Target	2005 Actual ^{a/}
Gross National Product	6.7	5.5-6.4	5.6
Gross Domestic Product	6.2	5.3-6.3	5.0
Net Factor Income from Abroad	13.5	8.0-8.2	13.5
Production			
Agriculture, Fishery & Forestry	5.3	4.2-5.2	1.8
Industry	4.7	5.4-6.4	4.9
Mining and Quarrying	2.6	15.0-16.0	9.3
Manufacturing	5.1	5.0-6.0	5.6
Construction	3.4	4.8-5.8	0.9
Utilities	4.2	4.1-5.1	2.5
Services	7.6	5.7-6.6	6.4
Transportation, Communication & Storage	11.2	9.7-10.7	7.2
Trade	6.8	5.7-6.6	5.6
Finance	9.9	6.0-7.0	13.6
Other dwellings and Real Estate	5.3	4.0-5.0	5.4
Private Services	10.1	6.3-7.3	5.5
Government Services	0.5	(1.9) – (1.1)	1.9
Expenditures			
Personal Consumption	5.8	4.7-5.3	4.9
Government Consumption	1.4	3.4-3.9	4.0
Capital Formation	7.2	6.6-6.8	-6.0
o.w. Fixed Capital	1.3	6.6-7.1	-3.9
Construction	-0.8	5.1-5.5	-0.9
Public	-9.3	2.0-3.0	-4.6
Private	4.8	6.0-7.0	1.2
Exports	14.4	8.2-9.2	4.2
Imports	5.8	11.7-12.7	2.4

^{a/} Revised as of May 2006

Source: National Statistical Coordination Board

was way below the 2004 deficit, the 2005 revised and MTPDP targets. This is the lowest NG deficit-to-GDP ratio since 1999 and the highest primary surplus-to-GDP ratio recorded since 1998.

With a better fiscal position, government consumption expenditures expanded by 4.0 percent exceeding the MTPDP target of 3.4-3.9 percent.

EXTERNAL DEVELOPMENTS

The strong inflows of OFW remittances and renewed investor confidence resulting from sustained improvements in the country's fiscal position greatly strengthened the country's external position.

The balance of payments posted a steep reversal of its 2004 negative external position to a surplus level of US\$2.407 billion in 2005. However, the deficit in trade-in-goods widened, with the slowdown in exports and the bigger expansion in goods imports at 12.6 percent compared to that of goods exports at 2.3 percent. Total imports of goods during the last quarter of the year reached US\$12.395 billion on account of higher purchases in all major commodity groups except consumer goods. Portfolio investments increased to US\$2.8 million from a net outflow of US\$1.7 million a year earlier. Meanwhile, foreign direct inflows reached US\$970 million. Despite market improvements, capital flows remained largely in

the form of portfolio investments rather than foreign direct inflows.

The positive external payments position translated to an increase in BSP's gross international reserves (GIR) to US\$18.495 billion as of end-December 2005, up by 14.0 percent from the end-

TABLE D. BALANCE OF PAYMENTS
(In Million US Dollars)

	2004	2005
Current Account	1,626	2,354
as of % GDP	1.9	2.4
Exports of Goods & Services	42,837	44,693
Imports of Goods & Services	50,298	53,635
Income	-73.0	-107.0
of which: Resident OFW Remittances	10,260	12,293
Current Transfers	9,160	11,403
Capital Account	17.0	40.0
Financial Account	-1,647	820.0
Direct Investment	109.0	970.0
Portfolio Investment	-1,665	2,835
Other Investment	-64.0	-2,942
Net Unclassified Investment	-276	-807.0
Balance of Payments	-280	2,407
as % of GDP	-0.3	2.3

Source: Bangko Sentral ng Pilipinas

TABLE E. EXTERNAL VULNERABILITY INDICATORS

	2004	2005
Gross International Reserves (in million US dollars)	16,528*	18,495
In months of imports	3.6	3.9
Short-term external debt cover (%)	157	161
Total External Debt/GNP (in%)	59.5	51.5
% Medium & Long Term	91.0	88.2
% Owed to private creditors	31.0	32.6
Debt Service/exports of goods, receipts of services and income	13.8	13.3

Note: Adjusted figure for end-Dec 2004 to effect the adoption of the Int'l Accounting Standards, particularly with regard to the shift to market-to-market valuation, for comparability with end-Dec 2005 data.

Source: Bangko Sentral ng Pilipinas

December 2004 level of US\$16.528 billion. At this level, reserves remained adequate and were equivalent to 3.9 months' worth of imports of goods and payment of services and income. In terms of debt coverage, the reserves level is 3.0 times the amount of the country's short-term external liabilities based on original maturity and 1.6 times based on residual maturity.

Meanwhile, the country's outstanding external debt fell to US\$54.2 billion by end-December 2005, equivalent to 55.5 percent of GDP. This is lower by US\$660 million from the US\$54.8 billion in December 2004. The structure of the debt continued to play at a manageable level with medium and long-term loans making up 88 percent of the total debt stock.

LABOR DEVELOPMENTS

Labor market conditions improved as the economy grew under a generally stable macroeconomic environment. Unemployment rate, using the old definition, declined to 11.3 percent from 12.1 percent the previous year. However, employment creation remained below target with an additional 699,000 workers as against the 1.03-1.26 million target for the year. As industrial production remained sluggish, employment mainly came from the agriculture and services sectors. But with the generally peaceful labor conditions, labor productivity managed to grow modestly although still behind other Asian countries' productivity levels.

POLICY DIRECTIONS AND ECONOMIC OUTLOOK

TABLE F. PHILIPPINE EXTERNAL DEBT
(In Million US Dollars)

Borrower	2004	2005
Grand Total	54846	54186
as % of GDP	63.68	55.49
Medium-& Long Term	49800	47791
Short-term	5046	6395
Public Sector	37896	36502
Banks	5950	4914
BSP	2721	1866
Government Banks	3229	3048
NonBanks	31946	31588
CB-BOL	101	56
National Government	31845	25657
Private Sector	16951	17684
Banks	3701	6171
Foreign Bank Branches	977	2864
Domestic Banks	2724	3307
NonBanks	13250	11513

Source: Bangko Sentral ng Pilipinas

In 2006, the economy is expected to further expand between 5.5 - 6.2 percent on the back of stronger exports, upbeat interest in mining, the construction of major infrastructure projects, a strong services sector and the recovery of agriculture. However, despite exhibited resilience of the Philippine economy, this forecast rests on the assumption that all of the outlined programs in the MTPDP will be actually implemented. Downside risks to macroeconomic growth also arise from the political environment as it may impede the reforms that are already being implemented as well as hamper the entry of foreign investments and new infrastructures which constrained growth in the past. The EVAT and the expected

rise in the cost of oil amid rapid world oil demand and tight world supply, and rising tensions in the geopolitical arena in the Middle East are anticipated to push inflation to 7.6-8.0 percent. The rising cost of goods is seen to dampen consumer spending in the short run.

Given the bright prospects and the downside risks, the government's economic policies for 2006 will revolve on its main thrust to aggressively push for economic growth, mitigate the negative effects of inflation and sustain macroeconomic stability through acceleration of fiscal consolidation, financial and economic reforms.

To achieve the targeted economic growth and address the risks that might arise in 2006, the government shall embark on the following set of policy directives:

1. Prioritize the completion and construction of the ongoing and pipeline infrastructure to provide fundamental support to economic growth (*Refer to Chapter 6, Infrastructure*);
2. Pursue aggressive promotion campaigns, integrated with "the brand management" approach, to increase the investment rate in IT and IT-enabled business, mining, shipbuilding, marine products (e.g. seaweed), healthcare and wellness and overall tourism (*Refer to Chapter 1, Trade and Investment*);
3. Improve competitiveness through reduced transport and distribution costs, cheaper power rates, fighting corruption and simplifying business procedures and providing more funds for knowledge

dissemination to increase people's productivity;

4. Encourage development of the country's hospital facilities and infrastructure to enhance competitiveness in the medical tourism industry;
5. Maintain existing and develop more competitive export products and services (*Refer to Chapter 1, Trade and Investment*); and
6. Sustain fiscal consolidation to strengthen investor confidence.

Chapter 1

Trade and Investment

Government efforts in 2005 to develop small and medium enterprises (SMEs) as well as promote trade and investments in identified priority areas contributed to a 17.4 percent increase in loan releases of the SME Unified Lending Opportunities for National Growth or SULONG Program. It also contributed to the tripling of local investments that resulted in an increase in committed investments by 4 percent, as well as the 3.9 and 10.4 percent increase in merchandise and services exports, respectively.

ENTREPRENEURSHIP

Provide credit, technology and marketing support for three million micro, small and medium enterprises (MSMEs)

The SULONG program released PhP31.6 billion to 14,930 SMEs, surpassing the target amount for 2005 by 8.4 percent (Table 1.1). This brings the

total amount lent in 2004-05 to 18.9 percent of the total cumulative loan target of PhP309.98 billion for the period 2004-10. This is higher than the 17 percent target for the said two years.

A comprehensive package of assistance was formulated for 16 regional pilot models under the One Town One Product (OTOP) Program, which generated 23,826 home-based and 46,613 community-based new jobs while

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

	Commitment in 2005	Actual Performance 2005	Actual Performance 2004	Growth Rate (%)	2005 Actual vs. Commitment (%)
Land Bank of the Philippines	9.9	17.43	12.56	38.77	76.06
Development Bank of the Philippines	9.9	10.49	10.3	1.84	5.96
Small Business Guarantee and Finance Corp.	3.6	2.94	3.27	-10.09	-18.33
Philippine Export-Import Credit Agency	1.44	0.15	0.07	114.29	-89.58
Quedan and Rural Credit Guarantee Corp.	3.16	0.56	0.6	-6.66	82.28
National Livelihood Support Fund	0.96	0.03	0.12	-75	96.88
Social Security System	0.2	N.A.	N.A.	N.A.	N.A.
TOTAL	29.16	31.6	26.92	17.38	8.37

Sources: Small Business Guarantee and Finance Corporation (SBGFC), Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP)

sustaining the 45,949 jobs created since the start of the Program. A total of 2,022 new MSMEs (created through new investments) were developed and 4,396 new MSMEs were provided with development assistance and interventions. In implementing the OTOP Program, access to financing is a problem. At present, local government units (LGUs) provide financing to OTOP participants. If needed, the latter are also referred to the SULONG Program for financial support. However, some SMEs participating in the OTOP program have remarked that the SULONG Program is not responsive to their needs. OTOP participants are also finding it difficult to secure access to other financing programs of government financial institutions (GFIs) because of stringent lending requirements.

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

Partnerships between 50 SMEs and 20 big enterprises were forged in 2005 under the Big Enterprise-Small Enterprise (BE-SE) Productivity Improvement Program of the Employers Confederation of the Philippines, and the National Wages and Productivity Commission. The Plan target of forging 300 partnerships per year was not met due to limited financial resources, the need to further educate SMEs and BEs on the importance of productivity development, as well as the need for stronger linkages/partnerships with different industry organizations.

To enhance capacities of SEs to partner with BEs, the Department of Trade and Industry (DTI) conducted 468

training programs for 11,506 participants from various sectors (e.g., furniture, gifts and houseware). Moreover, 25 out of 84 SME Centers were provided with basic facilities and equipment. To disseminate information on existing financing and technical assistance programs for MSMEs, the Development Bank of the Philippines (DBP) conducted briefings in 12 provinces. It also created the marketplace for purchases of SME supplier receivables which resulted in loan releases amounting to Php2.7 billion to 61 SME suppliers of 23 big corporate buyers. The Bureau of Small and Medium Enterprise Development (BSMED) conducted 117 briefing sessions on entrepreneurship for 5,612 participants, and the provision of 369,963 copies of published materials on SMEs.

Tap returning Overseas Filipino Workers (OFWs) as a source of capital

The investment promotion program of the Foreign Trade Service Corps identified potential and prospective investors, including OFWs, and provided them with investment advice and counseling. To reduce the cost of remitting through the banking system, the BSP assisted the Federal Reserve Bank of Atlanta in the conduct of a pre-feasibility that will look into the possibility of interconnecting with the United States Fed Automated Clearing House system.

Provide an environment conducive to MSME development

As of August 2005, 1,079 cities and municipalities are already implementing the barangay micro business enterprises (BMBE) law and 4,097 enterprises were registered as BMBEs. This is an improvement over the 3,624 registered

BMBEs and 1,003 cities/municipalities as of December 2004. In December 2005, the registration requirements for BMBEs with assets of PhP300,000 or less were reduced from nine to two. Thus, the number of registered BMBEs may increase in 2006.

The proposed amendments to the Magna Carta for SMEs were pushed and the SME Development Plan is continuously being implemented. The proposed amendments to the Magna Carta, which aim to rationalize the present institutions and organizations involved in SME development, have been deliberated

on by the House of Representatives Committees' on Trade and Industry and on Small Business and Entrepreneurship Development, but have yet to be presented in the plenary session.

INVESTMENTS

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

Only the priority areas identified in the MTPDP and in specific laws were included in the 2005 Investment Priorities Plan. Brand development teams were

TABLE 1.2 TOTAL INVESTMENTS: 2004-2005
(In Million Pesos)

Agency	Total		Filipino Nationals		Foreign Nationals	
	2004	2005	2004	2005	2004	2005
Total	221,815	231,234	47,920	135,428	173,895	95,807
BOI	164,524	163,879	36,635	120,082	127,889	43,797
PEZA	50,561	62,761	9,024	12,919	41,537	49,842
SBMA	3,727	1,484	1,413	646	2,315	839
CDC	3,002	3,110	847	1,781	2,155	1,329

Totals may not add up due to rounding.
Source: NSCB

TABLE 1.3 TOTAL APPROVED INVESTMENTS BY INDUSTRY: 2004 - 2005
(In Million Pesos)

Industry	2004	2005	Growth Rate (%)
Total	221,815	231,234	4.2
Agriculture	212	770	263.2
Mining	1,512	8,294	448.5
Manufacturing	54,330	150,160	176.4
Electricity, gas & water	115,085	21,928	-80.9
Construction	1,140	83	-92.7
Trade	517	357	-30.9
Transportation	467	22,172	4647.8
Storage	388	26	-93.3
Communications	-	2,080	
Finance & Real Estate	7,158	10,020	40
Other Services	41,006	15,344	-167.2

Source: NSCB

TABLE 1.4 FOREIGN DIRECT INVESTMENTS BY COUNTRY OF INVESTOR
(In Million Pesos)

COUNTRY	2004	2005	Growth Rate (%)
Total	173,895	95,807	-44.9
Japan	26,596	27,539	3.5
Korea	3,260	10,828	232.1
Netherlands	1,473	19,158	1200.6
USA	27,108	14,913	-45
Cayman	7,634	13,817	81
Nauru	96,529	-	-
Others	11,295	9,600	-15

Source: NSCB

formed to promote each of the priority areas. An international mining conference was held in Manila that complemented mining investment roadshows abroad. The Medical Tourism Program was launched and a Philippine study team was sent to Taiwan to determine possible areas of cooperation on integrated circuits between the two countries. Industry roadmaps that identify programs and activities that will be undertaken to make the priority sectors globally competitive were also implemented.

Committed investments increased by four percent or from PhP221.8 billion in 2004 to PhP231.2 billion in 2005, with local investments almost tripling at PhP135.8 billion (Table 1.2 and 1.3). These investments are expected to generate 132,043 additional jobs that could contribute about nine percent to the annual target of 1.4 million to 1.6 million jobs to be generated. However, the actual investment to gross domestic product (GDP) ratio of 18.7 percent (in real terms) in 2005 fell short of the target for the year by 20.3 percent and is still way beyond the target of 28 percent by 2010. The decrease in foreign investments has been attributed to the political

uncertainties that prevailed during the year (Table 1.4). In contrast, Malaysia and Thailand posted increases of 35.9 percent and 8.8 percent, respectively, in approved foreign investments.

Simplify registration procedures

The Board of Investments (BOI) registration procedures are continuously being streamlined to make it easier to obtain registrations in one day. To speed up business name registration (BNR), the DTI teamed up with Internet cafés in Metro Manila to assist clients in using DTI's online BNR service called WeBNRS. The project was pilot-tested in DTI-Rizal. On-line BNR in different parts of the country was also facilitated with the successful relocation of the BNR System to the DTI Data Center. The Department of Interior and Local Government (DILG) finalized the Compendium of Good Practices in the Simplification of Civil Application System, copies of which were distributed to the LGUs for adoption in their business registration system.

TRADE

Maximize exports and investment opportunities offered by trade agreements

The Philippines was able to increase exports to other ASEAN countries as a result of the ASEAN Free Trade Area (AFTA) Agreement. Exports of goods to the region grew by an average of 4.2 percent, while imports rose by 13.1 percent in 2003-2005. Imports consisted mainly of industrial manufactures, e.g., semiconductors and machines, and transport equipment, which could be used as inputs to higher-value products and could also be exported later on.

Efforts to become more integrated with the global economic community were continued. For instance, a

Memorandum of Agreement with China on the Early Harvest Program (EHP) under the ASEAN-China Free Trade Agreement was signed and the Executive Order (EO) that would implement the EHP commitments was issued in 2005. EOs to implement various arrangements under the ASEAN Industrial Cooperation (AICO) scheme, as well as commitments under the AFTA Agreement and ASEAN Integration System of Preferences (AISP), were also issued. Philippine exports to participating countries under the signed AICO arrangements are estimated at US\$77.9 million while only US\$353,702¹ worth of imported anthracite from Vietnam was accorded tariff concessions under the AISP.

Meanwhile, the government continued negotiations on the Japan-Philippines Economic Partnership

TABLE 1.5 2006 MERCHANDISE EXPORTS (US\$M)

COMMODITY	2005	2004	% Growth
TOTAL	41,223.53	39,680.52	3.89
I. TRADITIONAL EXPORTS	24,594.83	22,718.87	8.26
1. Semiconductors	20,218.76	18,706.78	8.08
2. Garments & Textiles	2,542.40	2,409.23	5.53
3. Machinery & Transport	1,833.67	1,602.86	14.4
II. PROD. MGT. CATEGORY-REV. STREAM	11,170.60	12,166.85	-8.19
1. Wearables (Excl. Garments)	67.84	84.9	-20.09
2. Food	1,179.30	1,098.50	7.36
3. Motor Vehicles & Parts	717.32	746.99	-3.97
4. Home Furnishing	441.66	416.8	5.96
5. Marine Prods & Carageenan	409.64	510.9	-19.82
6. Giftwares/H. Decors	186.66	184.2	1.34
7. Construction Materials	202.47	188.79	7.25
8. Organic Products	74.47	120.07	-37.98
9. Electronic Products	7,085.33	8,019.30	-11.65
10. Mineral Products	805.91	796.4	1.19
III. OTHER PRODUCTS	5,458.10	4,794.80	13.83
1. Petroleum Products	585.75	380.44	53.97
2. Metal Components	409.01	340.89	19.98
3. Coconut Products	820.79	716.48	14.56
4. Others	3,642.55	3,356.99	8.51

Source: Bureau of Export Trade Promotion

¹ January-August 2005

Agreement to resolve outstanding issues. The Philippines, together with other ASEAN countries, signed the ASEAN-Korea Framework Agreement on Comprehensive Economic Cooperation and embarked on negotiations for a free trade agreement with New Zealand and Australia.

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

Promotional campaigns and trade fairs held abroad yielded sales amounting to around US\$115.77 million while sales from local trade fairs reached US\$160 million. Total exports of the 10 revenue streams declined by 8.2 percent as only five of the 10 export products considered as revenue streams (i.e., food, home furnishings, giftware/house decors, construction materials, and mineral products) posted a positive export growth (Table 1.5). Meanwhile, exports of services grew by 10.4 percent due largely to higher earnings from computer and information services, other business

services, and the finance sector (Table 1.6). The increase in tourist arrivals contributed to the 5.6 percent increase in travel receipts.

Simplify export/import procedures

The Automated Export Declaration System (AEDS) was rolled out to seven pilot locators in three pilot ecozones in Mactan. Efforts to roll out the AEDS to the motor vehicle parts manufacturing sector were continued. Moreover, the Export Development Council prepared draft amendments to the Export Development Act to improve efficiency of export documentation and clearance procedures. To facilitate export documentation, the operation of nine one-stop export documentation centers were computerized. However, the DTI commitment to develop an electronic business facilitation platform to facilitate business matching and export transactions by December 2005 has yet to materialize. The DTI with the Philippine Economic Zone Authority (PEZA) has yet to establish one holistic center for electronics

TABLE 1.6 SERVICES EXPORTS (US\$M), 2004 and 2005

SECTORS	2005/p	2004	% Growth
TOTAL	4,462	4,043	10.4
Transportation	1,041	1,001	4
Travel	2,130	2,017	5.6
Communications	520	487	6.8
Construction	66	71	-7
Insurance	12	12	0
Finance	53	43	23.2
Computer and information	89	33	169.7
Royalties and license fees	6	11	-45.4
Other business services	525	361	45.4
Personal, cultural and recreational services	7	20	-65
Government services	0	0	0

Source: Bangko Sentral ng Pilipinas

^pPreliminary data.

TABLE 1.7 ICT SERVICES: REVENUES, EMPLOYMENT AND INVESTMENTS

SERVICES	REVENUES (US\$M)		EMPLOYMENT	
	2004	2005	2004	2005
Contact Center	1,024	1,792	64,000	112,000
Back Office	120	180	15,000	22,500
Medical Transcription	42	70	3,000	5,000
Legal Transcription	4	6	300	450
Other Data Transcription	26	39	2,000	3,000
Animation	52	74	2,800	4,000
SW Development (Export)	170	204	10,000	12,000
Engineering Design	34	48	2,000	2,800
Digital Content	3	7	200	500
Total	1,475	2,420	99,300	162,250
Total Investment in PhPM	8,074	11,000		

Source: BOI

business and export facilitation to be operated in key areas nationwide; or issue an EO or any other governing law and policy that will streamline exportation of semiconductor and finished electronic products to ease export processing.

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

The Philippines' request to the US Department of Agriculture to amend the latter's regulation on the importation of fruits to the US was favorably considered. The DTI took the lead in harmonizing all government programs related to *halal* trade to ensure compliance with international standards and the effective implementation of the *Halal* Export Trade Development Program. Moreover, the DTI was able to develop 1,022 new standards, 2.25 percent more than the target of 1,000 standards for the year. It was also able to harmonize 75 percent of the Philippines' national standards with international standards. Notwithstanding

these efforts to enhance export performance, total merchandise exports grew by only 3.89 percent, way below the target of 10 percent for 2005 (Table 1.5).

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

Promote ICT and related services

Total investments in ICT and related services increased by 40 percent or from PhP8.07 billion in 2004 to PhP11 billion in 2005 (Table 1.7). Meanwhile, contact centers remained the highest revenue earner among the ICT services in 2005 at US\$1.79 billion, up by 75 percent from 2004. Total employment in the ICT services sector reached 162,250 or 63.4 percent more than that in 2004, with contact centers providing 70 percent of employment.

Improved ICT Manpower

Industry-recognized course electives focusing on communication and customer relations in an international business setting were formulated in partnership with the academe and industry. These were taught in various universities nationwide, and are being promoted for adoption in other educational institutions. The Technical Education and Skills Development Authority (TESDA), the Information Technology Foundation of the Philippines (ITFP) and BOI continue to develop skills and competency standards for the ICT priority sectors. Standards for contact centers, medical transcription, animation and software programming were approved by the industry and TESDA in 2005 while development of skills standards for engineering design started in the same year.

As part of the National ICT Certification Program, the Commission on Information and Communications Technology (CICT) finalized the development of the National ICT Competency Standards (NICS). Various levels of NICS, such as NICS Basic, NICS Advanced, NICS for Teachers, and NICS for Civil Servants or ICT Specialists in Government, were developed to identify the level of knowledge and competence an individual must possess for a specific ICT field. The International Computer Driving License (ICDL), which is a certification program to determine the level of computer literacy of government officers and employees, has been finalized by the CICT.

Conduct IT investment promotions and foreign missions

In 2005, the DTI-BOI hosted a series of walking tour programs in Baguio, Pangasinan, Calabarzon, Camarines Sur, Leyte, Iloilo, Cagayan de Oro, Davao, Zamboanga and General Santos. This is in response to the request of investors to identify other areas outside Metro Manila that can accommodate and host ICT operations and further strengthen the capabilities of regions and provinces that have the interest and potential of becoming IT hubs. During the year, Cebu City was launched as an IT hub.

Chapter 2

Agribusiness

Recognizing that higher agricultural production does not automatically result in higher farm incomes and lower rural poverty, the 2004-2010 Medium-Term Philippine Development Plan (MTPDP) and the President's 10-Point Agenda shifted to the more holistic agribusiness approach for the sector. Its "seed-to-shelf" viewpoint looks at the whole production and distribution system to identify the most strategic and catalytic agriculture and agriculture-based products as well as interventions that will effectively raise farm incomes and employment. Thus, although basic agricultural commodities will continue to be a priority, competitive high-value agriculture and agriculture-based products will also be supported. This will not only address agricultural production constraints but also postproduction handling, value-adding, as well as marketing and distribution concerns. Specifically, it seeks to attain two major goals within the medium-term period: (a) **the development of at least two million hectares of new agribusiness lands** in order to create at least **two million jobs**, or one job per hectare; and (b) **making food plentiful at competitive prices**, where the cost of priority "**wage goods**" such as rice, sugar, vegetables, poultry, pork and fish, and other important nonwage goods like corn must be reduced.

The available data pointed to a general underperformance by both the sector and the sector agencies in 2005 vis-à-vis the targets set in the 2004-2010 MTPDP. This is attributed to adverse weather conditions (El Niño during the 1st semester and a mild La Niña during the 2nd semester), some institutional rigidities and adjustment difficulties given that 2005 was effectively the initial year of Plan implementation, inadequate resource mobilization and allocation, among others.

Develop at least two million hectares of new agribusiness lands in order to contribute two million out of the 10 million jobs targeted as a legacy by 2010

The pace of agribusiness lands development in 2005 was slower than what is needed to reach the two million hectare mark by the end of the planning period, or at least 333,333 hectares of agribusiness lands per year to reach the target. Of the Department of Agriculture's (DA's) target of 357,650 hectares for 2005, only 57 percent has been attained (Table 2.1). Underperformance persisted by

**TABLE 2.1 TARGET AND ACTUAL AGRIBUSINESS LANDS DEVELOPED IN 2005
(In Hectares)**

Commodity	2005 Target	Area Developed **	Percent of Target
Coconut	151,539	78,903	52
Major High Value Crops (<i>Mango, Banana, Pineapple</i>)	45,240	24,337	54
Other High Value Crops	89,931	36,938	41
Sugar	-	13	
Corn	48,771	43,542	89
Abaca	9,337	8,589	92
Livestock	3,482	1,581	45
Fisheries	9,351	8,765	94
Total	357,650	202,668	57

Source: DA

* Physical areas available, specific crops/commodities suited for production, and potential cooperators and agri-fishery facilities identified.

** 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.

commodity and varied widely with abaca and fisheries having the least shortfall of less than 10 percent of the target.

Shortfalls were also registered in the CARP land distribution, where agribusiness is also to be promoted (Table 2.2). The DAR reported a 97 percent accomplishment rate for 2005 vis-à-vis its 2005 target. This, however, translated to

only 55 percent of the 230,000 hectares per year that the department should have been targeting to accomplish its mandated goal. Meanwhile, the DENR exceeded their internally-set land distribution target for the year.

Meanwhile, employment generation in the agriculture sector increased by 54.1 percent given the

**TABLE 2.2 LAND DISTRIBUTION TARGET AND ACCOMPLISHMENT IN 2005
(In Hectares)**

Program/Activity	Target	2005 Accomplishment*	Percent of Target
Land Distribution			
DAR			
Area Distributed (Ha)	130,000	125,811	97
FBs (No)		81,824	
DENR			
Public A&D (Ha)	96,685	107,134	111
ISF/CBFM (Ha)			
FBs (No)		101,411	
Total CARP (Ha)		232,945	
FBs (No)		183,235	

* Partial and Preliminary
Source: DAR Planning

249,000 new jobs created in 2005. The sector accounted for more than one-third of total employment for the year (Table 2.3). Quality of agricultural employment, however, needs to be improved considering that 24.7 percent are unpaid family workers and underemployment rate is 45.8 percent in 2005.

Make food plentiful at competitive prices where the cost of priority “wage goods” such as rice, sugar, vegetables, poultry, pork and fish and other important non-wage goods like corn must be reduced

The 2005 agriculture production growth data in Table 2.4 shows that the aspect of “making food plentiful” was not met. Real GVA growth rate for agriculture was about half of what was expected for the year mainly due to the El Niño in

TABLE 2.3 EMPLOYMENT CREATION BY SECTOR, 2004-2005

SECTOR	Level	Percent Change	Percent Share	
	2005	2004	2005	2004
Agriculture	249,000	161,000	54.1	35.6
Industry	26,000	158,000	-83.4	3.7
Services	424,000	658,000	-35.6	60.7
Total	699,000	978,000	-28.5	100

Source: NSO

Note: Totals do not add up due to rounding-off errors

**TABLE 2.4 GROSS VALUE ADDED IN AGRICULTURE AND FISHERIES, 2004-2005
(In Constant Prices)**

SECTOR	2003-2004		Percentage Change 2004-2005		2nd semester	
	Target	Actual	Target	Actual	2004	2005
Agriculture and Fisheries	4.0-5.0	5.10	4.2 - 5.2	2.24	3.75	3.71
Crops		5.18		0.48		
Livestock		-1.00		2.04		
Poultry		4.23		1.41		
Fisheries		9.43		6.47		

Source: BAS

**TABLE 2.5 VOLUME OF PRODUCTION OF WAGE GOODS, 2004-2005
(In '000MT)**

Wage Goods	2004	2005	Growth Rate (%)
Rice	14496.8	14603	1
Sugar	1213.9	1056.4	-13
Vegetables	1065.9	585.4	-82.1
Chicken	1231.8	1238.4	1
Pork	1709.4	1761.8	3
Bangus	273.5	289.1	6
Tilapia	177.8	163	-8

Source: BAS

the first half of the year. Crops and poultry were mostly affected by this phenomenon. Higher input prices, due to the spike in oil prices, have, likewise, constrained agricultural production. Nonetheless, the sector is showing signs of recovery as the second semester production growth recovered to nearly the same pace posted during the same period last year.

All the wage goods, except for *bangus*, registered weak production performances during the year (Table 2.5). Vegetables, sugar and tilapia even posted contractions in production.

In terms of “making food prices affordable and competitive,” there was a general rise in the cost of living as inflation increased by 7.6 percent compared to 6.0 percent in 2004 due to a surge in oil prices and its associated products, as well as possible supply-side constraints due to the general slowdown in production growth (Table 2.6). Food inflation rate increased by 6.5 percent compared to 6.4 percent in 2004. The increase in the prices of food commodities, however, was slower compared to nonfood inflation rate of 8.6 percent in 2005.

Except for rice, the various wage goods posted only small increments in prices in spite of the economy-wide inflationary pressure brought by the successive oil price hikes during the year (Table 2.6). This is partially explained by the fact that *palay* production generally use more fossil fuel-based inputs than the other crops (32% of production inputs).

It should, however, be noted that some survey results have flagged higher incidences of hunger in some areas of the country during the year in spite of the lower vulnerability of food items to inflationary pressure. This concern needs further investigation.

On the financial aspect of Plan implementation, the preliminary MTPIP figures show that there was a general underfunding of the National Government’s (NG’s) Agri-business initiatives during the year (Table 2.7) mainly coming from other sources such as the LGUs, GOCCs/GFIs, donors and the private sector. It should, however, be noted that there have been difficulties in estimating the financing share of the other sources.

**TABLE 2.6 AVERAGE RETAIL PRICES OF WAGE GOODS, 2004-2005
(In PhP)**

Wage Goods	2004	2005	% Change
Rice	18.7	20.7	10.8
Sugar	27.1	28.1	3.6
Vegetables	31.3	31.9	1.8
Chicken	101.9	104.5	2.6
Pork	132.4	134	1.2
Bangus	85.1	87.1	2.4
Tilapia	67.4	69.1	2.5

Source: BAS

**TABLE 2.7 AGRICULTURE SECTOR INVESTMENT REQUIREMENT
VS. SUPPLY, 2005 BY FUNDING SOURCE
(In PhP Billion)**

Details	National Government	Other Sources**	Total
Investment Requirement	19.9	28.7	48.6
Funding Supplied	20.1*	21.2	41.3
Over (Under) Funding	0.2	-7.6	-7.4

* Funding supplied is based on the General Appropriations Act for 2005.
Includes funds from grants, LGUs, GFIs, GOCCs

Chapter 3

Environment and Natural Resources

In keeping with the commitment to fully support the President's 10-Point Agenda, efforts were strengthened to achieve the targets set in the Medium-Term Philippine Development Plan (MTPDP) under the following five priority thrusts of the Environment and Natural Resources (ENR) sector: (1) sustainable and more productive utilization of natural resources to promote investments and entrepreneurship; (2) promotion of responsible mining that adheres to the principles of sustainable development: economic growth, environmental protection and social equity; (3) focusing and strengthening of the protection of vulnerable and ecological fragile areas, especially watersheds and areas where diversity is highly threatened; (4) creating a healthier environment for the population; and (5) mitigating the occurrence of natural disasters to prevent the loss of lives and property. This chapter, thus, assesses the sector vis-à-vis these five thrusts.

A total of 112 target activities were committed to be accomplished for the sector over the medium-term. Of these, only about 69 activities or 62 percent have quantifiable targets while the remaining 38 percent account for those activities with unquantifiable targets.¹ For those with quantifiable targets, however, there were no annual targets set, thus, equal annual targets were used in the assessment in order to determine whether the pace of achievement of activities is likely to meet the medium-term targets.

Results of the assessment indicate that the sector and the sector agencies generally underperformed in 2005. The 41 percent achievement of the quantifiable targets means that the targets for the Plan period will not be achieved if this rate of accomplishment is not at least doubled. The accomplishment rates of the unquantifiable targets could not be assessed although it

must be noted that some activities leading to the achievement of the planned outputs and targets have been initiated and reported.

Relatively better performances were reported for thrusts 1 and 4 given their higher accomplishment rates. This could be attributed to the availability of more funding assistance, given the relatively high priority accorded by the DENR for these activities. Only some activities under thrusts 2, 3 and 5 performed well.

The 59 percent shortfall in the achievement of quantifiable targets during the year can be attributed to the following: (a) the insufficiency of resources allocated that led the DENR to shave the implementation of programs and projects instead of scrapping some of them; and (b) the unpreparedness of some local government units (LGUs) in executing some of the devolved functions, such as

¹ Unquantifiable targets are those which either have no identified quantifiable outputs or those in which outputs are targeted to be completed at a certain period beyond 2005 but within the Plan period.

mangrove rehabilitation and solid waste management.

The following assessment focuses on the achievements of major Strategy Planning Matrix targets for 2005. These specifically cover activities that are directly supportive of the 10-point agenda and the ENR banner programs of the Administration. Table 3.1 provides a summary of achievements of major SPM targets during the year.

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

In this area, most of the target activities during the year were achieved. In particular, targets on popularization of environmentally-sound technology generation and the surveying and mapping of the area covered by Philippine waters were surpassed.

Across Ecosystems

The classification of the remaining unclassified lands to determine their suitability and to complete the development of the integrated land-use plan nationwide was fast-tracked, with the classification of 5,090 hectares or five percent of the 97,868 hectares equal annual target. Furthermore, 107,026 hectares of alienable and disposable (A&D) lands were distributed to qualified and deserving beneficiaries to promote social equity where the less privileged are given access in the management and development of the land resources toward greater productivity. Land patents were granted to beneficiaries already occupying alienable and disposable lands, whose activities involve full utilization of the said lands.

To maximize physical planning as a development tool for greater and sustained job creation, the survey and delineation of forestlands was continued to protect these against illegal encroachment, forest disturbances, other harmful human activities and, ultimately, for more effective land management. For 2005, 2,805 kilometers (km.) of forestland boundaries covering 18 provinces were delineated, accomplishing a low 26 percent of the equal annual target of 10,899 km.

To create a climate conducive for investments and production, the liberalization and streamlining of the Environmental Compliance Certificate (ECC) process was vigorously pursued. Consequently, the processing of ECCs are now relegated to the DENR regional offices especially for projects like infrastructure, bridges, road projects, water supply, landfills, plantation, agribusiness, aquabusiness and livestock. For 2005, 4,771 ECCs for non-environmental critical regional projects were issued by the DENR Regional Offices. Meanwhile, to facilitate the application for the Certificate of Non-Coverage (CNC) and Initial Environmental Examination (IEE), relevant forms were made fully available online. These initiatives helped reduce transaction costs and expedited processing time to create an investment-friendly atmosphere.

Consistent with the government's commitment to implement the provisions of the UN Framework Convention on Climate Change, the Rules and Regulations governing the implementation of Executive Order 320 mandating the DENR as the Designated National Authority (DNA) for the Clean Development Mechanism (CDM) was issued. As the DNA focal, it is mandated

TABLE 3.1 SUMMARY OF ENVIRONMENT AND NATURAL RESOURCES**Major Accomplishments vis-a-vis Targets**

Measurable Output and Target	2005 TARGET (equal annual target)	2005 ACCOMPLISHMENT	% Accomplishment (2005 Targets vs. Accomplishments)
<i>Thrust 1. Maximize physical planning as a development tool for greater and sustained job creation</i>			
Ground validation/verification of forestland boundaries covering a total of 76,291 kms within 74 provinces conducted and legislation of permanent forest lines of these provinces passed	10,899 ground validation/verification of forestland boundaries	2805 ground validation/verification of forestland	26%
Survey and classification of the remaining 587,238 hectares of unclassified lands	97,868 hectares survey and classification of unclassified	5,090 hectares survey and classification of unclassified	5%
760,080 hectares of A and D lands through land patents prioritizing areas in Bulacan, Cavite and Laguna distributed	91,846 hectares of A and D lands distributed	107,026 hectares of A and D lands distributed	117%
47 environmentally sound technologies popularized	8 environmentally sound technologies popularized	47 environmentally sound technologies popularized	588%
7.3 million hectares of production forest assessed	1,216,667 hectares of production forest assessed	343,907 hectares of production forest assessed	28%
540 sq. km. of Philippine waters surveyed and mapped	77 sq. km. of Philippine waters surveyed and mapped	72,172 sq. km. of Philippine waters surveyed and mapped	93730%
<i>Thrust 2. Promote responsible mining that adheres to the principles of sustainable development: economic growth, environmental protection and social equity</i>			
18-23 large scale mining projects developed, US \$4.0-6.0 billion investments, US \$5.0-7.0 billion in foreign exchange generated, PhP5.0-7.0 billion in excise taxes collected, and 239,000 in direct and indirect employment	3 large scale mining areas	5 mineral development projects made operational	167%
direct and indirect employment generated	\$1B investment	US \$115M in investments	12%
	40,000 in direct and indirect employment generated	3,780 jobs	9%
Investors forum conducted and investors mobilized (local and international investors)	no number of forum indicated	2 international mining events conducted	---
<i>Thrust 3. Focus and strengthen the protection of vulnerable and ecologically fragile areas, especially watersheds and areas where biodiversity is highly threatened</i>			
130,000 hectares in 140 critical watersheds, especially those areas supporting the Pampanga and Bicol River Basins reforested	18,571 hectares	6,017 hectares of open and denuded areas were reforested	32%
Mangrove replanting, covering 10,500 hectares implemented and 128 marine sanctuaries established	1,500 has. mangrove replanted	577 hectares of mangrove plantations were established	38%
	21 marine sanctuaries established	17 marine sanctuaries established	81%

continued Table 3.1

Push for the proclamation of 100 Protected Areas (PAs) and legislation of 103 PAs, especially those that are critical watersheds and habitat for highly endangered species	14 PAs for proclamation	2 PAs for proclamation	14%
	17 PAs for legislation	---	---
Assessment and classification of 57 caves conducted	8 caves assessed and classified	19 caves assessed and classified	238%
Ecotourism in 29 protected areas that are included in the National Ecotourism Master Plan promoted	4 PAs with ecotourism promoted	6 PAs with ecotourism promoted	150%
<i>Thrust 4. Create healthier environment for the population</i>			
Air quality in major urban centers improved and air pollution (total suspended particulates or TSP) in Metro Manila reduced by 42 percent by the end of 2007	14 percent reduction in the total suspended particulates (TSP)	16 percent reduction in the total suspended particulates (TSP)	114%
Potable water to the entire country provided by 2010 with priority given to 212 "waterless" areas in Metro Manila and 633 "waterless" municipalities outside Metro Manila through private sector or public investment	35 waterless areas	20 waterless areas	57%
	106 waterless municipalities	10 waterless municipalities	9%
Additional sanitation facilities constructed by DILG	28 sanitation facilities	6 sanitation facilities	21%
Capability in water resource management (WRM) of 187 provincial/municipal water and sanitation units (P/MWSU) established and strengthened, and 1,027 Barangay Waterworks and Sanitation Associations (BWSA) formed and trained	33 P/MWSU	65 P/MWSU	197%
	181 BWSA	27 BWSA	15%
Water analysis and monitoring of 162 bathing areas nationwide completed	23 bathing areas monitored and assessed	41 bathing areas monitored and assessed	178%
Technical assistance to LGUs on the ff. provided:	TA provided to 146 open dumpsites	TA provided to 864 open dumpsites	592%
a) closure and/or conversion of 875 open dumpsites to controlled dump facilities;	TA provided to 18 sanitary landfills/waste processing facilities	TA provided to 454 sanitary landfills/waste processing facilities	2522%
b) construction of 106 sanitary landfills/waste processing facilities; complete the implementation of LGU-wide integrated waste management system (segregation and collection at source, materials recovery facilities, recycling and composting) in 48 model			
3,900 hazardous waste generators re-registered and 500 companies utilizing cyanide, mercury, asbestos and other highly toxic chemicals like the Poly-chlorinated Biphenils (PCBs) closely monitored	557 hazardous waste generators registered	1,250 hazardous waste generators registered	224%
	83 companies monitored	355 companies monitored	428%
<i>Thrust 5. Mitigate the occurrence of natural disasters to prevent the loss of lives and properties</i>			
One quadrangle per region per year within the Plan period	One quadrangle per region	All regions except 4-A with at least one (1) quadrangle map	93%

to: (a) develop criteria and indicators for CDM assessment process; (b) provide tools for evaluation and approval of projects; and (c) monitor approved CDM projects. Hence, 22 CDM projects are currently being reviewed and/or evaluated where 19 projects are on waste management, two projects are on renewable energy (wind), and one on geothermal energy. These projects are crucial in potentially generating carbon credits under the CDM from the reduction of green house gases (GHGs) emission and could create an avenue for revenue generation and promotion of sustainable development for the country.

Annual targets on popularizing environmentally sound technologies (i.e., eight technologies) was significantly surpassed with the full transfer of the medium term commitment of 47 technologies for adoption and utilization. This registered 588 percent accomplishment during the year. These technologies are already considered “popularized” once the transfer takes place, with no minimum number of clientele required. The technologies transferred include apiculture, bamboo production and management, essential oil production, clonal propagation of dipterocarps, seaweed processing, and vermicomposting technology. The transfer of these technologies was done in partnership with other government and nongovernment agencies, private corporations and individuals, international agencies and LGUs. However, while the transfer of technology has been completed, the impacts on income and productivity have not been documented.

Forest Ecosystem

A total of 343,907 hectares of production forest were evaluated, assessed and validated to determine their suitable

uses (such as for agriculture, agroforestry, ecotourism and other development projects). This covers 28 percent of the total 2005 target of 1.2 million hectares. Given this minimal accomplishment, there is a need to accelerate the conduct of these activities to properly utilize and value land resources.

Coastal Ecosystem

In terms of investment in the coastal zones, DAO No. 24 on Coastal Area Special Use Agreement was issued last November 17, 2005. This administrative order aims to encourage investments in the coastal zones provided that businesses done here are nonextractive and will not incur mangrove area conversion. However, the intended impact has yet to be realized since its implementation was put on hold on March 3, 2006, because of the clamor for further consultations with stakeholders.

The surveying and mapping of the country’s Exclusive Economic Zone (EEZ) and other maritime zones are important in the delimitation of our water boundaries, utilization and exploration of living and non-living marine resources and the conduct of scientific researches. Thus, the DENR surveyed and mapped a total of 72,172 sq. km. for the EEZ. This achievement is way above the annual target of 77 sq. km. per year.

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

Overall, most SPM targets under Thrust 2 were barely achieved during the

year. While the target development of mining projects was surpassed, two equally important targets, the generation of investments and jobs through mining, were not achieved. The reason for the latter is that the impact of the international fora and mining events have yet to be realized in terms of actual foreign investments and the resulting jobs to be generated from these investments.

The medium term target on responsible mining is to develop 18 to 23 large scale mining areas and generate about US\$4-US\$6 billion investments and 239,000 indirect and direct jobs. As reported, there were 24 mineral development projects implemented. However, only five of them became operational in 2005. These projects generated only about US\$115 million in investments and 3,780 jobs. With these accomplishments, only about six percent of the medium term target on investments has so far been achieved while only three percent of the target employment generation has been met. It may be noted, however, that with the conduct of two international mining events in 2005, a total of US\$1.9 billion mining investment commitments were solicited. The realization of these commitments would largely depend on how various mine tailing incidents in existing mines as well as those in abandoned mines could be fully addressed. It may be noted that various mine tailing incidents in the country have hampered the development of the mining areas and have somehow affected the flow of investments in the country.

However, efforts to rehabilitate and implement remedial measures in the case of Philippine Pyrite Corporation in Bagacay, Samar were initiated. Field assessments were conducted and the Rehabilitation Plan was finalized for full

implementation in 2006. The initial phase of implementation will entail the decommissioning and removal of all unwanted infrastructure, earthworks and re-vegetation. The community shall be involved in the propagation of seedlings, in nursery operation and in the maintenance of the rehabilitated areas. Moreover, other priority mines for rehabilitation have also been identified to include Basay Mining Corporation, Thanksgiving Mine, Benguet Exploration Inc., Black Mountain, Consolidated Mines Inc., Palawan Quick Silver Mines, Western Minolco Corp. and Philippine Pyrite Corporation. These are expected to contribute to efforts towards sustainable mining and further boosting the mining industry in the country.

Thrust 3. Focus and strengthen the protection of vulnerable and ecological fragile areas, especially watersheds and areas where diversity is highly threatened

There was underperformance in this area as shown by the slow developments in the reforestation of open and denuded areas as well as in mangrove plantation due to limited resources and insufficient LGU capabilities. The proclamation of protected areas (PAs) has also been slow.

In terms of protecting the critical ecosystem, it was targeted that about 130,000 hectares in 140 critical watersheds will be reforested within the medium term or an annual target of 18,571 hectares. For 2005, only 6,017 hectares of open and denuded areas (32% of the target) were reforested. Of this area, about 1,854 hectares in Pampanga and Bicol River Basins were covered.

In coastal management, of the total plan target of establishing 10,500 hectares of mangrove areas (or 1,500 hectares for 2005), only about 577 hectares of mangrove plantations were established during the year. With the technical assistance provided by the DENR, about 17 marine sanctuaries were established by LGUs in seven regions. This figure is a little short of the target during the year. The DENR continued to provide technical assistance on mangrove rehabilitation despite this being already an LGU mandate. Faced with very limited resources, the achievement of mangrove rehabilitation targets remains to be unaddressed.

In its efforts to protect biodiversity resources, two protected areas (PAs) covering an aggregate area of 81,368 hectares, or 14 percent of the target, were established by the DENR under the National Integrated Protected Areas System (NIPAS) through Presidential Proclamation. These are Northern Negros Natural Park (Proclamation No. 895) covering 80,454 hectares and the Mati Protected Landscape (Proclamation No. 912) covering 914 hectares. Under accomplishments were due to factors such as the tedious process involved in the establishment of NIPAS areas, inadequate funds, lack of field personnel and technical capability to undertake the various activities. These problems have been the perennial cause of poor performance in the subsector. Given this, possible encroachment and gradual destruction of the proposed protected areas may continue to occur in the following years.

Pursuant to the National Caves and Cave Resources Protection Act (RA 9072), 19 caves were assessed and classified out of the eight caves targeted annually, thus marking a 238 percent accomplishment. These are habitats of unique diverse flora

and fauna and possess outstanding historical, educational, cultural, scientific and aesthetic values. The strong performance of the DENR in this area should be continued because caves are natural habitats that should be protected and maintained.

The DENR also embarked on the transformation of several forest and marine areas into ecotourism sites. Management of these sites were either undertaken by the LGUs or the private sector that has hurdled strict guidelines. The DENR forged partnerships with LGUs/NGOs/POs in the development and management of six ecotourism sites exceeding the equal annual target for 2005 of four sites representing 150 percent accomplishment. These include the Taal Volcano Natural Park and Mts. Banahaw-San Cristobal Protected Landscape. This initiative may boost the tourism industry as well as generate more employment in the country.

Thrust 4. Create a healthier environment for the population

In general, most activities under this thrust exceeded the targets. Most notable were the high rates of achievements of the targets of providing TAs to LGUs, the formation of barangay waterworks and sanitation associations and the improvement in air quality as evident by the decline in the total suspended particulates (TSP) levels in Metro Manila. The latter could be attributed to the intensified antismoke belching activities, sulfur reduction and lead phase out and the use of coco-methyl ester (CME) blend.

Environmental protection seemed to make some headway with the 16 percent reduction in TSP in Metro

Manila. This represents 114 percent accomplishment during the year. Given this performance, it is likely that the plan target of reducing the TSP level in Metro Manila by 42 percent of the 2003 level could be achieved.

In the continuing effort to achieve an integrated and sustainable development of water resources, several water related activities and policy studies were pursued in 2005 through collaborative endeavour of various agencies. The National Economic and Development Authority (NEDA) and National Water Resources Board (NWRB) started the conduct of a joint study in 2005 on raw water pricing to establish a methodology for rational raw water pricing mechanism and determine the actual raw water. The realistic and enhanced raw water pricing is expected to create incentives to use water more efficiently and conserve water as a scarce resource, provide basis for efficient allocation and generate revenues for more effective water management.

The provision of potable water for the entire country is one of the 10-Point Agenda of the President as indicated in the MTPDP 2004-2010 and consistent with the Millennium Development Goals (MDGs). For Metro Manila, the plan target is to provide water to 212 “waterless” areas. In line with this, in 2005, the Metropolitan Waterworks and Sewerage System (MWSS) through its concessionaires, Maynilad Water Services Inc. (MWSI) and Manila Water Company, Inc (MWCI), provided water service to 20 communities in Metro Manila, covering 34,052 households. Moreover, of the Plan target to provide water to 633 waterless municipalities outside Metro Manila, the Local Water Utilities Authority (LWUA) implemented water supply projects through the water districts in 10 “waterless” communities. This is merely 9 percent accomplishment based on the

equal annual target set. Nonetheless, it maybe noted that under the President’s Priority Program on Water (P³W), the Water and Sanitation Coordinating Office (WASCO) has identified around 161 municipalities in seven cities nationwide to be covered under the 633 target “waterless” areas. With the demand-driven approach adopted under the P³W, changes are expected to be made in terms of area coverage as the initial identification of priority waterless areas were based on the 2000 census. With the availability of new information based on the 2006 census, the LGUs will have to submit the list of barangays identified as waterless areas.

On sanitation and sewerage, six out of the annual Plan target of 28 sanitation facilities were constructed by DILG, or only 21 percent accomplishment for 2005. The underperformance is attributed to the unreleased funds during the year. In contrast, a total of 65 Provincial/Municipal Water and Sanitation Units (P/MWSU) were completed, including the formation and training of 27 Barangay Waterworks and Sanitation Associations (BWSA). This surpassed the annual plan target by 197 percent.

In support of the country’s move to rehabilitate water resources, the implementing rules and regulations (IRR) of the “Clean Water Act” was approved. In line with this, intensive efforts were continued to ensure clean water for the country, including the implementation of “Sagip Ilog” Program. This aims to improve water quality of 19 priority rivers in terms of reduction in Biological Oxygen Demand (BOD) level and increase in Dissolved Oxygen (DO) level. Out of the 19 priority rivers, 12 have been reported to have improved with the

significant decrease in BOD level by 10 percent. However, six rivers were not assessed due to lack of baseline data based on CY 2003 level while one (Pasig River) exhibited an increase in BOD.

With the growing demand for water, groundwater resources and vulnerability assessments in 31 LGUs to identify possible sources of groundwater were conducted. The quality of tap water or domestic water supply was monitored, particularly in the depressed areas of urban centers in the country under the “Tapwatch” Program. The DENR monitored 87 barangay sites for fecal and total coliform, among other parameters. Of these, water samples were found to be potable in 21 sites. For those sites with unpotable water, the DENR assisted LGUs and the Department of Health (DOH) in the preparation of water quality improvement plans for water safety.

As part of the initiative to enhance ecotourism efforts, 41 beaches were monitored under the “Beach Eco-Watch” Program. The focus was on the quality of these beaches frequently visited by foreign and local tourists. Of these, 34 were considered safe for public bathing, swimming and other recreational activities. The owners of the other seven beaches that were not in the list were asked to prepare and submit a plan on how to improve their beaches, in coordination with the local government units. These are also under strict monitoring of DENR to ensure their compliance with the standards set for recreational use.

DENR technical assistance (TA) programs were also provided for the closure and/or conversion of 864 open dumpsites to controlled dump facilities and for the construction of 454 sanitary landfills and waste processing facilities. Despite efforts by DENR in providing TA by virtue of

RA 9003 (Ecological Solid Waste Management Act), the devolved role of LGUs is key to effective waste management in the country.

A critical component of waste management involves the declogging of esteros. The “*Linis Estero*” Program was vigorously pursued to minimize flooding and improve the aesthetics of the environment in the metropolis. Technical assistance was provided to four LGUs in Metro Manila (Manila, Mandaluyong, San Juan and Quezon City) in the clean-up of critical esteros in their areas. Continuous collaboration with LGUs nationwide led to the clean-up of 16 priority esteros. However, there is still no documented study on the impact of the *Linis Estero* Program on flooding incidence in Metro Manila.

In line with the continued implementation of RA 6969 (Toxic and Hazardous Waste Act), a total of 1,250 establishments were registered as Hazardous Waste Generators (HWGs), for a 224 percent accomplishment over the 557 equal annual target. This brings to 5,051 the total number of registered HWG to date, or already 52 percent of the Plan target 3,900 potential HWGs in the country. For Chemical Control Order (CCO) registration, 98 firms were issued certificates of registration for cyanide, asbestos and mercury. This increased to 355 the number of registered firms covered by CCO. Of these, 148 were monitored for compliance or 42 percent of the total number of registered firms. Also issued were 106 certificates of registration for ozone-depleting substance (ODS) alternatives and 241 for polychlorinated biphenyls (PCBs).

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

This thrust generally performed poorly with the low achievement of the SPM target to generate one quadrangle map per year. Reports also indicate the zero accomplishments on the targets to provide TAs to LGUs in coping with hazards and putting up adequate flood control and drainage facilities in all flood/sediment disaster prone areas.

Under this thrust, geohazard assessment and mapping of priority areas such as Pampanga River Basin, Bicol River Basin, Aurora, Quezon and Cebu provinces were intensified to identify the sites prone to geologic hazards such as flooding, landslides, subsidence and liquefaction and provide warning to local governments of potential dangers. At least one quadrangle map was generated in 14 regions nationwide for a 93 percent accomplishment of the target to complete the geohazard mapping of the country. While this accomplishment is noteworthy given that the target is to come up with one quadrangle per region per year, the recent occurrences of natural disasters, particularly landslides in various areas in the country impress the need to hasten efforts in conducting geohazard assessment and dissemination of information on capacity building initiatives for the LGUs.

Chapter 4

Housing Construction

In 2005, the housing sector pursued the targets of the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 on creating six to ten million jobs, on the provision of shelter security to Filipino households, and on job creation, provision of shelter and achieving the Millennium Development Goals (MDGs). Under the Strong Republic Housing Program, the sector's priorities were to meet the rapidly growing housing need through both direct and indirect housing provision, and provide security of tenure especially to poor and vulnerable households. For direct housing provision, the priorities included resettlement, slum upgrading, core housing, socialized housing and low-cost housing, among others. In indirect housing, the major activities included the provision of housing guaranties, issuance of licenses to sell, and provision of technical assistance to local government units (LGUs) in the formulation of their Comprehensive Land Use Plans (CLUPs).

PROVIDING SHELTER SECURITY

Direct housing provision

From January to December 2005, the housing sector constructed a total of 117,330 units against a total target of 163,511 units for an accomplishment rate of 71.76 percent. Socialized housing programs (i.e., housing packages costing below PhP 300,000) provided a total of 78,021 units vis-à-vis a target of 119,893 units for a 65.08 percent accomplishment rate. Low-cost housing programs (i.e., PhP300,000 to PhP2 million) registered a higher performance of 39,309 against its target of 43,618 units for a 90.12 percent accomplishment rate for the same period. However, this aggregate accomplishment of 117,330 units valued at PhP25.20 billion was merely 39 percent of the SONA targeted 300,000 housing units for the year (Table 4.1). Moreover, this output

translates to a 59% accomplishment vis-à-vis 199,120 housing units or 1/3 of the total housing needs of 597,362 housing units for 2005. The government is only tasked to provide 1/3 of the total housing need.

Security of tenure was provided to 20,234 informal settlers through the issuance of Presidential Proclamations declaring public lands as alienable and disposable for housing purposes and relocation projects, Community Mortgage Program of the National Home Mortgage Finance Corporation (NHMFC), National Government Center (NGC) Project and the North and South Rail Relocation.

Housing and slum upgrading services were provided to 42,382 households belonging to the bottom 30 percent of the income population through the various socialized housing programs of the National Housing

TABLE 4.1 COMPARISON OF HOUSING TARGETS VS. ACCOMPLISHMENT

PRIORITY ACTIVITIES	2005 TARGETS	ACTUAL ACCOMPLISHMENT	PERCENTAGE OF ACCOMPLISHMENT
Direct Housing Provision			
Socialized Housing Program	119,893	78,021	65.08%
Resettlement	22,900	17,000	
- North Rail and South Rail Relocation		15,828	
- Assistance to LGUs/ NHA-administered		1,172	
Slum Upgrading	5,800	5,132	
Sites and Services	5,700	1,192	
Technical Assistance	—	3,809	
Core Housing	5,000	1,033	
HDMF Socialized Housing	18,313	14,276	
GSIS Socialized Housing	720	2,995	
DBP Socialized Housing	3,700	1,014	
Tenurial Assistance (NHA)	—	267	
Presidential Proclamations (HUDCC)	35,000	1,001	
Community Mortgage Program (NHMFC)	15,360	12,710	
National Government Center Project	—	2,686	
North Rail Relocation Housing Financial Assistance (NHA)	—	3,570	
Provision of Housing Facilities (NHA)	—	2,041	
Local Housing (NHA)	7,400	9,295	
Low Cost Housing Program	43,618	39,309	90.12%
HDMF Housing Program	26,403	39,145	
SSS	664	59	
NHA Medium-Rise Bldg.	8,200	105	
GSIS	8,351	—	
TOTAL (Direct Housing Provision)	163,511	117,330	62.76%
Indirect Housing Provision			
Retail Guaranty (HGC)	22,340	5,493	24.59%
Development Guaranty in projects (HGC)	2,482	3	
Issuance of License to Sell (HLURB)	133,420	167,229	125.34%
TOTAL (Indirect Housing Provision)	158,242	303,498	191.79%
Provision of employment in housing construction	1,063,037	630,925.50	59.35%
Development of Secondary	Establish a viable and liquid secondary mortgage market by 2010	NHMFC launched the SMI Pilot Program and developed the Terms of Reference for the Financial Advisor for securitization	
Fast-tracking of disposition of assets and non-performing loans to generate additional funds	Disposal of Php3 billion worth of assets in 2005	The NHMFC was able to raise a total of Php4.262 million through the sale of its non-performing loans to Deutsche Bank Real Estate Global Opportunities (DBGO).	

Sources: Strategy Planning Matrices, MTPDP 2004-2010; Housing and Urban Development Coordinating Council

Authority (NHA), Home Development Mutual Fund (HDMF), Government Service Insurance System (GSIS) and Development Bank of the Philippines (DBP) valued at PhP5.82 billion.

Housing loans were extended to 39,309 low-salaried government and private sector employees amounting to PhP18 billion through the different home lending programs of HDMF, NHA, GSIS and Social Security System (SSS).

The accomplishments of the housing sector were made possible through the convergence of efforts by the key shelter agencies. On a per agency basis the accomplishments are as follows:

Housing and Urban Development Coordinating Council (HUDCC). The HUDCC, through the National Government Center (NGC) Project, awarded Contracts to Sell (CTS) and Deeds of Absolute Sale (DOAs) to 315 households or 106 percent higher than its 2005 target. A cumulative total of 4,045 beneficiaries since 2001 have been awarded and generated land titles. For the 2005 Asset Reform Program of the government, only four presidential proclamations were approved by the President benefiting 1,001 urban poor families, with five more proposed proclamations still pending approval. This reflects the shift in focus and priority of the HUDCC from proclamations to resettlement efforts due to the implementation of the North Rail and South Rail projects.

National Home Mortgage Finance Corporation (NHMFC). The NHMFC legalized the tenure of 12,710 informal settler beneficiaries valued at PhP724.45 million through the Community Mortgage Program (CMP). The CMP, which caters to occupants of blighted urban areas by providing them security of tenure, showed remarkable performance during 2005 and

was able to meet 144 percent of its target in peso value and 143 percent of its target in terms of number of beneficiaries. Moreover, the NHMFC was able to raise a total of PhP4.262 billion through the sale and liquefaction of its nonperforming loans (NPLs) to the Deutsche Bank Real Estate Global Opportunities (DBGO), accomplishing 140 percent of its target, and exceeding the PhP3 billion worth of NPLs it originally targeted.

National Housing Authority (NHA). The NHA provided a total 43,399 housing units and/or units of assistance from 132 projects implemented under its various programs. Under the resettlement program, the North Rail Resettlement Project and the Resettlement Assistance Program for LGUs provided 15,828 units and 1,172 units, respectively. Housing facilities were provided to 2,041 units while 5,132 slum units were upgraded and 1,192 units were provided with sites and services assistance. Local housing assistance was also given to 9,295 units, housing financial assistance to 3,570 units in the North Rail relocation areas, technical assistance to 3,809 units, core housing to 1,033 units and tenurial assistance to 267 units.

Home Development Mutual Fund (HDMF). The HDMF-PAG-IBIG extended end-buyers financing to 43,878 low-salaried government and private sector workers valued at PhP18.36 billion and extended developmental loans to private developers amounting to PhP2.28 billion, which are expected to generate 9,543 housing units. The uptick in HDMF housing finance performance garnered a AAA credit rating and award by the Philippine Rating Service Corporation in August 2005 which proves the financial strength and ability of HDMF to serve its mandate.

Home Guaranty Corporation (HGC). The HGC guaranteed a total of 5,493 housing units valued at PhP4.69 billion through its Retail and Developmental, and Cash Flow Guarantee Programs. Of the total units generated, 98 percent were socialized and low-cost housing units. Ayala Land and Filinvest Corporation were among the few developers that availed of HGC's guaranties. Compared to its 2004 performance, HGC's accomplishment (as of November 2005) is 140 percent and 196 percent higher in housing units generated and funds mobilized, respectively.

Housing and Land Use Regulatory Board (HLURB). The HLURB issued licenses to sell to 2,348 residential projects with an equivalent number of 298,002 saleable lots, houses and lots. The actual number of projects issued with licenses to sell in 2005 translates to a 223.36 percent accomplishment vis-à-vis the target of 133,420. HLURB also provided technical assistance to 103 LGUs for the formulation and updating of their Comprehensive Land Use Plans.

Priority Programs and Projects

The implementation of priority programs and projects were fast-tracked in 2005. These include the North Rail Relocation Resettlement Project and the North Rail-South Rail Linkage Project.

North Rail Relocation Resettlement Project. This Project involves the relocation of some 38,206 families from Caloocan to Clark, Pampanga to pave the way for the implementation of the North Rail Development Project. As of December 2005, the NHA has completed the relocation of 19,526 families covering the entire 32-km stretch of the North Rail system from Caloocan to Malolos,

Bulacan. The Metro Manila segment covering 7,344 families from Caloocan City to Valenzuela City was completed in April 2005 while the Bulacan segment involving 12,182 families from Meycauayan to Malolos, Bulacan was completed in December 2005. NHA has established nine resettlement areas mostly in Bulacan, Valenzuela, Malabon and Navotas for the North Rail Resettlement Program. The completion of relocation operations is expected to pave the way for the implementation of infrastructure development works for the railway system.

North Rail-South Rail Linkage Project. In support of the North Rail-South Rail Linkage Project, NHA has also prepared the groundwork for the relocation and resettlement of some 31,739 families along the rights-of-way of the project covering a 40-kilometer stretch from Caloocan City to Alabang, Muntinlupa. This will cover the cities of Caloocan, Manila, Makati, Taguig, Parañaque and Muntinlupa. The North Rail-South Rail Linkage Project will link with the north terminal of North Rail Project in Caloocan City and the north end of the South Rail Project in Calamba, Laguna.

Development of Poor Urban Communities Sector Project (DPUCSP). To improve the access of poor urban families outside Metro Manila in securing land tenure, affordable shelter, basic community infrastructure and facilities, and livelihood and micro-enterprise opportunities, HUDCC and DBP implemented the ADB-assisted DPUCSP. In 2005, the second year of project implementation, the project accomplished the following: (a) secured Letters of Intent from 17 LGUs and Sanggunian Resolutions from seven

LGUs signifying their intention to participate in the Project; (b) for the pilot LGUs of the Project, Angeles City, Pampanga has already prepared and submitted its Community Action Plan (CAP) for its three Project sites while Cagayan de Oro City, Misamis Oriental has submitted its CAP for its Macabalan Accretion site; (c) provided subloan to a microfinance institution (MFI), the Center for Agricultural and Rural Development (CARD) for PhP50 million; (d) processed PhP520 million worth of pipeline subproject loans (still awaiting DBP approval) for the Negros Women for Tomorrow Foundation (NWTF), Taytay sa Kauswagan, Inc (TSKI), and Alay sa Kaunlaran sa Gitnang Luzon, Inc (ASKI), among others. On the downside, in 2005, the DPUCSP was plagued by a low loan disbursement rate of 62 percent, availment rate of 12 percent, and utilization rate of 2.7 percent against a time elapsed rate of 28.3 percent.

Metro Manila Urban Services for the Poor Project (MMUSP). The seven-month Preparatory Project Technical Assistance (PPTA) of the ADB-assisted MMUSP commenced in November 2005. The MMUSP is aimed at implementing urban renewal, security of land tenure, affordable shelter, basic infrastructure and livelihood opportunities in Metro Manila. The MMUSP is designed as a relending facility/window for Metro Manila LGUs to undertake the mentioned interventions. The pilot project sites for the proposed MMUSP are: (a) NGC Center in Quezon City; (b) National Bilibid Prisons in Muntinlupa; and (c) Food Terminal Incorporated (FTI) in Taguig.

Habitat for Humanity Project. Habitat builds and rehabilitates houses with the help of homeowners (known as “homepartner”) families, volunteer labor,

and donations of money and materials. Habitat houses are sold to homepartner families at no profit (i.e., affordable, zero-interest, inflation-adjusted mortgage loans). In 2005, Habitat built 3,480 units against a target of about 1,000 units for an accomplishment rate of 348 percent. While proving to be a cost-effective housing production approach, Habitat has encountered the following problems: (a) Habitat affiliates are unable to start housing projects due to lack of buildable land; (b) lack of site development (e.g., roads, drainage, and other facilities); and (c) difficulty in maintaining current costs due to rising prices of construction materials especially steel products.

Scaling Up Urban Renewal. The Partnership of Philippine Support Service Agencies (PHILSSA) implemented the World Bank-assisted grant project entitled “Upscaling Urban Poor Community Renewal Scheme Project” through the Japan Social Development Fund. The project was implemented in urban poor communities in San Fernando City, Naga City, Quezon City, Mandaue City and Iligan City. This urban renewal project has the following components: 1) drawing from “best practices” or successful cases in urban community upgrading through the production of a casebook, as well as field exposure of selected project participants; 2) applying knowledge gained from best practices in implementing community projects; and 3) documenting project implementation processes aimed at formulating a guidebook on scaling up and sustaining urban community renewal. The structures and equipment such as housing units, water systems, roads, drainage, and solid waste equipment provided in the 17 project communities had a total cost of PhP72 million. The project benefited over 4,000 households in 2005.

Indirect Housing Provision

In 2005, indirect housing provision responded to the need for a more efficient and streamlined processing of housing permits and licenses. The HLURB issued licenses to sell to 298,002 saleable houses with lots, as well as individual houses and individual lots, exceeding its original target of 133,420 licenses by 223 percent. The housing guarantees, on the other hand, underperformed with retail and development guarantees totaling only 5,493 units and 3 units, respectively. Against the retail guarantee target of 22,340 and a development guarantee target of 2,482, this reflects a mere 24 percent and 0.12 percent accomplishment rate, respectively. While the underperformance in housing guarantee provision may be attributed to the low demand for housing guarantees extended by the HGC from housing financial institutions and commercial banks, HGC obviously needs to improve its targeting, possibly through dialogues with the private sector.

The LGUs continued to benefit from the technical assistance provided by the HLURB for the formulation and updating of the LGUs' Comprehensive Land Use Plans (CLUPs). One hundred three LGUs were assisted with their CLUPs against the target of 101 LGUs for a 102 percent accomplishment rate.

Policy Reforms

The policy reforms implemented were aimed at further effecting a more market-oriented housing finance and construction sector. To respond to the need for market-responsive housing loan ceilings/packages, the HUDCC redefined/adjusted the housing loan ceilings and packages as follows:

TABLE 4.2 REVISED DEFINITION OF HOUSING LOAN CEILINGS/PACKAGES

Housing Packages	Loan Ceiling
Socialized	PhP 300,000 and below
Low-Cost	
Level 1	Above PhP300,000 to PhP750,000
Level 2	Above PhP750,000 to PhP2.0 million
Medium-Cost	Above PhP2.0 million to PhP4.0 million
Open	Above PhP4.0 million

Although the revised ceilings may affect the affordability of the housing packages, the inclusion of level 2 under a low-cost package aims to expand eligibility of banks to RA 7835, also known as the Agri-Agra Law. The law mandates that all unused agri-agra allocation funds from banks shall be invested in socialized and low-cost housing and that loans of up to PhP2.0 million shall be eligible for the rediscounting facility of the Bangko Sentral ng Pilipinas (BSP).

CREATING JOBS THROUGH HOUSING CONSTRUCTION

To help create six to ten million jobs in support of the 10-point Agenda of the President, the housing sector was able to construct 85,779 completed housing units, valued at PhP44.24 billion, generating 630,925¹ jobs in 2005. This output translates to 59 percent of the total target of 1,063,037 jobs from housing construction per year. With about 8.3 skilled and semiskilled construction workers completing a socialized housing unit in about three weeks, or a total of 124 mandays, the jobs created in the sector are equivalent to providing annual fulltime employment to 296,343 workers assuming a maximum fulltime annual employment of 264 mandays.

¹ Construction of a house requires 8.3 persons working for 3 weeks. A serviced unit or development of sites for resettlement and the improvement of sites will require 5 persons working per unit. The financial assistance for housing provided to affected families of the North Rail Project, on the other hand, will be used to contract jobs computed on 3.3 working persons per unit.

Chapter 5

Tourism

The tourism sector's performance continued to improve in 2005. However, growth was slower compared to 2004, and was insufficient to meet the sector's targets for visitor arrivals, visitor receipts and employment generation as enunciated under the Medium-Term Philippine Development Plan (MTPDP) 2004-2010.

Visitor arrivals increased by 14.5 percent or by 2.62 million in 2005 against, 20.1% in 2004 (Table 5.1). The figure was 1.5 percent or 45,000 visitors short of the target. Jobs created subsequently grew by 13.9 percent against 30.7 percent in 2004. It reached 3.20 million or two percent below the target of 3.25 million. Visitor receipts for the first five months amounted to US\$0.86 billion or just 33 percent of the US\$2.6 billion targeted for the year.

Performance in terms of tourist arrivals, however, pales in comparison with the top ASEAN performers such as Malaysia (13.58 million), Singapore (8.94 million) and Vietnam (3.47 million). East

Asia (Korea, Japan, Taiwan and China) maintained its position as the country's top market in 2005. The region accounted for 47.4 percent of the country's total tourist arrivals followed by North America (23%), Australia Asia/Pacific (5.5%) and Western Europe (4.3%). Based on the 2005 tourism arrivals, the country was able to capture only a 0.32 percent share of tourist arrivals. This is much lower than the shares of Malaysia (1.68%), Singapore (1.96%), and Vietnam (0.43%).

The Market-Product Focus and Destination Focus Approaches are continuously being adopted to promote and develop tourism.

TABLE 5.1 TOURISM PERFORMANCE

INDICATOR	TARGET 2005	ACTUAL 2005	TARGET 2004	ACTUAL 2004	GROWTH RATE (%) 2004-2005
Visitor Arrivals ('000)	2,668	2,623	2,300	2,291	14.5
Visitor Receipts (in US\$ billion)	2.59	0.861	2.24	1.99	NA
Tourism/Tourism-related Employment (in million) ²	3.25	3.2	2.81	2.81	13.87

Source: Department of Tourism

¹ January-May 2005

MARKET-PRODUCT FOCUS APPROACH

Marketing and promotion and product development were undertaken to focus tourism promotion on identified markets and products.

Marketing and Promotion (Table 5.2)

MultiChannel

A total of PhP489 million was spent by the Department of Tourism (DOT) in 2005 for international marketing and promotion. This is 186.32 percent higher than the PhP170.62 million used in 2004. Of this amount, PhP387 million or 79 percent of the DOT's promotional budget went to multichannel promotion of specific products in China, Japan and Korea. This exceeded the budgetary allocation by nine percent of the 60-70 percent set under the Plan.

Multichannel promotion boosted visitor arrivals from Japan, China and Korea by 8.7 percent, 171.5 percent and 29.3 percent, respectively in 2005. These three East Asian countries remain among the country's top tourist markets, accounting for 38.6 percent of total visitor arrivals (Table 5.3). Actual arrivals from China almost doubled the 2005 target of 54,000 tourists. However, despite the growth posted, expected arrivals of 500,000 tourists from Korea and 550,000 tourists from Japan, were not met.

Rifle-Shot

Around PhP43 million was used for rifle-shot niche-based tailored promotion in Asia-Pacific markets such as Australia, Hong Kong, Taiwan and Singapore. This

constituted 8.8 percent of the DOT's promotional budget, below the 20 to 30 percent planned allocation for promotion aimed at specific niches under the MTPDP.

Niche-based promotion also increased arrivals from the Asia-Pacific markets except Hong Kong but at a slower rate relative to multichannel promotion. Visitors from Singapore, Australia and Taiwan grew by 15.2 percent, 8.2 percent and 6.7 percent, respectively. Outbound tourists from Hong Kong, however, declined by 34.0 percent with the opening of Hong Kong Disneyland (Table 5.3). Arrivals from the Asia-Pacific region altogether comprised 15.1 percent.

TABLE 5.2 MARKETING AND PROMOTION

PRIORITY ACTIVITIES	BUDGET ALLOCATION	
	Planned	Actual
MultiChannel	60-70%	79%
Rifle-Shot	20-30%	8.8%
Tactical Marketing (European Market)	20-30%	12.2%

Source: Department of Tourism

**TABLE 5.3 PHILIPPINES' TOP TOURIST MARKETS
BY COUNTRY**

RANK	COUNTRY	ARRIVALS		GROWTH RATE (%)	SHARE (%)
		2005	2004		
1	USA	528,493	478,091	10.5	20.1
2	Korea	489,465	378,602	29.3	18.7
3	Japan	415,456	382,307	8.7	15.8
4	Taiwan	122,946	115,182	6.7	4.7
5	China	107,456	39,581	171.5	4.1
6	Hongkong	107,195	162,381	-34.0	4.1
7	Australia	96,465	89,175	8.2	3.7
8	Canada	72,853	64,537	12.9	2.8
9	Singapore	69,435	60,253	15.2	2.6
10	UK	63,002	56,770	11.0	2.4
11	Germany	50,411	45,092	11.8	1.9
12	Malaysia	43,059	34,170	26.0	1.6

Source: Department of Tourism

Tactical Marketing

Long-term tactical marketing and nonmedia based campaigns in European markets required PhP59 million or 12.2 percent of the budget. This is lower than the Plan target of 20 to 30 percent.

Tactical marketing increased arrivals from Europe by 16.03 percent. Of the 243,928 recorded in 2005, the bulk came from Western Europe (46%) and Northern Europe (40%).

Product Development

Eleven tourism products are planned to be developed under the 2004-2010 MTPDP. In 2005, only two of the 11 products to be developed were given attention as focus was on marketing and promotion. These were in support of efforts of the Departments of Health and Environment and Natural Resources to develop health tourism and ecotourism. For health tourism, the Filipino SPA Branding was launched highlighting local methods such as *hilot* and *dagdagan* and the use of virgin coconut oil and local scrubs. In ecotourism, consultation meetings with local stakeholders were conducted for the proposed development of kayaking tours in Hundred Islands National Park.

DESTINATION FOCUS

Tourism promotion and development are also to be pursued under the Plan by focusing on eight priority destinations classified into three groups: major, minor, special interest destinations. Under these, tourism economic zones (TEZs) are to be built, barriers to free flow of tourists and investments removed, and hotels, restaurants and resorts established. For major destinations, priority shall be

given to major infrastructure improvement; in the case of minor destinations, the priority shall be to build more attractions, and promote these as secondary options; and in special interest destinations, the priority shall be to increase accessibility and improve the existing tourism products being offered.

Establishment of TEZs

The target of developing a minimum of two TEZs per year was achieved in 2005. These are the Boracay (special interest destination) Eco-Cultural Village Resort; and the Island Cove Resort and Leisure Park in Cavite. Three additional TEZs in Batangas, Albay and Bohol (major destinations) were proposed for PEZA approval. The TEZs in Cavite, Batangas and Albay are not within the identified eight priority destinations but are being supported because of their compliance with the DOT standards.

Removal of Barriers to Investments and Free Flow of Tourists

Activities were also undertaken to remove the barriers to investments and free flow of tourists. These are:

- a) Travel advisories issued by foreign governments (Australia, Canada, United Kingdom, United States of America, Japan and New Zealand) were monitored and security issues in these advisories were addressed as required under the Plan.
- b) Following the success of the visa-upon-arrival scheme provided to tour groups or individuals from China, a similar scheme was crafted for visitors from Russia. The scheme was still being reviewed by the DFA as of December 2005.

- c) In the area of air access, the Civil Aeronautics Board initiated negotiations on air services agreements (ASAs) with New Zealand, Papua New Guinea, South Africa and Yugoslavia. Air talks with Korea are also being initiated to expand the existing ASA.
- d) The issuance of permits for chartered flights was also facilitated for nine airlines (i.e., Mandarin, Asiana, Korean, Air Asia, Air Philippines, Cebu Pacific, Merpati, China Southern, and Royal Brunei).
- e) Fees and charges on international carriers were increased to cover at least the full cost of services rendered. Discounts were also given to carriers serving the Clark and Subic airports.

Chapter 6

Infrastructure

Consistent with the President's 10-Point Agenda, various transport infrastructure projects were implemented in 2005. Several Nautical Highways and Road Roll-On/Roll-Off (RORO) Terminal Systems (RRTS) were improved. Major toll roads were constructed to develop the Clark and Subic corridor and to decongest Metro Manila. These projects contributed significantly to the promotion of Philippine tourism, trade, and other economic activities. The private sector was instrumental in the increase of transport projects.

Various technological developments provided significant growth in the telecommunications sector. The Voice over Internet Protocol¹ (VoIP) became an alternative to costly calls abroad. This was categorized as a Value-Added Service (VAS), wherein the interested providers need not apply for a franchise to operate. To further develop Information and Communications Technology (ICT) human resources, trainings and seminars were initiated to produce proficient ICT knowledge workers.

TRANSPORTATION

Many of the accomplishments in 2005 in the transportation sector have been responsive to the sector goals, strategies and action plans laid down in the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 and the 10-Point Agenda of the current Administration. These accomplishments include projects, programs, policies and activities, vis-à-vis specific targets in these plans.

Nautical Highways to Link the Entire Country

The Nautical Highway System sought to address the reduction of transportation costs from Mindanao through the Visayas to Luzon. Thus, plans to expand the nautical highway and the RORO system to include the Western, Central and Eastern Nautical Highways were set.

The operation of the NDC-Maritime Equity Corporation (NMEC) started in April 2005 with the drafting and implementation of policies that encourage private sector participation (discussed in the following sections), and the ongoing completion of priority roads and ports along the nautical highway corridors have largely supported the expansion of the RRTS envisioned to link the archipelago (Table 6.1).

To encourage private sector participation in port development, the Philippine Ports Authority (PPA) started in 2005 the implementation of

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

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

1. Western Nautical Highway (also known as Strong Republic Nautical Highway)	
Oroquieta City-Dapitan City-Dipolog City Road	Oroquieta City-Dapitan City-Dipolog City Road: for F/S verification.
Dipolog-Dumaguete City RORO	Dumaguete: RORO-capable (2 ramps)
Dumaguete-Samboan, Cebu RORO	Dipolog and Samboan: development is under the jurisdiction of the LGU and Cebu Port Authority, respectively.
Samboan-Barili-Toledo City Road	Santander-Barili-Toledo City Road: for verification through F/S.
Toledo-San Carlos City RORO	San Carlos City: RORO-capable (3 ramps) and Toledo: under CPA
San Carlos –Dumaguete Road	San Carlos –Dumaguete Road: subject to verification through F/S.
Dumaguete-Bacolod City Roads:	Bacolod-Kabankalan Road (Bacolod-Bago Section): subject to verification through F/S.
Dumaguete-Bais-Mabinay-Kabankalan-Bacolod route; and Dumaguete North Road-San Carlos Coastal-Bacolod North Road	
Bacolod-Iloilo City RORO	Iloilo: RORO-capable (ICPC, 1 ramp; Iloilo River Wharf: 2 ramps). Bacolod: has private RORO facilities at BREDCO.
Iloilo City-Caticlan (Aklan) Roads	Iloilo East-West Road (Concepcion-Sara-San Rafael-Passi-Calinog Road): subject to verification through F/S.
Iloilo City-Passi-Calinog-Ivisan-Kalibo-Nabas-Caticlan Road	Iloilo East Coast-Capiz Rd: 61.94% complete, 10.37% ahead of
Iloilo East Coast-Capiz Road	Iloilo City-Caticlan (Aklan) Highway: completed in 2005
	Iloilo-Roxas Road: subject to verification through F/S.
Caticlan, Aklan-Roxas, Mindoro Or. RORO	Caticlan, Roxas, Calapan and Batangas: all RORO-capable; and developments for Caticlan: a RORO ramp, RC pier and reclamation, are expected to be finished 1st Qtr of 2006.
Roxas-Calapan, Mindoro Oriental Road	Mindoro East Coast, Calapan-Socorro Section: For F/S verification.
	Mindoro East Coast, Socorro-Bongabon-Mansalay Section: subject to verification through F/S.
Calapan-Batangas City RORO	Batangas: Baseport has 6 ramps; and Calapan: baseport has 7
2. Central Nautical Highway	
Calinan, Davao-Buda, Bukidnon-Misamis Or. Rd	Davao-Bukidnon Road (Buda-Naramag Section): ongoing
Butuan City-Agusan del Norte-Misamis Or. Rd	Subject to verification through feasibility study
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 away from Benoni that have 2 RORO ramps.
Mambajao, Camiguin-Jagna, Bohol RORO	Mambajao: RORO-capable; improvements programmed for 2006.
	Jagna: has existing RORO facilities (2 ramps)
	Tubigon: has existing RORO facilities (2 ramps)
	San Carlos: has existing RORO facilities (3 ramps)
	Dumaguete: presently RORO-capable
	Cebu City, Toledo and Samboan: partner-ports of Tubigon, San Carlos & Dumaguete, respectively, are under CPA.
	Mambajao, Port of Balbagon: programmed to be dredged this year under the PPA 2006 Dredging Program (5,000 cu. m.)
Jagna-Tubigon Roads, Bohol	Jagna-Sierra Bullones-Clarin-Tubigon Road : for verification thru
- Bohol Circumferential Road	Bohol Circumferential Road, Phase II
- Loay Interior Jagna-Sierra Bullones-Clarin-Tubigon Road	Bohol Calape-Loon-Loay: 62.11% complete, 8.35% ahead of schedule Loay-Valencia-Candijay: 68.86% complete, 18.38% ahead of schedule.

continued Table 6.1

Tubigon, Bohol-Cebu City RORO Toledo-San Carlos RORO Dumaguete-Samboan 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.
San Carlos-Dumaguete Road	Subject to verification through feasibility study
San Remigio-Placer, Masbate RORO	Masbate: has already 3 ramps; San Remigio: under CPA;
	Aroroy, Masbate: being developed instead of Placer (no port); and Pilar, Sorsogon: another link for the Central Nautical Highway.
Placer, Masbate-Aroroy, Masbate Road	Cataingan-Placer Section, Masbate (Masbate-Cataingan-Placer Road): physically completed May 2004 Placer-Aroroy Highway: subject to verification through feasibility study.
Aroroy, Masbate-Boca Engano, Masbate RORO	Aroroy: under LGU jurisdiction; PPA has lined-up projects up to 2008. Boca-Engano: not under the PPA Port system; no plans yet. Aroroy: projects for completion by 2008 are RORO ramp, parking area and passenger terminal schedule.
Boca Engano, Masbate-Claveria, Masbate Road Claveria, Masbate-San Pascual, Masbate Road	Masbate-Malinta-Mobo Road, Masbate: 83 percent complete
Claveria, Masbate-Pantao, Albay RORO	Panlao: port development (phase II) is ongoing and is expected to be finished by 2007, while none is lined-up for Claveria.
3. Eastern Nautical Highway	
Davao-Compostela Valley -(Alegria-Santiago, Bayugan-San Francisco-Trento-Monkayo)-Agusan-Surigao Road	Alegria-Santiago, Agusan del Norte: completed 11 November 2005
	San Francisco-Rosario-Bunawan-Trento (Agusan del Sur / Monkayo Bypass, 2.6 kms Monkayo-Nabunturan-Tagum, Langkilaan (Trento)-Monkayo Section, Davao Or.: original scope
	Both ports are RORO-capable; further expansion of Liloan and
Surigao City-Liloan, Southern Leyte RORO	Liloan (Panaon)-Naval (Biliran) Highway: Subject F/S verification.
Liloan, Southern Leyte-Naval, Biliran Highway	Naval: under LGU; municipal port at Kawayan, Biliran (14 km away from Naval) programmed to be developed 3rd Qtr of 2006
Naval, Biliran-Cataingan, Masbate RORO	Cawayan, Masbate: improvement starting 2006 involves
Cataingan-Aroroy, Masbate Highway	Masbate-Cataingan-Placer Road: completed May 2004

Administrative Order (AO) 03-2004 dated December 15, 2004 entitled "Guidelines on the Development, Construction, Management & Operation of Ferry Terminals under RRTS." The PPA is also pursuing the Cost-Based Tariff Analysis and Development Project to review the current tariff system and finalize a new tariff structure that should make maritime transport more cost-efficient as well as discourage monopolies/cartels. To further improve port services and facilitate

movement and documentation of cargo, the RORO Terminal Fee Cash Tickets have been prescribed as per Memorandum Circular (MC) 25-2004 effective September 2005.

With the implementation of Republic Act (RA) 9295, or the Domestic Shipping Development Act of 2004, it is expected that domestic shipping companies and operators are already exploring ways to offer competitive rates and at the same time improving their

services. Domestic shipping companies have been authorized to establish their own rates provided that effective competition is fostered and public interest is served. The Maritime Industry Authority (MARINA) is currently looking into the exact amount of reductions in cost and travel time because of these reforms.

Decongestion of Metro Manila

In decongesting Metro Manila, the following activities have been supportive of spreading development to the regions:

Establish new centers for government and housing in Luzon, in Visayas, and in Mindanao

In 2005, the President approved the proposal of the Office of the Presidential Adviser on New Government Centers (OPANGC) on establishing satellite offices of the following agencies: Department of Agriculture (DA) in Mindanao; Department of Agrarian Reform (DAR) in Iloilo; Department of Tourism (DOT) in Cebu; Department of Transportation and Communications (DOTC) in Clark; and Department of Public Works and Highways (DPWH) in Bicol.

In this regard, the DOT has established and operationalized its office in Cebu in July 2005. The DA and the DPWH conducted ocular inspections in their prospective sites. Among the sites considered include the former office of the defunct Southern Philippines Development Authority (SPDA) and Greenheights Business Conference Building in Davao City for the DA, while DPWH is considering the former Bicol River Basin Development Project Compound and Provincial Capitol

Compound in Camarines Sur. On the other hand, DAR is still looking for a new site, as the proposed location in the Iloilo Provincial Capitol is no longer available. The DOTC's Memorandum of Agreement with Clark Development Corporation on its relocation site is still for review and approval.

Activities for the year relative to the actual relocation of office buildings for the five agencies and transfer of personnel were put on hold and were not prioritized in the agencies' 2006 budget due to budgetary constraints. Key policy agenda and programs remain status quo pending the implementation of Executive Order (EO) 366 on the Rationalization of the Functions and Agencies of the Executive Branch.

Develop Clark-Subic

Activities for a railway, an airport, and an expressway are in progress to promote development of the Clark-Subic area. The Northrail Project (Caloocan-Malolos Section) is wrapping up squatters' relocation, right-of-way post demolition clearing and securing of temporary fences in the Caloocan-Valenzuela Segment, while 90 percent of similar activities are in progress in the Bulacan area. Meanwhile, the upgrade of the Clark International Airport (Diosdado Macapagal International Airport, DMIA) is expected to progress as the Civil Aviation Board (CAB) approved and published on March 10, 2005 the Implementing Rules and Regulations (IRR) of Executive Order (EO) 253, providing for the expansion of air services to the DMIA and Subic Bay International Airport (SBIA). The construction of the Subic-Clark-Tarlac Expressway (Phase I) is also ongoing with

seven-percent accomplishment rate in the Subic-Clark area and 14 percent in the Clark-Tarlac section as of December 2005.

Develop the Southern Luzon Corridor

The Southern Tagalog Arterial Road (STAR) Tollway has already acquired 80 percent of the lands required for the project while the remaining 20 percent to be expropriated have been documented. Clearing, grubbing and field surveys are ongoing. The Southern Luzon Expressway (SLEX), on the other hand, covering four toll road projects, has concluded this year its review of the Supplemental Toll Operation Agreement (STOA) subject to the approval of the President. Implementation of the STOA and start of construction will start in 2006, scheduled for completion in 2008. The financing arrangement for the PNR Main Line South Railway Project Phase I (Alabang-Calamba Section) is currently being updated.

Improve transport within Metro Manila

The existing transport system in Metro Manila is being improved as LRT Line 1 and MRT 3 Loop are being connected through the MRT 3 Phase II Project. This project has been undergoing feasibility study and exploration of funding as of December 2005. The improvement of seven major roads in Metro Manila is also a top priority, which includes road widening, drainage, footbridges, geometric improvements, sidewalk improvements, lane markings, road and traffic signs, and illumination. The roads being rehabilitated are Commonwealth Avenue, EDSA, Quezon Avenue, McArthur Highway, Circumferential Road 5, Radial Road 10 and Marcos Highway.

The Metro Manila Development Authority (MMDA) has also effectively applied traffic management schemes along major corridors through clearing of the roadways, instilling driver and vehicle discipline, improving traffic signaling system, and providing more facilities for safe and efficient pedestrian flow. MMDA programs in 2005 report that 75 percent of pedestrian commuters are maintained at sidewalks; 64.30 percent of buses enabled to use the EDSA Organized Bus Route (OBR) and terminals; and 81.47 percent of city buses made to comply with PUV rules and regulations. Other accomplishments include construction of seven footbridges, installation and construction of six loading and unloading bays and five emergency bays, 14 U-turn slots, construction of an intermodal terminal, lane markings, road signs and other facilities.

For road safety, engineering and nonengineering traffic safety measures have been adopted as the Land Transportation Office (LTO) intensified its law enforcement drive, National Anti-Colorem Strategy, enhancement of motor vehicle registration system, drivers' training seminars, and the Developing Road Safety Advocate Environmentally Sustainable Transport Project.

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

One of the priority projects meant to address bottlenecks and ease traffic out of Manila is the Metro Manila Skyway Project (MMSP), a 35-km elevated toll road from Alabang in the south to Balintawak in the north linking the SLEX

and NLEX. The detailed engineering design for the Bicutan to Sucat elevated section has been completed and the financial aspect of the feasibility study (FS) is ongoing.

Another is the ongoing Manila-Cavite Toll Expressway's 7.5-km Segment 4 from Zapote to Kawit. Advanced reclamation works have already been started at Longos, Bacoor, Cavite with a 2.8-percent accomplishment rate. Construction of the Subic-Clark-Tarlac Expressway Tollroad Project has also been ongoing since April 2005.

At the forefront of increasing road capacity is the NLEX Tollway, which started commercial operation on February 10, 2005 with an additional 110-km lane. Tollroad projects in NLEX Phase 1 included the upgrading of the existing 84-km portion from Balintawak to Sta. Ines. It covers the widening of Balintawak - Burol-Sta. Rita section, upgrading and construction of interchanges, overpasses, and toll plazas, and installation of a new toll collection and monitoring system. The implementation of Phase 2 covering C-5 East is planned for 2006.

Tourism Infrastructure: Access to Major Tourism Destinations

Major tourist destinations identified in the MTPDP for infrastructure development include Cebu-Bohol-Camiguin, Clark-Subic, Cordillera, Davao, Ilocos, Boracay and Palawan. In the Cebu-Bohol-Camiguin area, the Manila International Airport Authority (MIAA) is currently reviewing the Panglao Airport Study for possible fund allocation. Some of the roads being constructed in the same area are the Naga-Toledo Road and Bohol Circumferential Road (with Calape-Tagbilaran City-Valencia Section 62.11

percent complete, and Candijay-Jagna-Valencia Section 68.86 percent complete). In the Boracay area, the Iloilo Airport is 16.99 percent completed and is expected to be finished by October 2006. The New Bacolod (Silay) Airport has attained 4.3-percent completion, and will be completed by January 2007. In the Cordillera area, the San Fernando Airport has undertaken one of five scheduled projects in 2005 for compliance with the Air Transportation Office's (ATO) safety audit. The remaining projects will be pursued in 2006. Construction of the Baguio-Aritao Road, Suyo-Cervantes-Mankayan-Abatan Road in Ilocos Sur, Benguet and Mt. Province, and Cervantes-Sabangan Road in Ilocos Sur and Mt. Province are ongoing to increase access toward Northern Luzon. For Ilocos, the FS/Master Plan for the improvement of the Laoag International Airport needs to be updated. For Palawan, preparatory activities for the improvement of the Busuanga Airport (Phase I) are in progress.

Moreover, the ATO is also completing improvements for the nine identified priority airport projects that serve as gateways to regional centers and major tourist destinations in pursuit of continuous upgrading of air transportation. These include Bagabag in Northern Luzon, Bulan in the Bicol Region, Busuanga in Southern Luzon, Catbalogan in Samar Island, Caticlan in Panay Island, Kalibo also in Panay, Lingayen in Pangasinan, Maasin in Southern Leyte, and Siargao in Surigao. Accomplishments as of 2005 include various rehabilitation and improvement of the facilities of the identified airports.

To be globally competitive and address safety issues especially raised by tourists, the government is expected to enter into a contract with the consultants

for the Communication, Navigation Surveillance/Air Traffic Management (CNS/ATM) Project by August 2006 to upgrade the airports nationwide with the International Civil Aviation Organization (ICAO) standards. Maritime safety was also enhanced through the issuance of MC 205 of the Revised MC 203 on the Rules Governing the Implementation of the Ship Safety Inspection System (SSIS) on April 21, 2005, and through MC 203 on the Rules Governing the Implementation of the Ship Safety Inspection System (SSIS) on January 19, 2005, which developed procedures and guidelines to enhance Safety Management System audit based on Ship Inspection Results.

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

Improving underdeveloped road networks is the major infrastructure development needed to help solve peace and order problems. Priority regions specified in the MTPDP include Mindanao, Bicol, Southern Leyte, Eastern Samar, Northeastern Samar, Negros-Panay, and some areas in Ilocos Sur, Pangasinan, Pampanga, Batangas, Quezon, Aurora and Cordillera.

Based on the report of DPWH as of December 2005, ongoing improvement and rehabilitation are underway for roads such as the Tukuran-Dobliston-Kapatagan Road in Zamboanga del Sur and Lanao del Norte, the Surigao-Davao Coastal Road in Surigao del Sur, the Malalag-Malita-Jose Abad Santos Road (Sulop Jct.-Malalag-Malita Section) in Davao del Sur, the Zamboanga City-Pagadian City Road, the Katipunan-Manukan Section of Oroquieta-Sindagan Road in Misamis Oriental, the San Jose-

Patnongon Road in Antique, the Catarman-Lope de Vega-Calbayog Road in Northern Samar, the Himayangan-Silago Road, Silago-Abuyog and Liloan-San Ricardo Road in Southern Leyte, the Dolores-Oras-San Policarpio Road in Eastern Samar, the Bongabon-Baler Road (San Luis-Ma Aurora-Basal Section) in Aurora, the Catanduanes Circumferential Road in Catanduanes, the Macalelon-Malunay Road and Tayabas-Mauban-Lucban Road in Quezon, and the Iloilo-Aslunan Road in Iloilo.

Roads that were completed this year include the Calamba-Barcelona and Barcelona-Katipunan Sections of Oroquieta-Sindagan Road in Misamis Oriental, and the 17.4 km section of Bayawan-Kabankalan Road in Negros Oriental.

Those that are still under preconstruction stage include the Kabankalan-Basay/San Enrique-Vallehemoso Road in Negros Occidental, the Pandan-Libertad-Antique/Aklan Boundary Road and Boundary Antique/Iloilo-Anini-y-V, Jimenez Road in Antique, the Prosperidad-Lianga Road and Butuan City-Las Nieves-Esperanza-Bayugan Road in Agusan del Sur, the Allen-Calbayog and Calbayog-Calbiga in Samar, the San Juan-Laiya Road in Batangas, the Ligao-Pio Duran Road in Albay, the Central Mindanao Inter-Regional Circumferential Road, and the Cotabato (Jct. Awang)-Upi-Lebak-Kalamansig Road.

Bureaucratic and Legislative Reforms

Under the MTPDP 2004-2010, the institutional reforms to be pursued in air, water and rail transport include restructuring of institutions and establishments of offices. Activities

supportive of this goal include the endorsement of DOTC on March 17, 2005 of the creation of the Civil Aviation Sector Authority of the Philippines (CAAP), through a proposed priority bill called “An Act Creating the CAAP for the Regulation of All Civil Aviation Activities and Institution of Safety Requirements, Defining Its Powers and Functions, and for Other Purposes”, which is now for discussion in both Houses of Congress. For the water transport sector, there is a standing recommendation in the Port Masterplan to amend the PPA Charter with regards to its dual role as port regulator and operator. The rail sector has yet to submit its own proposal for similar institutional reforms.

DIGITAL INFRASTRUCTURE

While short messaging system (SMS) dominates the market, improvements in multimedia messaging service (MMS) are expected with the emergence of the third-generation mobile communication technology (3G).

Based on the 2004 National Telecommunications Commission (NTC) Annual Report², the Philippine telecommunications industry comprised of 73 Local Exchange Carriers (LEC), 14 Inter-Exchange Carriers (IXCs), 11 International Gateway Facilities (IGF), seven Cellular Mobile Telephone Service (CMTS), 10 Public Trunk Repeater Service providers, eight radio paging service providers, and 329 VAS providers.

Reduce Cost of Connectivity

VoIP as an alternative to traditional telephone calls is expected to effectively reduce the cost of overseas calls. In 2005, NTC issued MC 05-08-2005 classifying

VoIP as a value-added service (VAS). As such, an entity seeking to provide VoIP services is required to tie up with a telecommunication company prior to registration with NTC. Meanwhile, the National Computer Center (NCC) is preparing the guidelines for the implementation of VoIP in government services.

With the emerging 3G technology, NTC also issued MC 04-08-2005 providing rules and regulations on the allocation and assignment of 3G radio frequency bands. So far, Smart Communications, Globe Telecommunications, Sun Cellular, and Connectivity Unlimited Resources Enterprise Inc. (CURE) were issued licenses for 3G operations.

With the use of prepaid cards, Internet connection charge declined from PhP5 per hour in 2004 to PhP4 per hour in 2005. This cost reduction was attributed to the growing market competition among Internet Service Providers (ISPs) and the fast technological development in the sector. On the other hand, the cost of a standard call using landline remained at more than PhP600 per month for residential postpaid lines. For wireless services, the cost also remained at approximately PhP4.50 to PhP13.75 per minute, while text messaging rate still ranged from PhP0.50 to PhP1 per text.

As of end 2004, the major CMTS players had provided more than 50 percent cellular coverage to 11 provinces previously without it (i.e., Romblon, Apayao, Aurora, Mt. Province, Kalinga, Ifugao, Basilan, Biliran, Siquijor, Batanes, and Quirino). For this period, subscribers reached 32.94 million, marking a 46.32 percent increase from the 22.5 million subscribers in 2003. Along with this, the CMTS density is at 39.85 (Figure 6.1), a remarkable rise from 27.77 CMTS density

² There are no available figures for 2005

in 2003. While there was no updated data for the total number of CMTS and landline subscribers in 2005, NTC-Common Carrier Authorization Department estimated it at 34.1 million and 3.5 million, respectively.

Based on the Internet World Stats, Filipino Internet subscribers increased to 7.82 million in 2005 from 1.9 million in the previous year. This was mainly attributed to the improved Internet services, like the Digital Subscriber Lines (DSL) of major

ISPs. Meanwhile, with the prepaid landline telephone, subscribers increased from 3.3 million in 2003 to 3.44 million in 2004 (Table 6.2). However, there was a decrease in installed lines from 6.56 million in 2003 to 6.47 million in 2004 due to the increasing popularity of CMTS, among others. This translated to teledensities³ of 4.16 and 7.83 lines per 100 persons (out of the total population of 82.65 million) for the subscribed line

FIGURE 6.1 CELLULAR MOBILE TELEPHONE SYSTEM AND SUBSCRIBED FIXED LINES TELEDENSITIES

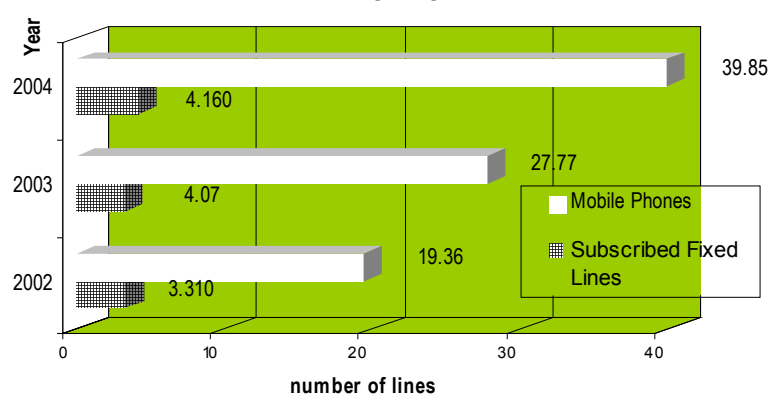


TABLE 6.2 NUMBER OF TELEPHONE SUBSCRIBERS PER REGION

REGION	2004 POPULATION	2004 INSTALLED LINES	2004 SUBSCRIBED LINES	TELEDENSITY			
				INSTALLED 2003	INSTALLED 2004	SUBSCRIBED 2003	SUBSCRIBED 2004
CAR	1,522,654	94,079	35,713	6.27	6.18	2.25	2.35
I	4,413,599	190,335	107,890	4.49	4.31	2.51	2.44
II	3,031,999	42,860	26,939	1.02	1.41	0.97	0.89
III	8,278,712	410,841	281,842	5.31	4.96	3.20	3.40
IV	12,508,472	1,049,413	588,688	8.72	8.39	4.62	4.71
V	5,083,404	125,157	72,647	2.50	2.46	1.45	1.43
VI	6,772,424	427,497	132,482	6.20	6.31	1.76	1.96
VII	5,962,484	470,299	227,468	7.83	7.89	3.17	3.81
VIII	4,055,416	151,652	27,737	3.20	3.74	0.41	0.68
IX	3,448,619	35,945	25,172	1.00	1.04	0.95	0.73
X	3,127,438	147,513	50,942	4.83	4.72	1.65	1.63
XI	5,781,992	295,334	111,106	6.75	5.11	1.85	1.92
XII	2,909,499	82,616	31,393	2.89	2.84	1.10	1.08
XIII	2,273,936	117,116	31,002	5.63	5.15	1.68	1.36
ARMM	2,368,698	33,315	2,834	1.29	1.41	0.35	0.12
NCR	11,112,687	2,799,079	1,683,636	25.77	25.19	15.07	15.15
Total	82,652,033	6,473,051	3,437,491	8.09	7.83	4.07	4.16

³ There are no available figures for 2005.

and installed fixed line in 2004, respectively.

However, the 2004 World Telecommunications Development Report of the International Telecommunications Union (ITU) showed that in Asia, the Philippines was still struggling at 4.16 fixed line teledensity, with Taiwan having the highest at 59.63 and Afghanistan as the lowest at 0.2. For the mobile phone subscribers, Philippines competed with other Asian countries at 39.85 CMTS teledensity, with Hong Kong as the highest at 118.77. And for the Internet usage, Philippines stood at 5.32, with South Korea as the highest at 65.68 (Table 6.3).

To improve connectivity, the Telecommunications Office (TELOF) introduced the “Bundling Program” to maximize the use of its unsubscribed lines that included the improvement of prepaid system both in the voice and data services, and established 119 Community e-Centers (CeCs) nationwide (56 in Luzon, 25 in Visayas, and 38 in Mindanao). The CeC program established public access to ICT services particularly for LGUs and public

schools in unserved areas.

Furthermore, the Commission on Information and Communications Technology (CICT) in coordination with Philcom and Bayantel activated the toll interconnection at Cebu Toll Center using Integrated Services Digital Network User Part (ISUP)⁴ signaling system, and relocated GX 5000 switch⁵ from areas already served by the private operators to unserved areas.

The NCC also developed a citizen-centric website template designed to attract potential investors. It offered, among others, ready access to available government’s basic services and information relative to the industry and the economy. Of the 17 LGUs assisted nationwide, three LGU websites were already 90-percent completed while the rest are for completion by 2006.

ICT Human Resource Development

The government through CICT continued to support and develop the quality of its human capital. In 2005, CICT developed the National ICT

TABLE 6.3 TELEDENSITY COUNTRY COMPARISON

COUNTRY	CELLULAR MOBILE SUBSCRIBER PER 100 INHABITANTS		FIXED TELEPHONE LINES PER 100 INHABITANTS		INTERNET USERS PER 100 INHABITANTS		PERSONAL COMPUTERS PER 100 INHABITANTS	
	2003	2004	2003	2004	2003	2004	2003	2004
Afghanistan	1.00	2.41	0.18	0.20	0.10	0.10	0.00	0.00
Hong Kong	107.92	118.77	55.98	54.42	47.18	50.32	55.46	60.54
India	2.47	4.37	3.97	4.07	1.75	3.24	0.89	1.21
Indonesia	8.74	13.48	2.73	4.49	3.76	6.52	1.28	1.36
Malaysia	44.41	57.12	20.16	17.38	34.50	38.62	16.77	19.16
Philippines	27.77	39.85	3.42	4.16	4.93	5.32	3.51	4.46
Singapore	82.86	89.47	45.33	43.20	50.88	56.12	62.20	62.20
South Korea	70.20	76.09	44.24	55.31	61.07	65.68	50.68	54.49
Taiwan	114.14	100.00	52.44	59.63	51.94	53.81	47.14	52.78
Thailand	40.15	44.18	8.49	10.97	11.26	11.25	4.88	60.00
Vietnam	3.47	6.01	2.25	12.28	4.30	7.12	1.12	1.27

⁴ ISUP is the functional part of the Signaling System No. 7 (SS7) protocol that specifies the interexchange signaling procedures for the setup and tear down of trunk calls between networks, handles routing decisions and supports all modern telephony services such as 800 numbers, call forwarding, caller ID and local number portability (LNP).

⁵ The GX 5000 switch converges multiple networks into a single and larger multiservice network with unified management to support more users.

Competency Standards (NICS), which comprise of NICS-Basic, NICS-Advanced, NICS-Teachers, and NICS-Civil Servants or ICT Specialists in Government. Also, a total of seven training courses, attended by 142 participants from 45 schools, have been conducted through the *eQuality* Program for State Universities and Colleges (SUCs). Also, the Bridge Program under the umbrella *eQuality* Program with SUCs provided a six-month on-the-job training (OJT) for students.

Regulatory and Legislative Reforms

There are ICT-related legislative bills still pending in Congress as of end-2005. These include: (a) Establishment of the Department of Information and Communications Technology Bill, which would ensure 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 infrastructures and invite further capital infusion for digital expansion and development; and (d) NTC Reorganization Bill, which would make NTC more responsive to the continuing dynamism of the sector.

Chapter 7

Fiscal Strength

Further strengthening of the country's vulnerable fiscal position was the center of macroeconomic policy in 2005. After exceeding its target in 2004, the National Government (NG) sustained its good fiscal performance in 2005, as reflected in Table 7.1, as it managed to contain its full year fiscal deficit at PhP146.8 billion (2.7% of GDP), way below the PhP180 billion (3.4% of GDP) revised target for the year, the PhP184.5 billion MTPDP target for 2005, and the PhP187.1 billion (3.9% of GDP) actual deficit incurred in 2004. This is the lowest NG deficit-to-GDP since 1999 which resulted from a combination of above-program revenue collections and below-target disbursements. This translated to a primary balance of 2.8 percent of GDP, the highest primary surplus recorded since 1998, albeit lower than the MTPDP program.

Moving towards fiscal consolidation

Committed to achieve macroeconomic stability and sustainable fiscal position, the government concentrated on the passage and implementation of its fiscal legislative measures, continued improvement of its collection efficiency, and prudent spending. As a result, revenue increased by 13.7 percent and its ratio to GDP improved to 14.8 percent (Table 7.1). This actual revenue effort was slightly higher than the revised program for the year but still lower than the program that was set in the Plan. The better-than-revised program collection was primarily due to the commendable performance of the Bureau of Treasury (BTr) and the proceeds from the implementation of Republic Act (RA) 9337 or Expanded Value Added Tax (EVAT). While both the Bureaus of Internal Revenue (BIR) and Customs

(BOC) failed to meet their respective targets, the BTr managed to more than offset their shortfalls as it increased its income to almost twice the level of its program for the period. Meanwhile, the additional revenues collected from the implementation of the EVAT in the last two months of 2005 amounted to PhP4.5 billion, PhP0.5 billion of which were collected by the BIR and PhP4 billion by the BOC.

The BIR failed to meet its full year target as revenues from Value Added Tax, net income and profits and other domestic taxes were lower than programmed. Despite lower than targeted collection of sin taxes from tobacco and alcohol, excise tax collections for the year exceeded their target because of better collection for petroleum products. The incremental domestic revenues derived from RA 9334 or the Increase in Excise Tax on Alcohol, Cigarette and Tobacco

that was implemented on January 1, 2005 only amounted to PhP2.09 billion, much lower than the PhP7.5 billion program for BIR for the year. This underperformance was mainly attributed to the front-loading strategy of the manufacturers in anticipation to the implementation of the law.

The BOC also collected lower than target due to lower imports, higher ratio of nondutiable imports to total imports, peso appreciation, deferred payments and lower collection from new measures. These countered factors that had positive revenue impact on Customs collections, such as higher tariff on dutiable nonoil imports (5.63% instead of 5.0%) and the lower-than-programmed applied tax credits, among others. It was noted that the Bureau also underperformed in the implementation of RA 9334 as it only collected PhP0.83 billion out of the PhP7.5 billion target for 2005.

The year was highlighted by the passage and implementation of the EVAT, which is considered to be the centerpiece of the government's revenue measures. Its implementation resulted to improved investor confidence, as evidenced by the upgrade in the country's credit rating, the surge in foreign investment flows, the rise of the equities market, the narrowing of bond spreads and the strengthening of the peso.

However, RA 9335 or the Attrition Act Law that was passed in January 2005 was not yet implemented as its Implementing Rules and Regulations (IRR) is yet to be approved by the Joint Congressional Oversight Committee. The government nonetheless spearheaded its anticorruption, anti-evasion and antismuggling campaigns during the year. With Revenue Integrity Protection Service (RIPS), the government investigated

allegations of corruption in the DOF and its attached agencies. It filed the necessary charges against erring officials and employees with the concerned government agencies and likewise encouraged active citizens' participation in eradicating corruption in the government. From January to December 2005, nine cases were filed under this program. On the other hand, the Run After Tax Evaders (RATE) program, launched by BIR in March 2005, filed cases against high profile tax evaders. Out of the target 24 to 36 cases from March to December last year, the Bureau filed 44 tax evasion and estafa cases with the Department of Justice against companies and/or high profile individuals with estimated tax liabilities of PhP2.4 billion. The BOC's implementation of the Run after the Smugglers (RATS) program, which aimed to file at least one smuggling case every month, resulted in the filing of 10 smuggling cases in 2005.

In addition, the tax agencies also continued the implementation of its administrative measures to improve collection efficiency. The BIR maintained programs and projects that aim to computerize and automate its system operation, reform its business process, reduce tax evasion by surveillance and use of third party information (TPI), strengthen the enforcement of tax laws, and improve voluntary tax compliance through a massive tax information campaign and compliance verification drive. The BOC also started the implementation of the Automated Systems Custom Data Management (ASYCUDA) World project with the conduct of technical training to operationalize the system. The system is intended for the development of a dynamic and faster end-to-end cargo clearance process through mobile

broadcasting and Internet/electronic data interchange connectivity.

Meanwhile, nontax revenues surpassed MTPDP and revised targets mainly on account of BTr's income of PhP70.6 billion that exceeded by 55.7 percent the PhP45.4 billion Plan program and by almost twice the PhP36.6 billion revised target for the period. This was largely due to earnings from bond sinking fund investments and efficient management of the government's financial resources. The Bureau was also able to maintain a lower-than-projected 91-day T-bill rate of 6.36 percent¹ (versus 8.5% in the program) due to its comfortable cash position that enabled it to reject unusually high bids at the regular auctions. This contributed to the sustained low prevailing rates as well as reduced volume of borrowings compared with programmed levels. In addition, privatization receipts for 2005 totaled PhP8.5 billion, of which PhP2.4 has been remitted to the National Treasury. The DOF Privatization Office was able to revitalize its privatization program with the successful completion of government shares in the Philippine National Bank (PNB), which was considered to be a big-ticket privatization asset.² This was the largest privatization transaction since the sale of Fort Bonifacio in 2001 and contributed more than 80 percent of privatization remittances in 2005. In the past, as PNB assets were identified and offered for sale, legal impediments, the absence of interested buyers and the lack of focus on working out solutions to these problems had resulted in failure and lack of progress in proceeding with the sale.

On the expenditures side, total disbursements in 2005 expanded by 63 percent over the 2004 level but this was still lower than both Plan and revised targets

for the year. The PhP20.9 billion underspending was mainly due to PhP13.6 billion (Table 7.1) savings in interest payments as government incurred interest savings on account of lower-than-projected interest rates and peso appreciation. Savings worth PhP5.0 billion were also gained from net lending as government corporations were able to repay advances that they availed of early in 2005³. Maintenance operations and other expenditures and capital outlays on the other hand fell short of the programmed levels due to the prior years' lower account claims and the delay in the enactment of the budget. The absolute decline in the magnitude of accounts payable (A/P) in recent years was a result of the government's program to tighten control over new obligations and its more systematic settlement of prior years' A/Ps. The underspending could have been higher had it not been for additional disbursements for personal services to grant Productivity Enhancement Pay and Educational Assistance Pay for all government employees. Also, the allocation for LGUs were released in full in accordance with the appropriated level while the program assumed one quarter savings in Internal Revenue Allotment (IRA) with the effectivity of the higher 2005 IRA to start only upon the enactment of the 2005 General Appropriations Act in April 2005. In addition, the disbursements also included the PhP4.0 billion in prior year's arrearages for special shares of Local Government Units (LGUs)⁴ that were settled. Subsidy to Government Owned and Controlled Corporations (GOCCs) was also higher than programmed due to additional releases to the National Housing Authority for the resettlement programs of the North and South rails,

¹ The average interest rates for 182-day and 364-day T-bills were 7.671% and 8.683%, respectively.

² In addition to PNB, other privatization receipts came from the disposition of assets of the Privatization of Management Office, Presidential Commission on Good Government, and development of the Philippine properties in Japan.

³ These include NPC, NFA, NEA, PNOC, MWSS.

⁴ This was in pursuant to RA 7171 as subsidy to the four Virginia-tobacco producing provinces in the Northern Luzon

the National Food Authority (NFA) for rice importation, and National Electrification Administration (NEA) for the barangay electrification program.

Meanwhile, Executive Order (EO) 366 on the rationalization program was implemented in mid-2005, which required national government agencies and government corporations to formulate rationalization plans. To date, 16 agencies and 9 government corporations have submitted their plans to the Department of Budget and Management (DBM) while two⁵ have already implemented their approved plans that resulted in the reduction in manpower complement and operational costs. In addition, an initial application of the Organizational

Performance Indicator Framework (OPIF) was also made for 13 departments in support of the 2006 budget.

Operationalization of the MTPIP

The Medium-Term Public Investment Plan (MTPIP) 2005-2010 was finalized and presented for implementation in February 2005. The document indicated that on the aggregate, the estimated MTPIP requirement for 2005-2010 is PhP2,130.6 billion, of which 43 percent will need national government appropriations. Meanwhile, as part of its implementation and monitoring, an updating exercise was undertaken in June 2005. This is expected to be formally

TABLE 7.1 NATIONAL GOVERNMENT CASH OPERATIONS
(In Billion Pesos)

	2004 ACTUAL	% OF GDP	2005 ACTUAL	% OF GDP	2005 MTPDP PROGRAM	% OF GDP	2005 REVISED PROGRAM	% OF GDP
Revenues*	699.8	14.5	795.7	14.8	830.8	16.2	783.2	14.7
o.w. BIR*	468.2	9.7	535.1	9.9	600.6	11.7	546.9	10.3
BOC*	122.5	2.5	141.7	2.6	141.4	2.8	151.2	2.8
Expenditures**	886.8	18.4	942.5	17.5	1015.4	19.8	963.2	18.1
o.w. Interest	260.9	5.4	299.8	5.6	332.5	6.5	313.4	5.9
Payments								
Capital Outlays	132.4	2.7	129.5	2.4	164.8	3.2	131.3	2.5
Deficit	-187.1	-3.9	-146.8	-2.7	-184.5	-3.6	-180.0	-3.4
Primary Surplus****	79.1	1.6	152.3	2.8	155.0	3.0	139.8	2.6
Financing	187.1	3.9	146.8	2.7	184.5	3.6	180.0	3.4
External Financing	81.2	1.7	92.7	1.7	n.a.	n.a.	98.4	1.9
Domestic Financing	161.4	3.3	143.3	2.7	n.a.	n.a.	117.3	2.2
less: Change in Cash	-19.4	-0.4	22.3	0.4	n.a.	n.a.	11.0	0.2
less: Non-budgetary accounts	74.9	1.6	66.9	1.2	n.a.	n.a.	24.7	0.5

Details may not add up due to rounding off. * Does not include non-cash collections; ** Does not include non-cash subsidies; *** Reflected figure is taken from the preliminary Expenditure by Expense Class released by DBM. Revised Expenditure details not yet available; **** Refers to revenues net of privatization less expenditures net of interest payments and net lending

Sources: MTPDP 2004-2010, Cash Operations Report, Bureau of Treasury (2004 and 2005 as of January 23, 2006), and BESF 2006.

⁵ These are the Technology and Livelihood Resource Center and the Civil Service Commission.

distributed to concerned agencies by end-March 2006.

Strengthening the ICC process

To further improve the processing of projects at the Investment Coordination Committee (ICC) and make this consistent with the targets and activities committed in the Strategy Planning Matrices (SPM), the ICC had enunciated several policy directives and carried out numerous activities in 2005. First was its revision of the ICC Guidelines and Procedures, primarily to: (a) reflect the increase in the cost floor from PhP300 million to PhP500 million⁶; (b) emphasize that programs and projects lined up for ICC discussion have to be drawn from the MTPIP; (c) strictly observe the 4-6 weeks evaluation time; (d) consistently cover in the review the technical, financial, economic, social and institutional feasibility of proposals; and (e) continue implementing various policies that pertain to financing of activities devolved to LGUs.

The ICC had also started introducing revisions to the ICC Guidelines for the review of projects proposed to be financed under the various private sector investment schemes by taking into consideration the proposed amendments to the IRR of the BOT Law, as approved by the BOT IRR Committee. This revision also considered the February 15, 2005 directive to streamline the process of approving projects proposed to be implemented through BOT and its various schemes, and this will be finalized upon completion of the revisions to the BOT Law IRR. With these improvements in the BOT process that will promote transparency in processing of projects, it

is expected that more members of the private sector will be encouraged to participate in the development initiatives of the government.

In addition, both the Development Budget Coordination Committee (DBCC) and the ICC approved the charging of commitment fees against budget ceilings of implementing agencies to instill discipline in project implementation. The DBM led in defining the mechanism on how to operationalize the proposed policy, with inputs from DOF and NEDA.

Under these revised guidelines, the ICC approved 45 projects with a total cost of PhP106.1 billion in 2005. Of these, 18 were loans (PhP77.7 billion), three were grants (PhP4.3 billion), 21 involved requests for change in cost/scope/time and/or loan validity extension (PhP24.1 billion), two were contracts implemented through the BOT scheme, and one IPP was a contract.

Moving closer to the 1.0 percent CPSD-to-GDP program

In 2005, the consolidated public sector deficit (CPSD) was significantly reduced to 2.0 percent of GDP much better than the target for the period and of the previous year (Table 7.2). The improvement in CPSD was attributed to better than expected performance of all public sector entities except for LGUs (vis-à-vis program and 2004) and BSP (vis-à-vis 2004). Fiscal discipline in the 14 Monitored Nonfinancial Government Corporations (MNFGCs) was achieved with the improvement in the National Power Corporation's (NPC) financial position due to the implementation of

⁶ For projects and contracts costing below PhP500 million, approval was delegated to heads of agencies and Governing Boards for GOCCs/GFIs, provided: (a) the project is included in the MTPIP; (b) resource requirement is within annual, multi-year budget ceiling of agency or annual capital expenditure program of the GOCC/GFI as certified by DBM and DOF (considers impact of project on Consolidated Public Sector Deficit), respectively; (c) financial and economic viability and project benefits are established; and (d) the agency/GOCC/GFI approval of the project is consistent with applicable laws, rules and regulations.

tariff rates increase as well as lower interest payments due to the absorption of NPC debt by the national government. For all the corporations, in general, improvement was due to higher receipts, lower interest payments and lower capital expenditures, although the lower spending was partially offset by nonreceipt of Masinloc privatization proceeds by PSALM. Social security institutions (SSIs) also improved their financial standing with the higher revenues they earned from members' contributions that exceeded benefit payments for the first time in six years.

Accelerating the reduction of Public Sector Debt-to-GDP

As of end-December 2005, NG regular debt decreased to 72.3 percent of GDP from 79.0 percent in end 2004, way below the lowest NG Outstanding debt-to-GDP program in the Plan for the year. The improvement was due to lower government borrowings, attributed to the

improvement of its fiscal position. Total contingent liabilities of the government went down to 10.9 percent of GDP from 17.3 percent the previous year due to lower NG foreign guaranteed and assumed debt arising from net repayments and net appreciation of the peso against the US dollar. NG debt was composed of 56 percent domestic and 44 percent foreign. End-year debt structure remained sound with medium-and long-term liabilities accounting for 83.6 percent of the total debt. In January 2005, the government launched the debt consolidation program and completed the domestic debt exchange offer, about PhP45 billion from which had been exchanged for 5 to 7-year benchmark bonds. As of end 2005, fixed rate treasury bonds, which are longer dated instruments, represented 70 percent of total NG issues. Despite NG's absorption of NPC's financial obligation to facilitate privatization and eventually reform the Power Industry, it was able to

TABLE 7.2 CONSOLIDATED PUBLIC SECTOR POSITION
(In Billion Pesos)

	2004 JAN.-DEC.	% OF GDP	2005 JAN.-DEC. ACTUAL	% OF GDP	2005 JAN.-DEC. PROGRAM	% OF GDP
Total Surplus/(Deficit)	-232.0	-4.8	-106.0	-2.0	-180.3	-3.4
National Government	-187.1	-3.9	-146.8	-2.7	-180.0	-3.4
CB Restructuring	-17.5	-0.4	-16.3	-0.3	-18.4	-0.3
14 MNFGCs	-85.4	-1.8	-21.7	-0.4	-42.5	-0.8
SSIs	24.4	0.5	51.8	1.0	26.0	0.5
BSP*	3.3	0.1	3.0	0.1	1.0	0.0
GFI	5.2	0.1	6.2	0.1	5.8	0.1
LGUs	14.9	0.3	13.0	0.2	18	0.3
Adjustments**	10.3	0.2	4.8	0.1	9.8	0.2

* 2005 Actual figure is from January-November only

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

Source: Department of Finance (as of April 5, 2006)

obtain the best deal in the international bond market due to positive developments in the fiscal sector that helped create favorable investor sentiments.

On the whole, total consolidated public sector debt stood at 102.1 percent of GDP while consolidated non-financial public sector debt reached 89.4 percent of GDP as of end-September 2005. To date, bulk of the country's total public sector debt was foreign. Next to NG, the 14 MNFGCs contributed the second biggest chunk of the total public sector debt, as its debt to GDP reached 28.5 percent as of the third quarter, which were also mostly foreign denominated. In the government's continued effort to maintain the manageability of consolidated public sector debt, the DOF-International Finance Group worked alongside with the DOF-Corporate Affairs Group to facilitate the funding of various GOCC financing requirements through sources with minimal cost and optimal value.

With regard to official development assistance (ODA), total loans commitment as of December 2005 were US\$10.1 billion, 5.7 percent lower than in 2004. However, in terms of actual disbursements, ODA performance actually improved. ODA loans disbursement level rose by 9 percent to US\$1.2 billion in 2005 from US\$1.1 billion in 2004, for both program and project loans. The ODA's sustained focus and action towards addressing implementation bottlenecks and harmonization between the Philippine government and funding institutions on procedures on procurement and other activities led to higher actual disbursements.

Chapter 8

Financial Sector

The Philippine financial sector ended 2005 on an upbeat note, growing 13.6 percent compared with 9.9 percent in the previous year. The sector's strong expansion was a result of the ongoing implementation of some key measures focused on ensuring a stable macroeconomic environment while developing a stronger financial system. In 2005, there was a marked improvement in asset quality and deposit base of banks as the ratio of nonperforming loans to total loans improved from 12.7 percent as of end-December 2004 to 8.5 percent as of end-December 2005. The growth in the ratio of market capitalization to GDP from 83.2 percent in 2004 to 98.9 percent in 2005 suggests an increased level of securities trading. The successful conduct of monetary policy and price stabilization efforts also helped ease inflationary pressures towards the end of the year.

While the primary objective of the reform agenda for the Philippine financial system was to mobilize domestic savings, the country's gross domestic savings to GDP ratio actually went down to 20.7 percent from 21 percent in 2004 following the one percentage point slowdown in the domestic economy in 2005. Nevertheless, reforms that will support the objective of raising the savings rate through the improvement of the financial infrastructure are already being implemented by the regulatory agencies with the exception of those that require legislative action. Among the bills that the sector is advocating are the proposed amendments to the Bangko Sentral ng Pilipinas (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, there are proposed legislation supporting the development of the domestic capital

market such as the creation of a Credit Information Bureau (CIB), the passage of the Corporate Recovery Act, the Personal Equity Retirement Account (PERA), the Revised Investment Company Act (RICA), the Lending Companies Regulation Act, and the Pre-Need Code.

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

Despite a deceleration in inflation towards the end of the year, average inflation in 2005 reached 7.6 percent exceeding the government target of 5.0–6.0 percent (Table 8.1). This was mainly due to the rising oil prices in the world market that caused upward adjustments in domestic pump prices of oil products resulting in higher input prices, and eventually translating to higher prices of consumer goods.

In 2005, the Bangko Sentral ng Pilipinas (BSP) decided to raise its policy interest rates three times in 2005 – in April, September and October – by a cumulative 75 basis points to temper the inflationary pressures coming from the supply shocks caused by higher fuel prices. Reserve requirements were also raised by two percentage points to prevent the adverse effects of excess liquidity on inflation and inflation expectations. As a complement to the aforementioned policy actions, the BSP also intensified its public information campaign to help manage inflation expectations by conducting regional briefings in areas not previously covered, such as economic developments and prospects, the conduct of monetary policy including the role of the BSP, inflation targeting, and the concept of core inflation.

On the other hand, the National Price Coordinating Council (NPCC), through its member agencies and the private sector, implemented measures to counter supply-side inflationary pressures. The Department of Agriculture (DA) undertook measures such as: (a) productivity enhancement that improved genetic materials of crops, livestock, poultry and fishery products to ensure high yields and intensified disease prevention; (b) logistical support to cut production and distribution costs; (c) direct market linkages, reduction in market layers and improvements in agri-fishery logistics efficiency; and (d) organic-based farming input reduction and substitution. The Department of Trade and Industry (DTI) also pursued price monitoring activities to protect consumers from profiteering by publishing commodity prices. In 2005, the DTI established nine Consumer Welfare Centers (CWC) and donated 23 sets of test weights to promote accurate weighing of purchases.

**TABLE 8.1 INFLATION RATES
(In Percent)**

BY COMMODITY GROUP	2004	2005
All Items	6	7.6
Food, Beverage & Tobacco	6.2	6.4
A. Food	6.4	6.5
B. Beverages	4.1	5.9
C. Tobacco	1.7	6.3
Non-Food	5.8	8.6
A. Clothing	2.7	3.5
B. Housing & Repairs	3.8	4.5
C. Fuel, Light & Water	7.4	18.1
D. Services	9.2	11.8
E. Miscellaneous	2.2	3.2

Source: NSO

To mitigate the adverse effects of soaring world oil prices on power and domestic petroleum products, the government promoted the use of alternative fuels through Executive Order (EO) No. 449 which ordered the reduction of import duty on bioethanol fuel from ten percent to one percent. The National Power Corporation (NPC) also implemented a dispatch order for its power plants that emphasized the use of generation facilities fueled by cheaper and renewable energy sources. Since the implementation of the program, the oil-fired plants expenses have gone down to about PhP11.8 billion, equal to about 709 million liters of fuel oil.

Promoting a stronger, more stable and deeper financial system

Accelerate reduction of nonperforming assets of the banking system. The implementation of the Special Purpose Vehicle (SPV) Act has improved the asset quality of banks and

has reduced the problem assets of the banking system to manageable levels. Total nonperforming assets (NPAs) disposed under various SPV-related transactions reached PhP96.7 billion as of 26 June 2005 or 18.6 percent of the PhP520.0 billion NPAs of the banking system as of end-June 2002. This brought down the nonperforming loans (NPL) ratio of universal and commercial banks to 8.5 percent as of end-December 2005, the lowest in nearly eight years and the sixth month at which the NPL ratio has remained at a single-digit level.

Prevent and minimize systemic risks by strengthening regulations in accordance with international standards.

To keep pace with modern banking and finance standards, the BSP, the Insurance Commission (IC) and the Securities and Exchange Commission (SEC) shifted to a consolidated and risk-based approach in the supervision of their respective areas. Some of the programs implemented by the BSP were the development and implementation of Risk Management, Operational Control, Compliance and Asset Quality (ROCA), and a Strength of Support Assessment (SOSA) rating system, both of which are for foreign bank branches. Meanwhile, the IC coordinated with the Philippine Life Insurance Association (PLIA) in formulating the Risk Based Capitalization (RBC) framework for life and non-life companies to ensure viability. The SEC, on the other hand, calibrated requirements for securities brokers and dealers vis-a-vis their risk exposures.

The SEC strengthened its enforcement and compliance services and intelligence activities by maintaining a real-time market surveillance system to detect fraudulent and abusive trading practices.

An online monitoring of securities transactions at the Exchange using the Advanced Warning and Control Systems (AWACS) was conducted, wherein seven unusual transactions were referred to the Securities and Exchange Commission – Market Regulation Department (SEC-MRD). The transactions involved unusual price or volume movements on four issues and the identification of the beneficial owners of transactions done by brokers on behalf of three codes.

A Memorandum of Agreement was also drafted for the Financial Sector Forum member agencies to establish an information exchange scheme that will harmonize and promote the consistency of rules and regulations, as well as to address the gaps and overlaps among the financial services regulatory agencies. However, the long-term development plan or blueprint of the Non-Bank Financial Sector, which will promote its growth and expand contributions to the domestic economy, has yet to be reviewed and finalized.

Improve market liquidity. To promote and accelerate the development of the capital market, the BSP broadened the array of available financial products in the capital market by: (a) issuing rules and regulations to govern banks' investments in securities overlying securitization structures and the capital treatment of banks' exposures to structured products; (b) issuing procedures to be observed in investing in Credit-Linked Notes, Structured Products and Securities Overlying Securitization Structures; (c) allowing third party custodians to open an account in the Registry of Scriptless Securities (RoSS) of the Bureau of Treasury (BTr); (d) converting Common Trust Funds

(CTFs) into Unit Investment Trust Funds (UITFs); and (e) supporting the private sector-led initiative to launch the Fixed-Income Exchange (FIE) as a virtual trading platform of a secondary market for fixed income securities.

As an initial step to the establishment of an FIE, the SEC has reviewed and prepared Rules on Interdealer Order-driven Market Board. The rules will provide an adequate capability to manage and conduct an effective surveillance and compliance unit.

Meanwhile, the registration and licensing of the Marketplace for Small-Medium Entrepreneurs (M4SME-RP) as an Alternative Trading System (ATS) for the Development Bank of the Philippines broadened investment options for market players and investors by providing an electronic market place for primary or secondary trading securities not commonly traded in traditional outlets.

Promoting Corporate Governance and Market Discipline.

Reforms in corporate governance were also implemented to promote market discipline. The BSP strengthened existing prudential regulations by: (a) requiring banks/quasi-banks/nonstock savings and loan associations (NSSLAs)/NBFIs to

conduct an annual financial audit by an independent auditor acceptable to the BSP not later than 30 calendar days after the close of the fiscal year; (b) releasing for implementation the Manual of Examination procedures on Corporate Governance; (c) incorporating certain elements of Basel II into the current risk-based capital adequacy framework such as giving lower risk weights for highly-rated corporate exposures and higher risk weights for past due claims to further strengthen credit risk management; (d) adopting a standardized approach using external ratings for investment in securitization structures; (e) recognizing hybrid Tier 1 capital instruments as eligible Tier 1 or core regulatory capital of a bank; and (f) partial lifting of the Branch Moratorium Policy to improve the accessibility of banking services to underserved areas.¹

Bank accounting practices were also aligned with international accounting standards/international financial reporting standards (IAS/IFRS). Financial institutions under BSP and SEC regulation and supervision adopted the Philippine Accounting Standards/Philippine Financial Reporting Standards (PAS/PFRS) and the Philippine Standards on Auditing (PSA).

¹ BSP's branch moratorium policy aims to provide an orderly exit of weak banks, encourage mergers and consolidation, and strengthen the banking system.

Chapter 9

Labor

Compared to the previous year, labor market conditions improved in 2005 on a number of indicators. While the unemployment rate was lower, the rise in the underemployment rate has become a concern. Net employment creation, most of which are for salaried jobs rather than unpaid work however, is way below Medium-Term Philippine Development Plan (MTPDP) 2004-2010 targets. Compliance with labor standards likewise declined in 2005. However, the year was also generally peaceful in terms of labor-employer relations, even as supervening conditions allowed workers to get a wage increase in the middle of the year. Meanwhile, the government's facilitation and protection of overseas Filipino workers (OFWs) contributed to record monthly remittances that supported the real economy. The government shall continue to pursue programs in support of employment generation, preservation, enhancement, and facilitation in 2006.

LABOR MARKET PERFORMANCE IN 2005

The labor market registered a lower unemployment rate of 7.8 percent from

11.8 percent in the previous year¹ (Table 9.1). Employment creation, however, fell short of the target for 2005, employing an additional 699,000 workers vis-à-vis the targeted 1.03-1.26 million.

TABLE 9.1 SUMMARY INDICATORS ON LABOR AND EMPLOYMENT: 2004-2005

Indicators	Level (in '000, except rate)		Growth Rate (%)	
	2004	2005 ¹	2004	2005
Labor Force	35,862	35,286	3.7	-1.6
Labor Entrants	1,292	-576	103.3	-144.6
Employment Level	31,613	32,312	3.2	2.2
Net Employment Creation/Employment Generated	978	699	70.3	-28.5
Unemployment Rate (%)	11.8	7.8	0.4*	(0.5)*
Underemployment Level	5,575	6,788	6.8	21.8
Underemployment Rate	17.6	21	0.6*	3.4*
Employment by No. of Hours Worked				
Less than 40 hours a week	11,613	11,642	2.7	0.2
40 hours and above	19,367	20,185	2.8	4.2
Employment by Class of Workers				
Wage and salary workers	16,472	16,315	7.3	(0.9)
Own-account workers	11,678	12,103	1.4	3.6
Unpaid family workers	3,567	3,893	(5.2)	9.1

¹ Average for April, July and October 2005 for unemployment rate and labor force. Based on old definition, unemployment rate for 2005 is 11.3 percent. 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.

continued Table 9.1

Indicators	Level (in '000, except rate)		Growth Rate (%)	
	2004	2005 ¹	2004	2005
Net Employment Creation/Employment				
Generated, by Industry				
AGRICULTURE, FISHERY, FORESTRY	161	249	65	54.1
Agri, Hunting, Forestry	57	222	-889.7	287.8
Fishing	104	26	-1	-74.8
INDUSTRY SECTOR	158	26	9	-83.4
Mining & Quarrying	14	5	-250	-63
Manufacturing	120	17	67.8	-86
Electricity, Gas and Water	8	-3	-266.7	-140
Construction	17	8	-80.2	-56.5
SERVICE SECTOR	658	424	98.8	-35.6
Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles & Personal & Household Good	270	275	-2502.2	1.8
Hotel & Restaurants	56	55	-2.2	-2.2
Transportation, Communication & Storage	116	24	-21.7	-79.1
Financial Intermediation	25	13	-380.6	-49.5
Real Estate, Renting & Bus. Activities	51	45	-46.9	-12.3
Public Ad & Defense, Compulsory Social Security	77	-10	-376.6	-113.4
Education	13	40	-235.1	216
Health and Social Work	-10	15	-145.6	-243.9
Other Community, Social & Personal Service	-27	-59	35.4	121.5
Private Households with Employed Persons	88	28	3.5	-68.6
Extra-Territorial Organizations & Bodies	-1	0	0	-66.7
*Percentage point difference				
Source: Labor Force Surveys, National Statistics Office				

By industry, the employment increment was largely in the service sector (424,000), followed by agriculture (249,000) and lastly, by industry (26,000). The trends in employment creation mirrored the sectoral growth pattern except for industry, which was hardest hit by the rising cost of petroleum and the corresponding wage hike.

With employment mainly coming from agriculture and services, quality of employment deteriorated as the number of remunerative workers² declined (0.9%) while the number of unpaid family workers (9.1%) and own-account type of workers, both increased (3.6%).

By region, the employment rate was lowest in the urban centers of Metro Manila (83.7%), Region IV-A (CALABARZON) (87.6%), Region III (Central Luzon) (88.2%) and Region I (Ilocos Region) (89.4%).

Most of the labor force still worked 40 hours and above a week but they wanted to work more hours, as indicated by the high underemployment rate of 21.0 percent. The last time the underemployment rate breached this rate was in 2000.

In 2005, minimum wages managed to increase in view of the erosion of purchasing power due to price

² Wage and salary worker.

increases, notably of petroleum and transport, during the period. All regions have issued minimum wage orders between May to July, granting minimum wage increases, cost-of-living allowance or integration of cost-of-living allowances into the basic pay. The National Capital Region (NCR) still has the highest minimum wages for nonagricultural workers at PhP325.00 and Autonomous Region in Muslim Mindanao (ARMM) has the lowest at PhP180.00.

Labor productivity grew by 2.7 percent in constant terms from PhP36,446 in 2004 to PhP37,431 in 2005, slightly higher than the 2.9-percent growth posted in the previous year. Productivity of workers in the agriculture sector fell from 3.8 percent to -0.3 percent, while a rise in labor productivity growth was experienced in industry (from 1.4% to 4.3%) and services (from 3.0% to 3.5%).

Overseas employment remained a key source of jobs for Filipinos with 981,667 of them deployed in 2005, an increase of 5.2 percent. Decline in deployment in several destinations was observed in Asia, Europe, Americas and Oceania, while increased deployment was recorded in the Middle East, Trust Territories and Africa. On a positive note, remittances managed to post a record US\$10.69 billion or a 25.0 percent growth, attributed to higher skilled and higher paying jobs for OFWs.

SUPPORT FOR EMPLOYMENT GENERATION

To ease the unemployment problem, the government, through the Department of Labor and Employment (DOLE) implemented projects to develop OFWs and/or their families as entrepreneurs through the Enhanced

Reintegration Program for OFWs and the OFW Groceria Project.

In 2005, a total of 150 funded projects were implemented under the Overseas Workers Welfare Administration National Livelihood Support Fund (OWWA-NLSF) Livelihood Development Program. Also trained were 3,927 and 13,076 participants under the OWWA-NLSF Livelihood Program and community-based program, respectively. Of the 500 OFW Groceria targeted to be set-up, the DOLE reported an 87-percent target accomplishment for the year by establishing 437 Grocerias nationwide, and released PhP5.5 million fund for retail operations.

EMPLOYMENT PRESERVATION

Industrial relations were generally peaceful in 2005. There were 26 cases of actual strikes/lockouts declared for the year against 25 in the previous year, and the DOLE recorded a 96 percent strike prevention rate by end-2005 due to the continued 24-hours-7-days a week action on labor cases. This resulted in only four percent of the total notices of strikes/lockouts handled erupting into full-blown strikes. Strike incidence in 2005 (26 cases), was the lowest in 26 years. A total of 8,496 workers were involved in these cases, compared to 11,197 the previous year. This resulted in 124,979 mandays lost for the year, although there were fewer mandays lost last year (53,434).

Promoting dispute prevention and alternative dispute settlement at the workplace for unionized and nonunionized establishments was on top of the agency's agenda in 2005. This was done through voluntary arbitration, grievances machinery (GM) and establishment of labor management

councils (LMC). There were 251 new GMs operationalized in organized establishments with 410 existing GMs strengthened or enhanced.

To facilitate the disposition of dispute cases, the National Labor Relations Commission (NLRC) set up the Case Management System's Modernization Program. The last phase of the project is ongoing as of September 2005. With this system is the procurement and upgrading of capital equipment crucial to the agency's thrust. In terms of case settlements, the Compulsory Arbitration project aimed to improve labor dispute resolution, promote dispute prevention and alternative dispute settlement.

To attain its target of a 10-percent increase in the number of nonunionized firms covered with advocacy on LMC, the DOLE facilitated 41 new LMCs covering 672 employees in the unorganized establishments, bringing the total number to 110. With regards to cases filed with NLRC involving interpretation and implementation of collective bargaining agreements (CBA) and passed thru GMs referred to voluntary arbitration this year, 11 NLRC cases were referred to NCMB for voluntary arbitration.

The implementation of labor and management education on workers' rights, dispute prevention and settlement continued with significant efforts put into labor and management education. There were 2,841 labor education seminars, benefiting 69,078 workers from the organized and unorganized labor sector, an increase of 406 percent. Also, management education seminars covering 2,349 establishments with 5,008 participants were conducted, a 209-percent increase from last year.

Strengthening quick response intervention for displaced and about-to-be-displaced workers by promoting efficiency-enhancing measures, including arrangements or human resource strategies, to minimize job losses were also conducted in 2005. However, only a 32-percent target accomplishment rate was achieved, involving 22,653 out of 71,060 workers.

Social dialogue as a central element of labor policies, and a means to secure sustainable decent work outcomes achieved through tripartism was sustained this year. As of October 2005, there were 76 existing Industry Tripartite Councils (ITCs), and 104 existing Tripartite Industrial Peace Councils (TIPCs) (Table 9.2 and 9.3).

TABLE 9.2 NUMBER OF EXISTING INDUSTRY TRIPARTITE COUNCILS (ITCs)

Level	No. of ITCs	Establishments / Workers covered
Regional	23	322 est. 1,038 workers
Provincial	33	853 est. 1,059 workers
City/Municipal	20	241 est. 448 workers

TABLE 9.3 NUMBER OF EXISTING TRIPARTITE INDUSTRIAL PEACE COUNCILS (TIPCs)

Level	No. of TIPCs	Establishments / Workers covered
Regional	11	831 est. 9,940 workers
Provincial	41	1,402 est. 76,900 workers
City/ Municipal	52	581 est. 40,861 workers

EMPLOYMENT ENHANCEMENT

Trainings

The government has intensified the provision of training and consulting services by showcasing productivity improvement programs in micro, small and medium enterprises (MSMEs), like the productivity-enhancing Industrious, Systematic, Time-conscious, Innovative, and strong Value for work (ISTIV) program (Small Brother-Big Brother support interventions) and BMBEs. A total of 2,667 MSMEs were assisted in 2005, a 148-percent target accomplishment.

Assistance to Vulnerable Groups

Youth unemployment comprises nearly half of the total unemployment rate. Thus, providing opportunities for the youths to acquire skills and competencies required by the market through training, scholarships, expanded apprenticeship and learnership programs, special employment of deserving students and emergency employment for out of school youths (OSY) and out of work youths (OWY) in Metro Manila continued in 2005. A total of 93,643 trained apprentices or a 47-percent target accomplishment was attained under the *Kasanayan at Hanapbuhay Program*.

Of the 70,000 students placed per year under the Special Program for Employment of Students (SPES), there were actually 75,816 students placed in the program, eight percent more than the target. Similarly, 850 OSYs/OWYs were hired under the emergency employment program, or three percent more than the target 822 OSYs/OWYs.

For overseas employment, twelve government agencies will be electronically

linked to cut down OFW documentation time and cost by 50 percent. Reduction in processing time of OFW documentation was targeted at 25 percent in 2005. The e-Submission by the agencies was fully implemented last November 2005, accomplishing a 45-percent participation rate with 202 participating recruitment agencies and 96 percent for 48 manning agencies.

Enforcement of Labor Standards

A culture of safety and health, self-regulation, and voluntary compliance to labor standards and productivity was promoted through the continuation of the full implementation of new labor standards framework last year. However, the target of 75 percent compliance rate on inspection was not met as only 58.23 percent, or 11,377 establishments were found complying with general labor standards before and after inspection. Additionally, 91.3 percent of the total numbers of establishments inspected were found complying with technical safety standards (TSS) before and after inspection, while a 65.19-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 42,783 workers, and a total of Php246.5 million was given in monetary awards/settlement.

Wage Policy Review

The government continues the review of wage policies vis-à-vis emerging labor industry requirements. In 2005, the DOLE issued 19 Wage Orders and 18 Implementing Rules, revised the Arbitral Awards Model template and installed

computer units for DOLE internal users. Likewise it conducted a learning session for Steering and Action Teams and prepared and facilitated the issuance of AO 185 on the Adoption of Standardized Methodology on Arbitral Award Assessment (SM-AAA).

It also completed the study on “Wage Earners’ Profile with Focus on Minimum Wage Earners” while it prepared project documents for the following studies:

- Measurement and Operationalization of Safety Net in Minimum Wage fixing
- Effectiveness of the Wage Exemption Policy (Review of Rules on Exemption)
- Minimum Wage Structure Simplification: Practice and Application
- Study on Wage Increases Granted by the Regional Boards vis-à-vis Wage increases through CBAs
- Productivity Committee: An Approach to Productivity Improvement Towards the Development of Methodology for Determining Arbitral Awards-Phase II

interconnection of the major PESOs is expected by 2006. Ten pilot PESOs interconnection in three regions (NCR, RO4-A, and RO3) were targeted and an evaluation of project proposal by JICA Philippines is ongoing.

The DOLE’s job search facility “Trabaho Mo, I-text Mo” was also operationalized in 2005 to increase job seekers’ access to job vacancy information. The project has enabled job seekers to access information on available jobs via short message service (SMS) or by texting DOLE.

Employment Facilitation

To enhance local employment facilitation, employment guidance and regulation, the strengthening of the Labor Market Information System Project was implemented. This will connect with the major Public Employment Service Offices (PESOs) to ensure a more efficient matching of jobs and skills. Complete

Chapter 10

Energy Independence

Achieving energy independence serves as a catalyst to sustainable economic growth and prosperity. Focus is on developing indigenous and renewable energy resources to generate savings from reduced oil imports. Energy self-sufficiency level for 2005 stood at 56.9 percent, higher than the target of 53.0 percent.

INCREASING OIL AND GAS EXPLORATION

Activities in oil and gas exploration (upstream energy sector) increased in 2005. A major activity was the August 2005 opening to investors of four petroleum areas in Palawan and the Sulu Sea. Called the Philippine Energy Contracting Round (PECR), the activity assured investors of transparency and economic reward. Made available to them was an updated database on the country's prospective oil and gas basins, information on the expanding local energy market, as well as attractive fiscal terms. In 2005, 11 oil exploration contracts were signed amounting to about US\$158 billion. With increased investor confidence, the Department of Energy (DOE) expects more contract applications following the Supreme Court decision in December 2004 upholding the Mining Act of 1995. The Act allows 100-percent foreign ownership in the mining sector.

Seismic data were acquired in Ragay Gulf and South China Sea while those from Top Nido Horizon in Calamian, Northwest Palawan were interpreted. In two major seismic horizons in offshore West Balabac, seismic data were

also completed. A Joint Marine Seismic Undertaking with China National Offshore Oil Corporation and Vietnam Oil and Gas Corporation was signed on March 14, 2005. Signatories will jointly acquire geoscientific data and assess petroleum resource potential of certain areas in the South China Sea. A total of 11,022 line-km 2D seismic data were taken over the area and completed in November 2005. Agreements for joint exploration in North Calamian and offshore Mindoro were also made with various oil companies. In addition, out of the targeted 16 wells to be drilled by 2009, eight wells in Leyte and Northern Negros were drilled in 2005.

Meanwhile, the Malampaya Project continued to provide gas fuel requirements of Sta. Rita, San Lorenzo and Ilijan Power Plants in Batangas with a total gas production of 112 billion cubic feet (BCF) in 2005. Also, 5.7 million barrels (MMB) of condensate were produced and shipped to buyers in Singapore, China, Vietnam and Korea. The project's output represents 19.5 percent of the 2005 production target of 573.45 BCF of natural gas, and 18.8 percent of 30.4 MMBs of condensate.

The San Antonio Gas Power Plant, shut down in October 2004, resumed commercial operations on September 27, 2005. The plant continued to supply electricity requirements of Echague, San Agustin, Jones and part of Santiago City in Isabela generating five GWh of electricity using 93.2 million standard cubic feet (MMSCF) of natural gas. The San Antonio Gas Power Project is expected to produce 1,447 MMSCF and generate 82GWh of electricity by 2009.

STRENGTHENING OF THE PHILIPPINE NATIONAL OIL COMPANY (PNOC)

A Strategic Planning Session was conducted for the PNOC Board of Directors in July 2005 to review the company's mission/vision statements. The session hoped to rationalize PNOC's core business by limiting its activities to petroleum upstream business, and geothermal and selected renewable projects. The Board also drafted a preliminary working list of core projects and plan of action consistent with the revised mission and vision statements. This activity aimed to strengthen PNOC and its subsidiaries in order for them to lead the development of indigenous sources. PNOC-Shipping and Transport Company also modernized its fleet by acquiring a fleet vessel that was christened MV Jose P. Rizal in April 2005.

To enhance the role of PNOC-Petrochemical Company in the revival and strengthening of the country's midstream petrochemical industry, the Board of Investments (BOI) approved in May 2005 the company's application for a naphtha cracker plant. At present, the company is considering local and foreign investors with the goal of having the cracker plant operational by 2010.

PURSUING THE DEVELOPMENT OF INDIGENOUS AND RENEWABLE ENERGY

The DOE is pushing for the passage of the Renewable Energy Bill containing provisions that will resolve market and financial barriers which hamper the development of renewable energy. For instance, the bill requires conventional energy producers to use a certain percentage of renewable energy for their energy mix. Likewise, the DOE is implementing the United Nations Development Programme (UNDP)-assisted project on Capacity Building to Remove Barriers to Renewable Energy in the Philippines (CBRED). The project will establish a Market Service Center (MSC) that will assist renewable energy producers in obtaining legal papers and permits required for renewable energy projects. The MSC will link stakeholders and participating banks, and assist project developers and local organizations interested in availing of funding. A web-based geographical information system for renewable energy will also be established under the CBRED project. The implementation scheme and Terms of Reference (TOR) for a national wind, microhydro and biomass resource assessment survey have likewise been approved by the DOE. Also, a database and a data information exchange system are being set up.

Meanwhile, groundwork is being undertaken to maximize benefits from the emerging international carbon market. In December 2005, the PNOC signed the Emission Reduction Purchase Agreement with the Government of Netherlands and the World Bank (WB). As Trustee of the Netherlands Clean Development Mechanism Facility, WB will purchase a

minimum of 440,000 tons of emission credits from the Nasulo Project during 2008-2012. The Nasulo Geothermal Project is possibly the first geothermal project to benefit from the Clean Development Program Mechanism.

Geothermal Energy

Under the PECR 2005, a total of 11 geothermal prospects were put up for offer: a) Luzon: Daklan in Benguet, Natib in Bataan, Mabini in Batangas, Tiwi in Albay, Montelago in Oriental Mindoro and Sta. Lucia-Iwahig in Palawan; b) Visayas: Biliran in Biliran Province, Mambucal in Negros Occidental, Malabuyoc in Cebu; and c) Mindanao: Camiguin in Camiguin Island and Amacan in Compostela Valley. Submission of bid proposals ended in November 2005 and awarding of contracts is expected by June 2006.

The country participated in the World Geothermal Congress in Antalya, Turkey in April 2005. Attended by participants from 83 countries, the event was an opportunity for the Philippine energy sector to showcase the country's achievements as a "World Leader in Geothermal Energy" and as an investment haven of geothermal and other energy resources.

In January 2005, PNOC-Energy Development Corporation (EDC) awarded to Kanematsu Corporation the contract for the 49.37 MW Northern Negros Geothermal Project. The contract covers the engineering, procurement and construction of the geothermal power facility. The project is expected to operate commercially by February 2007.

Wind Energy

With the commissioning of Northwind's 25-MW wind power project along Bangui Bay in Ilocos Norte, the country took a major step in June 2005 toward becoming the leading wind energy producer in Southeast Asia. The project has begun to supply electricity to about 40 percent of the province. The construction of a substation and transmission line system will deliver electricity to Ilocos Norte's local distribution cooperative. The wind facility proved that wind energy can be harnessed to lessen government subsidy for missionary electrification.

The Wind Contracting Round was launched in March 2005 to promote among foreign and local investors the potential wind power sites available for development. To provide impetus to this program, several financing assistance windows have been made available to investors willing to undertake wind power projects.

Solar Energy

Under PNOC's Solar Home Systems (SHS) Distribution Project, a total of 4,977 SHS were installed in 2005, mostly in Palawan and Maguindanao. A UNDP-funded solar hybrid project started supplying electricity to around 100 households in El Nido and a fishing village in Rizal. Meanwhile, a 45 kW peak centralized PV plant was installed to provide electricity to 200 households in Pangan-an Island, Cebu with funding from Belgian official development assistance (ODA). The United States Agency for International Development (USAID)-Alliance for Mindanao Off-grid Renewable Energy Program (AMORE), has energized 20 barangays using, among others, PV

battery charging stations and PV solar home systems under Phase 1, and 27 barangays using PV solar home systems under Phase 2.

Hydropower Energy

In a bid to double the capacity from the hydropower sources in the next 10 years, the DOE is currently supervising five ongoing minihydro (MHP) projects which include: 0.96-MW Cantingas MHP Project in San Fernando, Sibuyan Island, Romblon; 0.50-MW Hinubasan MHP Project in Loreto, Dinagat Island, Surigao del Norte; 2.5-MW Sevilla MHP Project in Sevilla, Bohol; 0.75-MW San Luis MHP Project in San Luis, Aurora; and 1.0-MW Sipangpang MHP in Surigao Sur. These MHPs contributed additional installed capacity of 5,710 kW in 2005, representing a 1.8-percent increase in generating capacity of 3,219 MW in 2004.

Coal

The development of indigenous coal also remains a priority thrust for the energy sector with the aim of reducing the country's coal importation within the 10-year planning period. The 2005 coal production was about 3.10 million metric tons (MMMT), translating to a fuel oil displacement of around 10.94 MMBFOE for the year. Indigenous coal is largely sourced from the operations of Semirara Mining Corporation (Antique) and augmented the output of small- and medium-scale underground mining operations in Sibugay Zamboanga, Cebu, Negros and Albay.

Seven coal prospect areas were put up for offer to potential investors during the PECR 2005. The sites are located in Polillo (Quezon), Tagkawayan (Quezon), Calatrava (Negros Occidental), Candoni/Bayawan (Negros Oriental), Gigaquit

(Surigao del Norte), Tandag-Tago-Lianga-Bislig (Surigao del Sur) and Malangas (Sibugay Zamboanga).

As of December 2005, the country had 35 coal-operating contracts (COCs) with development, production and exploration commitments. The improved price for domestic coal triggered the influx of applications for coal concessions.

EXPANDING THE USE OF NATURAL GAS

The government's demonstration program on the use of natural gas in the public transport sector continued to roll and in fact has been expanded. Through its compressed natural gas (CNG) carrier program, or the Natural Gas Vehicle Program for Public Transport (NGVPPT), policy directives were issued.

These include:

- a) Department Circular 2005-07-006 *Directing the Enhanced Implementation of the NGVPPT and the Development of CNG Supply and Infrastructure;*
- b) Executive Order (EO) 290 which provided the institutional framework for the implementation of the CNG program; and
- c) EO 396 which offered incentives such as the negotiated CNG price of PhP14.52 per diesel liter equivalent (subject to foreign exchange fluctuation) for the first 200 CNG-fed buses (set to arrive in 2006) for a period of seven years, and zero-rated import duty on the acquisition of the 200 completely-built-unit (CBU) CNG buses, NGVs and CNG-NGV industry-related facilities, equipment, parts and components.

By the first quarter of 2005, a total of 200 CNG buses were expected to ply major routes from Manila to Laguna and mother-daughter stations to be established. However, DOE has postponed the plying of CNG buses to 2006 since test runs are still ongoing for 17 CNG buses that were delivered in 2005.

The groundbreaking ceremony of the country's first mother refueling station was held in Tabangao, Batangas in March 2005. The construction of the refueling station and its daughter station located in Sto. Tomas, Biñan, Laguna have been completed. Commercial operation is expected to start upon completion of technical standard/safety requirements for the facilities.

Meanwhile, the entry of natural gas in the industrial sector began when Pilipinas Shell Petroleum Corporation used the fuel in its refinery during the second half of 2005. The refinery could consume about 1.3 BCF on its first year of use of natural gas.

DEVELOPING FUEL BLENDS

Toward implementing the use of one to five percent coco-biodiesel on government vehicles by 2006, Memorandum Circular 55 *Directing All Departments, Bureaus, Agencies and Instrumentalities of the Government Including Government-Owned and Controlled Corporation to Incorporate the Use of 1% by Volume Coconut-Methyl Ester (CME) in Their Requirements* was issued. As of December 2005, at least 59 government agencies with 1,000 diesel vehicles have complied with the Circular. These agencies reported favorable results in their vehicles' engine performance in terms of increased mileage and improved emissions.

Flying V introduced the first CME preblended diesel in the country under the name *B1 diesel* or the *Envirotek bio-diesel premium*. The product launch, led by President Gloria Macapagal-Arroyo, was held on August 11, 2005 at Flying V's service station in Cainta, Rizal. As of December 2005, *Envirotek bio-diesel premium blend* is being sold in 34 Flying V stations nationwide. The company has been granted accreditation to repack and sell CME.

Going beyond the aim of implementing a five-percent ethanol blend with gasoline fuel for vehicles by 2007 to reach 10 percent in 2010, Seaoil launched in August 2005 the first 10 percent ethanol-blended gasoline under the name "E10". It is now widely available in all Seaoil stations and Flying V outlets nationwide. Another major development under this program is the groundbreaking ceremony of San Carlos Bioenergy, Inc. in May 2005, which was led by President Arroyo. It is the first bioethanol manufacturing plant and power co-generation complex in the country. Another milestone is the forging of a Memorandum of Agreement in October 2005 among DOE, the Automotive Association of the Philippines and Seaoil Philippines, Inc. to support the alternative fuels program of the government through the utilization of bioethanol in the motorsports industry.

FORGING STRATEGIC ALLIANCES

Strong strategic alliances are needed to further boost the country's objective of achieving energy independence. DOE and the Thai Ministry of Energy, through PNOC and PTT Public Company, have expressed their intention

to create a Southeast Asia Petroleum Hub in the Philippines and Thailand which are strategic locations for stockpiling and distribution points. Moreover, the China-Philippines-Vietnam Joint South China Sea Oil Search Accord was signed in March 2005. Under the Agreement, oil companies from these countries have agreed to conduct a joint marine seismic study in the area. This is a commercial transaction and thus would not affect their respective government's position with regard to the South China Sea territorial issue.

STRENGTHENING ENERGY EFFICIENCY AND CONSERVATION PROGRAM

For 2005, savings from the energy efficiency and conservation program was targeted to reach 8.1 MMBFOE. For the first half of 2005, the country achieved energy savings of 4.4 MMBFOE as the *Energy Conservation Way of Life* was instituted. Further savings were projected in the second half of the year with significant contributions coming from energy labeling and efficiency standards program. The program has extended its coverage to luminaire installations, linear fluorescent lamps, household electric fans and televisions, among others, and the continued intensification of information, education and communication materials and trimedia campaigns.

STATUS OF LEGISLATIVE BILLS

Critical to fulfilling the strategies for energy independence is the passing of supporting legislative agenda. The status of various bills related to the goal of achieving energy independence follows:

Alternative Fuels Utilization Bill

The bill is still pending in Congress.

Natural Gas Bill

The Office of Senator Juan Flavio Velasco re-filed in June 2004 Senate Bill No. 8. The DOE has since provided parallel advocacy to inform the Senate on the salient points of the bill. In the Lower House, the House Committee on Energy conducted a hearing on the bill on April 4, 2006. The House version is expected to be endorsed to the Committee on Rules, Ways and Means and the Committee on Appropriations for their respective reviews.

Bio-Fuels Act of 2006

House Bill 4629 (ethanol bill) was passed by the Lower House on November 9, 2005. On the other hand, Senate Bill 2226 (consolidated bill on biodiesel and ethanol) is scheduled for plenary deliberations.

Renewable Energy (RE) Bill

The House version of the Renewable Energy Bill has been approved by the House Committee on Energy in February 2006 and by the House Committee on Ways and Means in March 2006. For the Senate version, the DOE is expected to submit to the Office of Senator Miriam Defensor-Santiago the revised RE Bill. The Senate Committee on Energy will then conduct deliberations on the said version during the next Congress.

Liquefied Petroleum Gas Bill

For the House version of the bill, the Technical Working Group (TWG) of the Committees on Energy and Trade and Industry has been conducting weekly meetings to discuss salient features of the bill. The bill will subsequently be subjected to a second reading in the Lower House. On the other hand, the Senate version has passed through the first reading and two committee hearings during the previous Congress. The bill is expected to be re-filed during the next Congress.

Chapter 11

Power Sector Reforms

Power sector reforms aim to promote competitiveness and efficiency in the energy sector that will consequently benefit all of society. Unfortunately, a number of activities encountered delays in implementation, including the commercial operation of the wholesale electricity spot market (WESM), the 70-percent privatization of the National Power Corporation's (NPC) power-generating assets, and the privatization of the National Transmission Company (Transco).

ADDRESS NPC LOSSES

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

During the first semester of 2005, the Power Sector Assets and Liabilities Management Corporation (PSALM) continued working on the transaction documents for the privatization of transmission assets to prepare for their scheduled public bidding. PSALM and TransCo jointly filed with the Energy Regulatory Commission (ERC) the setting of the Maximum Allowable Revenue (MAR) for the second regulatory period (2006-2010). The ERC will issue a Draft Determination of the revenue cap for the period. This Draft would address a substantial portion of the risks or uncertainties of the investors and would enjoin more investors to participate in the bidding for the concession. From January

to September 2005, nine subtransmission sale packages were sold to seven distribution utilities (DUs) amounting to about PhP664 million.

Meanwhile, despite PSALM's continued efforts in 2005 to facilitate the enactment by Congress of TransCo's Franchise Bill, which will allow automatic transfer of the company's franchise to a winning investor, the bill did not get Congressional approval.

For the NPC, at least 70 percent of the corporation's power-generating assets in Luzon and Visayas by the end of 2005 was targeted to be privatized through a transparent bidding process. PSALM has successfully bid out five hydropower projects and one coal-fired power plant (Masinloc Coal), the aggregate capacity of which represents 11 percent of the 5,667.2 megawatts (MW) total installed capacities of plants in Luzon and Visayas identified for privatization. No additional power plant was privatized in 2005.

Transfer of management and control of at least 70 percent of total energy output of power plants under contract with NPC to IPP Administrators (IPPA) should be accomplished by 2006

The preliminary draft of the standard IPPA Bidding Package (Bidding Documents) was completed by the PSALM Task Team in November 2005, and will be finalized when the IPPA Structure is settled. Three structures were drafted at the end of December 2005 to be presented to and decided by the PSALM Management.

Debt absorption of NPC by the National Government

In compliance with Section 32 of the Electric Power Industry Reform Act (EPIRA) and Section 1 of Executive Order (EO) No. 370, the national government directly assumed part of NPC's financial obligations amounting to PhP200 billion beginning December 31, 2004. The government completed the documentation for the debt assumption in March 2005.

As a result, NPC successfully re-entered the international capital markets in August 2005, with the issuance of six-year Floating Rate Notes valued at US\$300 million. The transaction was offered in Asia at the initial price of US\$200 million but due to strong investor response, the final issue was raised to US\$300 million. With increased demand, NPC issued another tranche of US\$100 Million in September 2005. These issues attracted order books with a total size of over US\$500 million from 85 different accounts across Asia, Europe and North America.

Formulation of pricing policy

ERC formulated in 2005 the following guidelines which promote a regulatory environment that makes returns and risks manageable for investors:

- a) Methodology for Setting Distribution Wheeling Rates
- b) Calculation of Over or Under Recovery in the Implementation of the Lifeline Rates by Distribution Utilities
- c) Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas
- d) "True-up" Mechanism of the Over or Under Recovery in the Implementation of Inter-Class Cross Subsidy Removal by Distribution Utilities
- e) Adjustments of Transmission Rates by Distribution Utilities
- f) Calculation of Over or Under Rate Recovery in the Implementation of System Loss by Distribution Utilities

Specifically, these guidelines aim:

- a) to ensure the full recovery of the system loss due to adjustments in the cost of generation and transmission;
- b) to ensure a revenue-neutral position for the distribution utilities in the implementation of interclass cross-subsidy removal;
- c) to ensure that the cost of subsidizing lifeline end users shall be passed on to all non-lifeline end-users;
- d) to ensure that lifeline discounts shall be applied to all marginalized end users of all distribution utilities; and
- e) to ensure the revenue-neutral position of the distribution utilities in the implementation of lifeline rate and discount.

Explore financial engineering methods

Loan restructuring will be continued by stretching the repayment period for IPP obligations of NPC. Payment of stranded debt and stranded contract will also be pursued through the collection of the universal charge (UC). Along this line and in compliance with Section 34 of EPIRA, two components of the UC, the missionary electrification of PhP0.0373 per kilowatt hour (kWh) and the environment charge of PhP0.0025 per kWh, were determined by the ERC. These fees are currently being imposed on end users. As of September 2005, the total UC remittances and disbursements stood at PhP3.84 billion and PhP2.75 billion, respectively. Disbursements made in 2005 were for missionary electrification only.

STRIVE TO REDUCE ELECTRICITY RATES

Facilitate the establishment of the WESM and introduce open-access and retail competition

Preparations are underway for the start of the commercial operations of the WESM with the launching of the WESM Commercial Operations Readiness Assessment. The Commercial Operation Plan was disseminated to stakeholders in November 2005 while registration for commercial operations of the WESM started in December 2005.

Prior to the commercial operation of WESM, a Trial Operation Program (TOP) began in April 2005 to test the rules, systems and procedures of the WESM, as well as ensure market participant readiness. By yearend, the TOP progressed into Phase 5 of its implementation in preparation for live dispatch and the final market run. To

support the Department of Energy (DOE) initiative in establishing a wholesale spot market for electricity, PSALM participated and registered its portfolio of generating facilities with four independent trading teams. These teams allowed the IPPs under its portfolio to participate in the TOP by offering the energy and ancillary services of their facilities. Likewise, various manuals, protocols and methodologies that will govern WESM operation have been approved. The Philippine Electricity Market (PEM) Corporation is now accepting nominations for membership in the PEM Board Committees of WESM that will directly be involved in the development and overall governance of the spot market. The TOP is expected to continue until the commercial operation of WESM.

Another activity relevant to introducing open-access and retail competition is the unbundling of rates. From January to October 2005, seven rate-unbundling applications of the Electric Cooperatives (ECs) and one private distribution utility (DU) have been approved by the ERC. This brings the total ERC-approved unbundling cases to 139, which include TransCo, NPC, 15 Private Utilities and 115 ECs.

Resolution No. 12-02 titled *Adopting a Methodology for Setting Distribution Wheeling Rates* was approved by ERC prescribing the Performance Based Rate-Setting (PBR) Methodology for setting transmission and distribution wheeling rates and retail rates for the captive market of a DU.

Section 6 of RA 9136 provides that loans of all ECs to NEA and other government agencies incurred for the purpose of financing rural electrification programs are condoned. The reduction

in rates due to loan condonation ranges from PhP0.0578 to PhP1.3507/kWh. The reduction in rates resulted in lower electricity bills of consumers in the rural areas. In 2005, final authorities were issued to 116 out of 118 ECs. Nueva Ecija Electric Cooperative, Inc. and San Jose Electric Cooperative, Inc. were not issued final authorities because of their failure to submit applications for rates reduction.

Strengthen the electric cooperatives and distribution utilities

The NEA Management Academy, in partnership with the UP National Engineering Center, conducted the Electric Power Distribution System Engineering program. This program aims to train and test the DUs electrical engineers in the competency areas of Distribution System Planning, Operation, Design and Utility Economics. A similar capsulized program was also designed for their finance and institutional counterparts to have a unification of ideas in meeting industry requirements. The Academy was able to train 82 electrical engineers from 57 ECs nationwide and nine NEA inhouse electrical engineers in 2005. There is no physical construction of a training center. The establishment of the Management Academy merely refers to the conduct of regular trainings. Although trainings started as early as 2004, several were conducted in 2005.

Strengthening ECs and DUs ultimately aim to address distribution losses. To effectively lower rates, these inefficiencies should be decreased. An average national system loss level of 14.68 percent as of the third quarter of 2005 was achieved, close to the target of 13 percent.

Reduce claims on the universal charge with respect to stranded costs

In a bid to finalize renegotiations with IPPs by 2005, PSALM and NPC continued discussions with four IPP contracts with outstanding issues. These are Bauang, Limay A & Limay B, Malaya and the Mindanao Barges. Their agreements generally provided improvement in the technical specifications of the original IPP Agreements. No contracts were finalized in 2005 but PSALM has already secured the necessary PSALM (and NP) Board approvals for the said four agreements and submitted the same to the Investment Coordination Committee of the National Economic and Development Authority Board for its appropriate approval or clearance-on-a-no-objection basis.

Provide competitive power rates/time-of-use (TOU) electricity pricing

Aside from promulgating guidelines and issuing decisions to ensure that the true cost of electricity is reflected in the rates charged by its regulated entities, the ERC prescribed TOU pricing by virtue of its Order dated September 3, 2004. Mandatory implementation of TOU rates for DUs in the Luzon and Visayas grids took effect in the power billing of May 2005. The adoption of TOU pricing scheme provides end users with price signals on the efficient use of generation facilities. It gives an incentive for enrolled customers to shift load from peak to offpeak periods because of the price differential. Eventually, the load shifting will result in overall improvement of the utility system's load factor and the efficient use of the limited generation capacity.

Eliminate cross subsidy

The Intra-Regional Grid Cross Subsidy was phased out in October 2005 but was targeted in September 2005. The phaseout was first reflected in the October 2005 power bill upon ERC's Order dated October 27, 2005.

The Inter-Class Subsidy is being removed in various schemes (1/4, 1/3, 2/3, 40:60). In the case of MERALCO, the first phase covers the removal of 40-percent subsidies beginning in October 2004, and the second phase covers the removal of another 30 percent by October 2006. Upon the complete removal of this interclass subsidy, the industrial and commercial customers will no longer subsidize the residential customers, hospitals and small industries. As of September 2005, a total of 11 private DUs and 115 ECs had implemented the removal of all cross subsidies.

ENCOURAGE PRIVATE SECTOR PARTICIPATION

Operations of seven off-grid areas of NPC-SPUG have been privatized, raising prospects of additional savings of as much as Php2 billion a year for the corporation. These privatized areas are among the 14 islands earlier identified by NPC as priority or "first-wave" areas for privatization by December 2005. The DOE opened these off-grid areas for private sector participation in January 2004. The other SPUG areas that are up for privatization are Masbate, Occidental Mindoro, Camotes Island in Cebu, Siquijor, Basilan, Sulu and Tawi-Tawi. The bidding for the privatization of NPC-SPUG areas was supervised by the International Finance Corporation (IFC) and the sealed bids were opened in August 2005. Coastal Consortium submitted the

lowest electric generation service cost thus emerging as the winning bidder. The submission covered electric generation services in Marinduque, Romblon and Tablas Island.

In line with DOE's mandate to determine the remote and unviable areas, the draft DOE Circular prescribing the participation guidelines for the qualified third party (QTP) was completed in May 2005. The Rural Power Project-Project Management Office is assisting and guiding private sector firms with projects adaptable under the QTP framework particularly the off-grid systems. Likewise, DOE has conducted pre-investment studies and baseline studies on five provincial market packages of Palawan, Iloilo-Antique, Eastern Samar and Agusan del Sur.

ENSURE SUFFICIENT AND RELIABLE POWER SUPPLY AND SYSTEM EFFICIENCY IMPROVEMENT

To deliver reliable and sufficient power supply to end users, several major projects have been prioritized by TransCo primarily to decongest the major transmission highways of the country. For the Luzon grid, major projects involve the integration of recently completed and incoming power plants into the system to effectively transmit power to the main grid. Likewise, the southern transmission corridors were strengthened as the transmission lines from Batangas to Makban and further to Biñan were reinforced. This established a more reliable delivery system toward Metro Manila. In Northern Luzon, two major projects are being implemented. These are the upgrading of the San Manuel-Concepcion-Mexico transmission line and the completion of Bauang-San Esteban 230 kilovolts (kV) transmission line project.

On the other hand, projects for Visayas focused on interconnection reinforcement and substation expansion. Total ongoing projects are the construction of 562 circuit kilometers (ckt-km.) of transmission lines, 1,160 megavolt amperes (MVA) of substation capacity and 357 megavolt amperes reactive (MVAR) of capacitor devices for voltage support. Completed projects in 2005 consisted of the Cebu-Mactan 138kV Interconnection and the Panay-Boracay Interconnection.

For the Mindanao grid, a total of 479 ckt-km of lines and 1,100 MVA of substation capacity were started. Specific projects include Abaga-Kirahon 230kV Transmission Backbone, reinforcement of the 138kV lines from General Santos to Tacurong extending to Nuling, extension of major substations in Aurora, Ma. Cristina, Sta. Clara, Kibawe, Butuan, Bislig, New Loon and Tindalo, installation of new substations in Bunawan and Maco and extension of 69kV lines to connect the load-end substations of the EC.

PURSUE TOTAL BARANGAY ELECTRIFICATION

As part of the government's 10-point agenda, DOE pursued its thrust towards 100 percent barangay electrification by 2008. In 2005, a total of 618 barangays were energized, bringing the electrification level to 93.78 percent in 2005 from 92.41 percent in 2004. This fell short of the 96.2 percent energization level target, leaving 2,564 barangays still to be energized until 2008.

Chapter 12

Responding to the Basic Needs of the Poor

Expanding Livelihood and Microfinance Opportunities for the Poor

Microfinance

Microfinance (MF) was identified in the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 as one of the strategies to provide livelihood for the poor. From January to October 2005, new loan releases registered aggregately by the People's Credit Finance Corporation (PCFC), UCPB-Coconut Industry Investment Fund (CIIF), Quedan and Rural Credit Guaranty Corp. (QUEDANCOR), Land Bank of the Philippines (LBP), Small Business Guarantee and Finance Corporation (SBGFC) and the National Livelihood Support Fund (NLSF) amounted to around PhP8.4 billion – benefiting 577,671 new MF borrowers.

The expansion of microfinance in the Philippines was made apparent with the country's increased commitment to ensure the transparency and quality of MF operations, and with the growing interest of commercial players and investors to engage in MF services. To ensure more transparent and sustainable microfinance institutions (MFIs), the Performance Standards for All Types of MFIs was initiated by the National Credit Council (NCC) in collaboration with key MF stakeholders. This set of standards was adopted by government financial institutions (GFIs), regulators and relevant industry associations. The Bangko Sentral

ng Pilipinas (BSP) also continued to advocate for the establishment of a comprehensive and credible credit bureau. A bill establishing a credit information system in the Philippines is currently being deliberated in the Senate and in the House of Representatives.

To propagate best practices in the industry, the Association for Social Advancement (ASA) Instructional Manual was published. It provides guidelines to would-be replicators of the ASA methodology, based on the experiences of three breakthrough MFIs: the Center for Agriculture and Rural Development, Inc. (CARD-NGO), the Lifebank Rural Bank of Maasin, Iloilo and the Center for Community Transformation (CCT). Through the second phase of the Microfinance Sector Strengthening Project (MSSP), these MFIs were able to exhibit more than 100 percent operational and financial self-sufficiency.

To further raise the quality of MF approaches and services in the country, the People's Development Trust Fund (PDTF) was operationalized with the aim of strengthening the technical capacity of MF players. However, the PhP 4.5 billion fund supposed to be appropriated by the government for 10 years, remains inadequately funded with only PhP100 million in trust loaned to NAPC from NLSF. The manual of operations that includes operational and procedural guidelines for fund utilization has been finalized. To deal with inadequate funds

for the much-needed capacity building, NAPC had been sourcing funds from international donor agencies in the form of technical assistance, grants and loans. One of these is the Asian Development Bank (ADB) grant to enhance the access of the 14 NAPC Basic Sectors to microfinance services in frontier areas, which are characterized by high poverty incidence and low MF saturation. It aims to improve MF outreach and sustainability by identifying the accessibility issues of poor households and training needs of existing MFI clients.

With the development of the industry, the Bangko Sentral ng Pilipinas (BSP) started evaluating and amending relevant regulations to respond to the emerging issues and products of MF such as microagri products, housing microfinance, remittances and e-Banking. From mere provision of credit, MF now includes related and reinforcing services such as savings, micro-insurance, housing support, business development services and the like. Efforts to promote gender-responsive MF services were also initiated. These include the conduct of a regional training on gender in microfinance in Mindanao and gender mainstreaming in donor-funded special projects. As part of the preparatory activities for the proposed Gender-Responsive Economic Actions for the Transformation of Women (GREAT) Project, a preliminary study on laws, policies, programs and services on microfinance and microenterprise was also done to assist key agencies in developing a set of assessment criteria for gender-responsive microfinance services and products.

The People's Credit Finance Corporation (PCFC) maintained active partnership with 199 MFIs operating in 80 provinces. The number of cities and

municipalities covered by the company increased from 115 cities and 1,263 municipalities in 2004 to 117 (1.7% rise) and 1,319 (4.4% rise) respectively in 2005. Its outstanding loans of PhP3.17 billion at yearend falls below the PhP3.45 billion programmed for 2005 due to the delays in the release of funds to PCFC by its creditors. Nevertheless, 1,652,148 active end-clients, excluding borrowers who dropped out from the group and those from phased-out MFIs, benefited from it, exceeding its target number of active borrowers by almost 14 percent.

This was due to the President's directive to increase the number of enrollees in the last two quarters of 2005, the continuous improvements and innovations in microfinance services, and the increase in the number of MF providers. The banking sector now has 195 commercial and rural banks engaged in MF reaching over 600,000 microentrepreneurs around the country, with a large number of them serving as PCFC conduits.

Livelihood and Entrepreneurship

Aside from the 1,652,148 microentrepreneurs assisted by PCFC and its partners to gain self-employment, livelihood convergence projects were pursued in areas where the poor and vulnerable are concentrated. Sixteen Poverty Free Zones (PFZ) were established in all regions except Region IVB, leading to the creation of core community enterprises such as floating/cruising restaurants, mussel production and processing, corn husk processing, bottled sardines production, household accessories making, squash noodle production, livestock production and dairy processing, and *sinamay* production.

There were also 935 Self-Employment Assistance – Kaunlaran (SEA-K) projects that were given capital assistance which in turn benefited 20,009 families in 2005. However, only 38 percent of the targeted SEA-Kabayans (groups organized to manage SEA-K micro projects) were organized to access capital assistance due to dwindling funds in the SEA-K Trust Fund. This trust fund, with a starting amount of PhP63 million from the DSWD, was created to provide funding assistance to SEA-K beneficiaries. Since the start of the project in 1993, the said fund has not been replenished with any government resources. The loan period given to SEA-K beneficiaries, ranging from 3-5 years with a maximum loan amount of PhP5,000 per member, and the relatively low repayment rate of 74 percent likewise contributed to the slow return of seed capital back to the trust fund.

Livelihood programs for the youth were also implemented. To equip them with the skills and competencies required by the market, DOLE trained almost 94% of its targeted 100,000 apprentices under its *Kasanayan at Hanapbuhay* Program and facilitated the hiring of 850 out-of-school and out-of-work youth in Metro Manila under its emergency employment program. The latter figure is three percentage points higher than the Department's programmed accomplishment for 2005.

Donors, LGUs and civil society likewise led to the creation of livelihood opportunities and the development of enterprises in Mindanao and other regions of the country. The Philippines-Australia Community Assistance Program (PACAP), a component of Australia's Development Cooperation Program, for instance, provided a PhP112.95 million development grant that spurred livelihood opportunities, focusing mainly on

agribased and off-farm activities. Such investments which include microlending for diversified and organic farming, permaculture projects, enhanced banana production and marketing, and integrated agrilivestock and organic fertilizer production, among others, helped improve the economic condition of 77,721 beneficiaries nationwide.

Speeding Up Asset Reform for the Landless

Agrarian Reform (See Chapter 3, Agribusiness)

On the land tenure improvement strategy under the Comprehensive Agrarian Reform Program (CARP), a total of 147,199 hectares were awarded and distributed to 81,792 agrarian reform beneficiaries (ARBs), making them full-fledged owners of the land they till. From 1972 to 2005, 3.7 million hectares with land titles were distributed to more than 2 million ARBs, including those in ARMM. A total of 24,749 hectares were also placed under leasehold. This coverage marks 93 percent accomplishment out of the 26,549-hectare target.

Resolution of agrarian-related cases for 2005 is relatively high. The DAR Adjudication Board (DARAB) and its adjudicators resolved a total of 14,720 cases representing 96 percent of the year's target. This program involves the adjudication of just compensation and regular cases by the DARAB and its regional and provincial adjudicators. Just compensation cases usually involve the recomputation and fixing of land values. Regular cases, on the other hand, include among others, ejection of a farmer from the land he/she tills, fixing of lease rentals in leasehold areas, recovery of possession,

and cancellation of land titles.

Although the Department is not directly engaged in organizing, it encourages farmers, specifically the ARBs, to join cooperatives or farmers associations to be able to avail themselves of various support services that are beneficial to them. In 2005, there were 114 new organizations formed while 71,298 ARBs became new members. In total, 4,829 organizations with 478,262 members exist in the ARCs since 1993. Of the total membership, 289,784 are ARBs, representing more than 60 percent of total membership.

Ancestral Domain

To intensify ancestral domain land reform, a total of 237,004.42 hectares of ancestral domain and nine of 12 targeted Certificates of Ancestral Domain Titles (CADTs) were awarded in 2005. More CADTs were issued in 2004 (18) than in 2005 (9) due to the carry-over issuance from 2003. The 2005 target of 12 CADTs is based on a one CADT per region plan. In the same year, nine titles were accomplished, two were scheduled for third reading to be deliberated by the National Commission on Indigenous Peoples (NCIP) En Banc for CY 2006, and one is scheduled for first reading. The issuance of the remaining three CADTs was delayed because the indigenous peoples (IPs) failed to submit all the requirements within the year. Such issuance entails social preparation, research, establishment of project control, perimeter survey, data processing and preparation, CADT deliberation. Similarly, the issuance of CADTs is a demand-driven activity. It likewise depends on the degree of preparedness of the IP proponents and the actual filing of applications. As such, of

the 20 targeted in 2005, two were issued and 18 are scheduled for deliberation by the NCIP Commission En Banc for 2006.

The NCIP also pretested and adopted the Manual on Ancestral Domains Sustainable Development Protection Plans (ADSDPP) Formulation. Since the ADSDPP process is still being formulated, no accomplishment was posted in 2005 in terms of its implementation. Three ADSDPPs, however, were integrated in the local development plans as a result of the Commission's technical assistance in their formulation. The formulation of ADSDPP both in CADT and non-CADT areas is very important as it documents the policies and mechanisms for recognizing and promoting the rights of Indigenous Cultural Communities (ICC), especially their right to ancestral domain. It also identifies programs/projects that strengthen self-governance, alleviate poverty and protect the environment and cultural integrity, and facilitates the conduct of free and prior informed consent (FPIC) process, among others.

Only 10 Certifications of Precondition (CP) with FPIC compliance were issued in 2005 since this is also a demand-driven activity. The number of Certification of Precondition without overlap/without IP issued to proponents in 2005, however, was much higher at 180. In 2004, there were 13 CPs with FPIC compliance and there were 101 CPs with no overlap/IP issued to applicants.

Other projects involving IPs derive funding assistance from international donors such as PACAP. Most of these projects focus on sustainable development initiatives in agriculture and the environment.

Making Essential Services More Accessible and Affordable: Health

Cost of essential medicines

To reduce the cost of essential medicines, the Parallel Drug Importation Program (PDIP) of the Department of Health (DOH) addresses the urgent need to make available quality low priced medicines to the public. According to the Pharmaceutical Management Unit of the DoH (*Gamot na Mabisa at Abot Kaya* Project—GMA 50), the prices of essential medicines decreased by an average of 41 percent from 2001 levels, a figure lower than the 50 percent target by the year 2010. In 2005, only fast moving drugs and medicines were included in the computation, unlike in 2004 wherein the price reduction stood at an average of 60.9 percent after all the slow moving and the fast moving drugs were included in the computation.

Relatedly, through the Half-Priced Medicines Program of the Philippine International Trading Corporation (PITC), the distribution network of the *Botika ng Bayan* (BNB) was expanded from 120 outlets in 2004 to 1,016 outlets by the end of 2005. In 2004, the opening of BNB outlets was limited to Metro Manila and some parts of Luzon, but in 2005, PITC expanded its coverage to Visayas and Mindanao. PITC supplied low cost medicines to 72 DOH hospitals, 110 local government units (LGUs), and 3,500 *Botika ng Barangay* (BnB).

To improve the use of generic products, DOH facilities and institutions were required to use only generic terminologies in procuring, prescribing, dispensing and administering drugs and medicines. They were also tasked to promote the Generics Law by conducting

seminars that aim to enhance awareness of the law, as well as to establish GMA-50 Help Desks to assist the public in gaining access to low cost medicines and provide information on rational drug use.

Health Insurance

Cognizant of its mandate of universal coverage, the Philippine Health Insurance Corporation's (PhilHealth) membership coverage reached 13.4 million registered members or about 54.6 million beneficiaries. This represents 64 percent of the 2005 estimated population of 85 million, lower than last year's average of 85 percent. The decrease in membership, particularly in the Sponsored Program, may be attributed to the LGU's nonrenewal of the membership of some indigent members enrolled under the Sponsored Program (through the Enhanced PCSO GMA Program) or the Plan 5/25M. PhilHealth provided three options to assist the LGUs in renewing the membership of these indigent members, namely: (a) Regular Sponsored Program, (b) Special LGU Premium, and (c) Oplan 2.5M without outpatient benefits (OPB).

In accordance with Executive Order (EO) No. 392, "*Mandating the Transfer of Overseas Filipino Workers (OFWs) Medicare Funds from the Overseas Workers Welfare Administration (OWWA) to PhilHealth*", PhP530,382,446 will be used by 2.5 million OFWs and their families for their benefit payment, administration, and capital expenditures. By the end of 2005, the Overseas Workers Program (OWP) of PHIC registered 700,000 members or an estimated 3.4 million beneficiaries.

The accredited health facilities of PhilHealth increased from 1,576 in 2004

to 2,750 in 2005. Health facilities include hospitals, medical clinics, rural health units (RHUs), TB-DOTS (Tuberculosis-Directly Observed Treatment Short Course) centers, and maternity clinics. In the same manner, there was an increase in the number of accredited medical professionals from 18,677 in 2004 to 21,148 in 2005. Of this figure, 10,357 or 49.0 percent are specialists, 10,486 or 49.6 percent are general practitioners, and 218 or 1.0 percent are dentists. There are also 87 accredited midwives (0.4%) providing quality medical care to child-bearing mothers and neonatal care for the newborn. By being accredited with PhilHealth, doctors, dentists, and midwives are entitled to financial benefits for the services they provide to PhilHealth members. Surgeons are entitled to a maximum of PhP16,000 while anesthesiologists are entitled to a maximum PhP5,000 per single period of confinement, depending on the corresponding relative value unit of the surgical procedure done on a patient. Accreditation is a way by which PhilHealth is able to ensure the quality of service being availed by members.

Public health programs

To strengthen public health, the government pursued programs on tuberculosis, malaria and HIV/AIDS. The tuberculosis program-Public-Private Mix DOTS (PPMD) was adopted as a measure to reach 70 percent detection rate, and as an attempt to entice the private sector to contribute to the objectives of the National TB Control Program. The case detection rate increased to 71 percent in 2004, from 61 percent in 2003. Also, cure rate increased to 81 percent in 2004, from 77 percent in 2003. With regard to malaria

morbidity, it has increased from 48/100,000 cases in 2002 to 59/100,000 cases in 2004. The increasing rate is due to the improved detection of malaria cases which in turn is attributed to the implementation of different program strategies, such as trained microscopists assigned in remote areas and RHUs. With the Expanded Program on Immunization (EPI), the coverage for the fully immunized children (FIC) in the last quarter of 2005 is 76 percent, higher than the 2003 figure of 70 percent. The HIV/AIDS prevalence rate remains below one percent. The 4th AIDS Medium Term Plan 2005-2010 was formulated, which will serve as a blueprint for action in accelerating the country's response to STI/HIV/AIDS during the next six-year period.

To improve nutrition, the government implemented the "Food for Work, Food for School Program" in the last quarter of 2004. The program was continued because of the reported increase in the proportion of hungry families from 15.1 percent in 2004 to 15.5 percent in August 2005, which then further increased to 16.7 percent in December 2005 (Social Weather Stations Survey). In October 2005, the National Nutrition Council (NNC) implemented the "Food For School Program: *Bigas para sa Mag-aaral at Pamilya*", in coordination with the Department of Education (DepEd), Department of Social Welfare and Development (DSWD), and National Food Authority (NFA). The program aims to provide one kilogram of rice per child per day among children in selected schools and day care centers. It aims to mitigate hunger among families, improve retention of children in school and improve nutritional status, especially of malnourished children. Provinces

classified as very, very vulnerable (cluster 5), very vulnerable (cluster 4), and vulnerable (cluster 3) using the 12 socioeconomic indicators of the Food Insecurity and Vulnerability Information and Mapping System (FIVIMS) were prioritized. At the end of December 2005, the program covered a total of 111,000 families nationwide.

In line with the target of increasing the practice of responsible parenthood, the contraceptive prevalence rate (CPR) increased to 49.3 percent (2004 Family Planning Survey) from 48.9 percent in 2003 (2003 National Demographic and Health Survey). The prevalence rate for traditional methods decreased by 1.3 percentage points from 15.5 percent in 2003 to 14.2 percent in 2004. The prevalence rate of modern methods increased from 33.4 percent in 2003 to 35.1 percent in 2004. The overall increase in CPR is due to the increase in the use of modern methods, where the largest contributor is the gain in popularity of the pill from 10 percent in 1998 to 15.6 percent in 2004. In family planning, the Directional Plan of the Philippine Population Management Program (PPMP) 2005-2010 lays down the demographic scenario, operational framework and strategies that unite the four Program components thrusts: (a) Reproductive Health (RH) and Family Planning (FP); (b) Adolescent Health and Youth Development; (c) Population and Development Integration; and (d) Resource Generation, Programming, and Mobilization. The plan is consistent with the government's MTPDP 2004-2010, the International Conference on Population and Development (ICPD), the Convention on the Elimination of All Forms of Discrimination Against Women

(CEDAW) commitments, and the Millennium Development Goals (MDGs).

Dangerous Drugs Program

The Drug Testing Operations Management of Information Systems (DTOMIS) of the DOH is a software that links all Drug Testing Laboratories (DTL) nationwide into a central database processing system. According to the DTOMIS, out of the 2,659,961 clients tested in October 2005, 2,930 (0.11%) were confirmed positive for drug use, down from 0.19 percent in 2004. Most of the clients are drivers (as required by the Land Transportation Office-LTO), and uniformed personnel (soldiers, police, others). The drop should be viewed in the light of the large pending applications for confirmatory testing (4,122) due to the PNP testing machines that needed fixing at the time. Confirmed positive cases mostly came from NCR followed by Regions IV, III and I.

The Dangerous Drugs Abuse Prevention and Treatment Program of the DOH trained laboratory analysts and heads of laboratories nationwide to increase their competency and professionalism. 67 private screening DTL analysts, 89 forensic laboratory analysts from the DOH, NBI and PNP, and 717 private screening DTL analysts were trained in Cagayan de Oro and NCR in 2005.

On the supply side, the Philippine Drug Enforcement Agency (PDEA), in coordination with concerned line agencies, initiated the development of a plan that will provide alternative sources of income for marijuana growers as a measure to eradicate the production of the illegal crop.

Protecting the Vulnerable

Children in need of special protection

To provide children preferential access to social assistance, the Bright Child Program was launched by President Gloria Arroyo in 2005. The Council for the Welfare of Children (CWC) disbursed PhP5 million as seed money to the 24 most nutritionally depressed municipalities (NDMs) in Regions V and VIII to implement the program, benefiting 2,160 children and their families. This amount was used to cover the following services: (a) deworming and supplemental feeding for 3-5 year old underweight children; (b) nutrition education for parents (PABASA sa Nutrisyon); and (c) livelihood and food production training and activities (Food Always in The Home or FAITH).

To put greater emphasis on child health and nutrition, the National Nutrition Council (NNC), in coordination with the National Dairy Authority (NDA), Philippine Coconut Authority (PCA), Department of Social Welfare and Development (DSWD) and the Food and Nutrition Research Institute (FNRI) implemented the “Brighter Children, Wealthier Farmers (BCWF) Program” also called as “*Malusog na Simula*” in the last quarter of 2005. The program covered 60,000 children in day care centers, where they were provided for about 60 days with a glass of milk from local dairy farmers and *coco pan de sal* from local bakeries trained by the FNRI. Inspired by the Action for Nutrition Improvement (ANI) Approach of the NNC, “*Malusog na Simula*” contributed to increased economic activity in the areas covered. DSWD coordinated the overall implementation of the program. The

Program had a total budget of PhP50 million covering 658 day-care centers in 90 municipalities and 27 provinces nationwide.

Centers and institutions addressing the survival, protection and rehabilitation needs of children were also strengthened. Ninety professionals benefited from the case management and psychosocial training and 90 caregivers and housekeepers in residential care facilities were trained on surrogate parenting to CNSP. In an effort to uplift the socioeconomic conditions of street children in 10 major cities in Visayas and Mindanao, the Canadian-assisted Street and Urban Working Children Project (SUWCP) provided school supplies amounting to PhP2.48 million, benefiting 10,953 street and urban working children in seven partner LGUs. Moreover, a total of 657 bags of rice amounting to PhP558,450 were released to 2,200 SUWCs housed at Social Development Centers.

Frontline services that prevent children from being victimized, abandoned and neglected were likewise improved. A total of 2,260 street children were served by the DSWD through their 1,195 community-based programs and 265 center-based services. Moreover, 2,600 street children were supported through the Street Education Program of the Sixth Country Programme for Children (CPC6). Around 470 abandoned and exploited street children in Tacloban, Ormoc and Dagupan were reached by street educators. The 4,113 child abuse and pedophilia cases reported to the PNP resulted in the conduct of 6,607 operations, leading to the arrest of 3,256 offenders and the filing of 3,355 cases.

As part of the various interventions to implement an enhanced

program for children involved in armed conflict (CIAC), the CWC is finalizing a training module in handling them, which includes a flowchart of strategies from the time of apprehension to the time of referral. A framework on Community-Based Disarmament, Demobilization, Rescue and Reintegration (DDRR) is also being developed and a revision on the Memorandum of Agreement among the various stakeholders on the handling of children involved/caught in armed conflict is currently being undertaken by the Council. A common template on the documentation of CIAC which was adopted in October 2005 was explained to the participants of a training recently conducted in CARAGA.

Youth employment

In an effort to make youth more employable, 184 youth were hired under the Government Internship Program (GIP). Around 44 percent of the 31,970 marginalized out-of-school/out-of-work youths who received skills and livelihood training were also employed under DOLE's emergency employment program.

The Youth Entrepreneurship Program (YEP), on the other hand, which trains the youth to become entrepreneurs through business training and mentoring and loan provision, has been temporarily put on hold while being reformulated. This was in keeping with the National Youth Council (NYC)'s Rationalization Plan.

Women in Especially Difficult Circumstances

Based on DSWD data, there was a slight decrease in violence against women

and children (VAWC) from 5,559 cases served in 2004 to 5,389 served in 2005. Similarly, the PNP reported a decreased figure of 3,553 cases of wife battering/physical injuries in 2004, down from 4,296 cases in 2003 and 5,058 cases in 2002. To assist women in especially difficult circumstances (WEDCs), a total of 3,462 women were provided with protective and rehabilitative services in the community from January to September 2005. Around 770 women who could not avail themselves of community-based services were given center-based assistance for the same period. DSWD's Crisis Intervention Units (CIUs) continuously reached out to women through the provision of food, medical and financial assistance.

The National Action Plan to Eliminate Violence Against Women (NAP-EVAW) was also implemented through capability building activities for frontline service providers. Six provinces in Ifugao (Tinoc, Asipulo, Kiangan, Lanot, Banawe and Hinyon), three municipalities in Masbate (Dimasalang, Placer and Planas) and three municipalities in Eastern Samar (Borongan, Llorente and Maydolong) were oriented on Republic Act (RA) 9208 (Anti-Trafficking Against Persons Act) and RA 9292 (Anti-Violence Against Women and Children Act) by NCRFW. Conducted with the DSWD, these sessions aim to inform local government officials of their roles and responsibilities under these two laws, and call for their support to prevent and eliminate all forms of violence against women. Benchmarks and assessment tools for VAWC services to improve the implementation and monitoring of VAW were also developed. The satisfactory results of all these efforts can be seen in the breakthroughs in prosecuting trafficking offenders during the last

quarter of 2005, with seven convictions made for violations of RA 9208.

To ensure that women contribute to and benefit from development, the Harmonized Gender and Development Guidelines for Project Development, Implementation, Monitoring and Evaluation was launched and adopted by the ODA-GAD Network, NCRFW and NEDA. NEDA encouraged government agencies, donors, NGOs, LGUs and the academe to use the Guidelines in the integration of gender concerns in the various stages of the project cycle. This, however, does not apply to WEDC matters alone. It encompasses a whole gamut of issues concerning gender equality and equity in development.

To promote women's human rights, the NCRFW produced and disseminated IEC materials such as Facts and Figures on Filipino Women, and the Situationers on Violence Against Women and Rural Women. Core VAW messages were also published and integrated in the basic education curriculum. DepEd curriculum writers were trained by the Commission on gender sensitivity, focusing on adolescent reproductive health and violence against women.

Assistance was also provided to strengthen the capability of labor and management in supporting initiatives that promote family welfare. DOLE advocated the Family Welfare Program to 895 firms in 2005, which is a 10 percent increase from the 816 firms it covered in 2004.

In the legislative arena, measures to promote gender equality and women empowerment have been filed and are still pending in Congress. These include the Local Sectoral Representation Bill, Responsible Parenthood and Population Management Bill, and the Anti-Prostitution Bill.

Persons with disabilities (PWDs)

A training of 25 webmasters from government and NGOs based in Mindanao was also conducted to open up economic and various opportunities for persons with disabilities in the south. It aims to spread accessible ICT for PWDs in the southern regions.

In terms of social assistance to PWDs, 438 of them were served with community-based protective and rehabilitation services from January to September 2005. Out of the 1,500-targeted PWDs, 1,328 were also given livelihood training and 1,181 were given jobs. Monitoring and advocacy issues continue to deter the full implementation and strict compliance to the policy of employing PWDs in at least 10 percent of the government workforce.

Seminars to create awareness on the Accessibility Law were held in the NCR. A "Training of Trainers on the Promotion of a Non-Handicapping Environment for Persons with Disabilities" was conducted to foster the creation of a network of technical people from the government and NGOs concerned with implementing the Accessibility Law. There was also an inventory of accessibility facilities for government and private institutions and establishments. According to the DPWH, 393 institutions and establishments complied, 584 partially complied and 500 did not at all comply with the law.¹

Monitoring of agency activities for PWDs, however, was difficult since there was no clear basis for operationalizing such. The General Appropriations Act (GAA) provision mandating agencies to set aside one percent of their total budget for PWD concerns could not be institutionalized since it is always subject to the availability of funds of the national

¹ There is difficulty in estimating the proportion of agencies complying with the law due to data unavailability.

government. Without the benefit of legislation, it runs the risk of getting scrapped anytime in the GAA.

Older persons

DSWD served 416 community-based and 552 center-based older persons in 2005. Most of the residential and day care facilities and services for older persons are still being maintained by the government through its center-based institutions. Additional resources are needed to improve the structure, facilities and management of these centers. The agency also reported 1,179 (65.8% of the total) cities/municipalities with an Office of Senior Citizens Affairs (OSCA).

Indigenous Peoples (IPs)

Educational assistance was provided to poor but deserving IPs. However, out of the PhP84.07 million needed funds, only PhP52.62 million (62.6%) was released for SY 2005-2006. The nonrelease of the balance dislodged about 2,000 IP grantees whose payments are still pending. To cover for their tuition, most of their parents incurred loans in the hope that the owed money will soon be replenished. Some of them were assisted through obtained promissory notes issued by the NCIP Provincial Offices. Corollary to this, the NCIP Chair issued a memorandum suspending the processing of new applicants except for areas where support funds to augment the deficit can be obtained.

Such nonrelease of funds likewise stifled the promotion of health knowledge and practices and the use of traditional medicine among IPs. Only seven out of eight proposals were funded, and no funds were released for the succeeding projects.

In addition to funding problems, change in leadership of concerned agencies also hindered initiatives on IPs. To illustrate, the change in leadership in OPPAP, DSWD and DepEd – agencies involved in conducting trainers' training (TOT) – in the 2nd quarter of 2005 delayed the documentation of Indigenous Peoples Children-Caught in Armed Conflict (IPC-CIAC) cases. The conduct of TOTs is the basis for the convening of the Regional IEC Workshops, a prerequisite for documentation of cases.

Legal assistance was provided to ICCs/IPs in litigation involving community interests. In 2004, out of the 25 cases, 11 were resolved and 14 were continued in 2005. For 2005, there were 17 new cases. From 2004 ongoing cases, 2 were decided with finality; hence, there were 29 cases to be continued in 2006. The cases vary from criminal, civil, labor, to administrative cases.

With the adoption of Resolution No. 079 series of 2005 issued by the Commission en Banc to utilize the NCIP fund for health services amounting to PhP862,480 as a Transition Fund for emergency situations, bulk of which (PhP790,480 or 91.%) was shared equitably by the 12 Regional Offices. The amount is to be utilized only for natural calamities, epidemics, displacement as a result of conflict or militarization, and for any similar occurrence that usually beset and adversely affect the indigenous cultural communities and which require urgent action. It benefited a total of 230 families. The remaining PhP72,000 was used to renew the PhilHealth enrollment of 60 families in the pilot area of Jamindan, Capiz.

To enhance the socioeconomic productivity of IPs, projects on honey production and goat raising were

supported through fund sourcing. These were walk-in requests of IPs themselves. A start-up capitalization amounting to PhP11,500 was provided for honey production, benefiting one IP community while PhP35,000 was provided to 20 families for goat-raising.

The NCIP implemented 8 out of 12 social services for IPs. These contributed to the income generating activities of ICCs/IPs including, though not limited to, small-scale infrastructure, extension of credit, financing, marketing and other social services.

Disaster victims

The natural and man-made disasters that struck the country last year resulted in the loss of lives, injury, displacement and damage to property totaling PhP3.7 billion. Flooding, which was caused by intermittent heavy rains, was the major resultant disaster in 2005. Seriously affected areas include Regions I, II, III, IV-B, V, VI, VIII, CAR and CARAGA.

The Office of the Civil Defense-National Disaster Coordinating Council (OCD-NDCC) extended relief assistance to 11,622 affected families amounting PhP15,188,200. It also facilitated the approval and subsequent release of calamity fund assistance totaling PhP685,446,910 for the immediate relief and rehabilitation of disaster-affected communities.

To minimize future risks, community-based disaster management was improved through the “Strengthening the Disaster Preparedness Capacities of the Municipalities of Real, Infanta and Nakar” or REINA Project. The project aims to beef up the municipalities’ communication and warning systems.

The NDCC also developed 245 hazard maps, inventoried 1,078 buildings with 2 storeys and above to determine their compliance to safety laws and regulations, identified and profiled 58,162 residences at risk in highly vulnerable communities and integrated 84 disaster risk reduction measures into local development plans. To complement the calamity fund, the ICC-Technical Board agreed to expedite the Government of the Philippines (GOP)-World Bank collaboration on the development and enhancement of the draft Operations Manual on the Rapid Disbursement Mechanism for Disaster Management Funding, which includes the setting up of a Disaster Recovery Facility (DRF) and Risk Mitigation Facility (RMF).

Empowerment

The *Kapit Bisig Laban sa Kahirapan* – Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) has been one of the government’s main projects for reducing poverty and empowering the poor. As of 2005, 42 provinces, 101 municipalities and 2,367 barangays have institutionalized the program. KALAHI focuses on the 42 poorest provinces in the Philippines. Delayed release of funds, however, caused the non-achievement of targeted number of municipalities and barangays. The project has provided community-identified basic needs like water supply, barangay roads and health clinics which were implemented in partnership with LGUs and local communities. The DSWD at present is fine-tuning its operation as well as securing timely releases of funds to improve project implementation.

The NAPC has forged the Basic Sector – LGU partnership through the

BASELINK (National) and the Regional KALAHİ Convergence Groups (RKCG). This allows the basic sector representatives to take part in preparing, implementing, monitoring and evaluating poverty alleviation plans. RKCGs were created in 16 regions of the country to reduce poverty in areas targeted under the KALAHİ Project. Through the NAPC-initiated partnerships with the Chamber of Real Estate and Builders (CREBA) which gave homes to 50 poor families in CAR, and with Splash Foundation which provided livelihood and employment programs under KALAHİ, a Private Sector Forum was conducted to forge a partnership between the RKCGs and the private sector.

A draft Enhanced Poverty Reduction Strategy (EPRS) 2005-2010 was made in 2005 with a US\$50,000 United Nations Development Program (UNDP) grant to provide broad strokes that will guide the anti-poverty efforts of the administration until 2010. On the other hand, the Second Philippines Progress Report on the MDGs, which was prepared for the period 2001-2005, stressed the importance of social service delivery at the local level. Presenting the country's situation through data disaggregated by sex and geographical location, it led to the development of a framework that helped guide DILG's localization initiatives and improved governance among LGUs. Around 799 LGUs have already localized the MDGs in 2005, vowing to halve poverty by 2010.

To keep track of the country's poverty reduction goal, the enhanced Core Local Poverty Indicators Monitoring System (CLPIMS) and the Local Poverty Reduction Action Plans (LPRAPs) by LGUs were adopted and implemented. The NAPC developed the LPRAP design

and assisted in the conduct of training in La Union, Agusan Del Sur, Camarines Sur, Oriental Mindoro and all KALAHİ barangays in CARAGA. In addition, the Commission formulated the LPRAP/LPIMS implementation strategy, capacitated the LGUs on these, and advocated for the funding of LPRAP processes. The NAPC also operationalized a prototype anti-poverty program monitoring database dubbed "Enhanced-Integrated Monitoring System for Anti-Poverty Programs and Projects (E-IMSAPP)." However, the system cannot be utilized yet since majority of the agencies failed to submit information on their APPs.

Meanwhile, youth participation in development was supported through the creation of 34 local youth development councils (LYDCs) and the provision of assistance to 36 LGUs in coming up with their local youth development plans (LYDPs).

Chapter 13

Automated Elections

One of the goals of the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 and the 10-Point Agenda is credible and modernized elections. The MTPDP identifies the following strategies to achieve this: (a) modernize the electoral system; (b) reform the campaign financing system; and (c) intensify voters' education on civic responsibility. In 2005, the election modernization project made some progress on cleansing the database of registered voters. However, no development was made on the automation of counting and canvassing, and the electronic data transfer of election results. Steps were also taken to reform the campaign financing system and intensify voters' education on civic responsibility.

MODERNIZE THE ELECTORAL SYSTEM

The election modernization project of the Commission on Elections (COMELEC) has three phases: (a) completion and cleansing of database of registered voters; (b) automation of counting and canvassing of votes; and (c) electronic data transfer of election results.

Complete and cleanse database of registered voters

The first phase of the election modernization project is the development of a complete and cleansed database of registered voters using biometrics technology. This aims to decrease the disenfranchisement of voters and the cases of double or multiple registrants to zero to five percent.

This phase consists of seven components: (a) continuing registration of voters; (b) implementation of Voters'

Validation System; and (c) printing and distribution of Voters IDs/Voter Registration Records (VRRs)/Computerized Voters Lists (CVLs); (d) implementation of Automated Fingerprint Identification System (AFIS); (e) legislative reforms; (f) information campaign drive; and (g) training.

The continuing registration of local and overseas absentee voters (OAVs) resumed in 2005. For local voters, the registration period is from May 16, 2005 to December 31, 2006, while for OAVs, from October 1, 2005 to August 31, 2006. Through the use of Data Capturing Machines (DCMs) during registration, the COMELEC was able to capture the data of 18.38 million out of the total 43.5 million registered voters. It also sorted out 77,807 out of the 110,090 IDs submitted for correction. The commission also printed 12,263,185 IDs/VRRs/Election Day CVLs nationwide, and dispatched 11,412,300 local and 259,000 OAV IDs. Based on the AFIS results of the Autonomous Region in Muslim

Mindanao (ARMM) voters, 14,533 sets of double or multiple registration cases were filed for investigation.

Amendments to the Omnibus Election Code and other election laws were pursued, along with the provisions for the election of sectoral representatives to the Local Sanggunian, and the disengagement of public school teachers from compulsory election duties. As part of its information campaign drive, the COMELEC prepared the Voter's Education Campaign Plan for the Resumption of the Nationwide Continuing Registration. For the local and overseas absentee voters' registration, brochures and other print advertisements were used to inform and encourage Filipinos to register as voters. For the ARMM registration, it held multi-sector consultative meetings, issued media advisories, and distributed flyers and handbills written in local dialects. The COMELEC Hotlines were reactivated to respond to queries and reports from the public. In preparation for the continuing registration for local and overseas absentee voters, COMELEC personnel were trained on the use of the Data Capturing System (DCS).

Automate counting and canvassing starting with the 2007 elections

The second phase of the election modernization project aims to automate counting and canvassing starting with the 2007 elections. Its components include: (a) procurement of automated counting machines (ACMs); (b) procurement of ballots and ballot boxes; (c) setting up of appropriate units and operations to manage the automated system; (d) legislative reforms; (e) information campaign drive; and (f) training.

In General Resolution (GR) 159139, the Supreme Court (SC) declared

null and void COMELEC Resolution No. 6074 which awarded the contract for the second phase of the election modernization project to Mega Pacific Consortium (MPC). Also declared null and void was the contract executed between COMELEC and Mega Pacific eSolutions (MPEI). The SC further ordered the commission to "refrain from implementing any other contract or agreement entered into with regard to this project".

The GR also directed the Office of the Ombudsman (OMB) to "determine the criminal liability, if any, of the public officials (and conspiring private individuals, if any) involved in the subject Resolution and Contract". It also ordered the Office of the Solicitor General (OSG) to "take measures to protect the government and vindicate public interest from the ill effects of the illegal disbursements of public funds made by reason of the void Resolution and Contract".

On June 15, 2005, the SC denied the motion filed by the COMELEC to use the procured ACMs for the ARMM elections in August 8, 2005. Instead, it directed the commission to "return the ACMs to MPC-MPEI and recover the improvidently disbursed funds", and "devise a legally and technically sound plan to computerize our elections".

Meanwhile, COMELEC sought to amend Republic Act (RA) 8436 to facilitate the modernization for the 2007 election, and will authorize the agency to use an automated election system. According to COMELEC, the RA obliges them to only use devices that utilize optical mark reader technology. The amendment aims to make the RA more technology-neutral. The bill was submitted for approval to the House of

Representatives' Committees on Electoral Reform and Information and Communication Technology. At the Senate, a Technical Working Group drafted the amendments for submission to the Committee on Constitutional Amendments, Revision of Codes and Laws.

Electronic data transfer of election results

The third phase of the election modernization project has the following components: (a) lease of Very Small Aperture Terminal (VSAT) equipment; (b) provision of a National Consolidation Center Services; (c) delivery of software licenses for consolidation; (d) project management; (e) legislative reforms; (f) information campaign drive; and (g) training. In view of the order of the Supreme Court in GR 159139, the COMELEC pulled out the VSAT equipment from the sites.

REFORM CAMPAIGN FINANCE

Another key strategy towards credible and modernized elections is to reform the current campaign financing system. This reform seeks to strengthen the political party system and enhance transparency in campaign contributions and expenditures. Both the House Committee on Suffrage and Electoral Reforms and the Senate Committee on Constitutional Amendments are currently looking into legislative proposals regarding this.

INTENSIFY VOTER EDUCATION ON CIVIC RESPONSIBILITY

In partnership with government and civil society organizations, the COMELEC conducted citizens and voters education to encourage higher voter turnout in the succeeding elections. The Parish Pastoral Council for Responsible Voting (PPCRV) and the International Foundation for Electoral Systems (IFES) assisted the agency in formulating the Voters Education Trainer's Training Manual for Local Community Volunteers in the ARMM. The training was pilot-tested in the provinces of Sulu and Tawi-Tawi. The Voter Education Program was also launched in the National Capital Region (NCR) and other provinces. To further intensify voter education, the COMELEC initiated talks with the Department of Education (DepEd) and Commission on Higher Education (CHED) to integrate election education in the school curriculum.

Chapter 14

National Harmony: The Peace Process

The President's resolve to put a just completion to the peace process has brought considerable gains to the peace negotiations, particularly with the MILF and in the implementation of existing peace agreements. Confidence-building and development programs have also contributed to sustained peace in conflict-affected areas.

The following were the major accomplishments under the peace process:

ON PEACEMAKING AND PEACEKEEPING

Government of the Republic of the Philippines-Moro Islamic Liberation Front (GRP-MILF) Peace Negotiations

Exploratory talks were conducted on September 15 to 16, 2005 in Kuala Lumpur, Malaysia where both sides adopted consensus points on governance issues.

The agreement to end hostilities has significantly reduced reported cases of skirmishes between the AFP and the MILF. The success of the ceasefire is largely attributed to joint monitoring efforts by the GRP and MILF as well as civil society groups in Mindanao, notably the Bantay Ceasefire.

On the rehabilitation and development aspects of the peace talks, steps have been taken to establish a World Bank-administered Mindanao Trust Fund for Reconstruction and Development Program (MTF-RDP). This is to support post-conflict reconstruction and

development in the conflict-affected areas once a formal peace agreement with the MILF is signed. Capability building for the Bangsamoro Development Agency (BDA) has also begun. The BDA is the project implementing body identified by the MILF to determine, lead and manage rehabilitation and development projects in conflict areas.

Other peace negotiations conducted were:

Rebolusyonaryong Partidong Manggagawa Ng Pilipinas/Revolutionary Proletarian Army/Alex Boncayao Brigade (RPMP-RPA-ABB). The agreement is now in operation. Development projects were launched through the KALAHARI in provinces covered under the peace agreement signed in December 2000. On reintegration and civil and political rights, several alleged political prisoners have been released and granted immediate livelihood assistance.

Rebolusyonaryong Partidong Manggagawa Ng Mindanao (RPMM). Government reached a breakthrough in the peace process with the signing of the agreement on cessation of hostilities with

the RPMM during the second round of formal talks held on October 28, 2005 in Cagayan de Oro City. Consultations are also being conducted in 100 RPMM-identified priority communities for rehabilitation and development.

GRP-National Democratic Front (NDF) Peace Talks

Formal talks between the GRP and NDF have not resumed since August 2004 when the NDF unilaterally postponed the negotiations. At present, government has suspended the implementation of the Joint Agreement on Safety and Immunity Guarantee (JASIG) in response to the NDF's unchanged position, effectively withdrawing from the peace negotiations.

As part of the confidence building measures, OPAPP extended humanitarian and technical assistance to the Alleged Political Offenders (APOs). They also continued to monitor the status of congressional action on the draft bill on the compensation of human rights victims of the Marcos regime.

Complementary measures to minimize the level of violence arising from armed conflicts

National-level peace talks were complemented with initiatives to minimize the level of violence arising from armed conflicts and to reduce their impact on civilians. These include full compliance with ceasefire agreements, support to peace zones and spaces for peace, addressing the issue of children in armed conflict, and exploring the possibility of localized peace talks.

Full implementation of existing final peace agreements

OPAPP continued to monitor and facilitate the full implementation of the Philippine government's final peace accords with the Moro National Liberation Front (MNLF) and the Cordillera People's Liberation Army (CPLA). The GRP-MNLF peace agreement is on its second phase of implementation under Republic Act 9054, the new Organic Act for the ARMM. With regard to the GRP-CPLA peace agreement, a total of 264 and 528 CPLA members have already been integrated into the AFP regular force and the CAFGU, respectively. Furthermore, in 2005, government explored the possibility of expanding their reintegration program.

Implementation of an enhanced and integrated rehabilitation program to mainstream former rebels into society

Under the national integration program, the government accomplished the following in 2005: (a) provision of emergency assistance for former rebels (FRs); (b) provision of livelihood assistance for FRs; and (c) provision of scholarships to qualified FRs under the Joint OPAPP-CHED Study Grant Program, and endorsement of FRs to CHED-ARMM.

With the abolition of the National Amnesty Commission (NAC) pursuant to EO 415, OPAPP took over the residual functions and unfinished business of said agency.

ON PEACEBUILDING AND CONFLICT PREVENTION

Rehabilitation and development of conflict areas

The Kalayaan Barangays Program was a major program launched this year involving the immediate delivery of basic infrastructure, livelihood and social services in conflict-affected barangays and communities covered by peace agreements. This initiative is led by the OPAPP in partnership with the DND and other government agencies. Actual implementation of community projects is expected to be in full swing with the release of the proposed allocation from the national budget.

In Mindanao, various peace and development programs that have been in place in the past years brought about better understanding on peace processes and mechanisms among different cultural groups. These projects also provided core shelter and other physical facilities and services as part of rehabilitation and development efforts, some of which are directed at those displaced by conflicts. These programs included the Mindanao National Initiatives (Mindanao Natin) Program, Action for Conflict Transformation (ACT) for Peace, which started on May 20, 2005; Project Hope for Badjaos; ARMM Social Fund; the Rehabilitation of Internally Displaced Persons and Tabang Sulu. Specific programs for the ARMM also included the Self-Employment Assistance-Kaunlaran (SEA-K) and an enhanced food for work program which provide livelihood assistance activities, particularly to women.

Catch-up program for the ARMM and affirmative action for Muslims

Agricultural development

As the country's agrifishery export zone, the DA has implemented various programs and projects in war torn areas of Mindanao to make them self-sufficient even during the occurrence of drought and other man-made calamities. These include the GMA Rice and Corn Program and the *Pagkain para sa Masa* (PPSM). Livelihood programs were also implemented for Camp Abubakar as part of the government's commitment to rehabilitate this community. In addition, programs for specific areas such as the Metro Kutawato covering Cotabato City and its adjacent municipalities and Basilan were also implemented.

In line with the promotion of Southern Philippines as the *halal* center of the country, MEDCO in coordination with the DA – Halal Food Industry Development Committee (DA-HFIDC) is linking up Halal initiatives in Mindanao to the BIMP-EAGA. A National Halal Food Forum was conducted on October 10 to 11, 2005 wherein the National Halal Fatwa Council was organized. Aside from this, line agencies in the ARMM are now working for the establishment of a certifying body for Halal products.

Social development

The government supported social programs that are culturally responsive to Muslim needs. Under the Madrasah education program, the Bureau of Madaris Education (BME) had processed accreditation and recognition of the thirty Madaris in ARMM under the stewardship of the BEAM and the USAID. The BME

also proposed to the Civil Service Commission the conduct of Qualifying Examinations for Madaris Teachers in ARMM as mandated by RA 9054. These efforts were complemented with a training program for teachers and administrators and the development of curriculum and learning materials.

In the public health sector, the focus of assistance was in the provision of basic medical equipment and facilities by the DOH and the conduct of capacity building programs for health workers and administrators. Foreign institutions such as the USAID, AUSAID and JICA have also provided technical assistance and direct services in reproductive health, HIV treatment, tuberculosis and malaria control.

Chapter 15

Peace and Order

The Department of the Interior and Local Government (DILG) has registered some significant gains in providing better peace and order in the communities and in the country as a whole in 2005. Various projects and programs (PAPs) were implemented to address the issues on criminality and to reduce the crime rate in the country. These were pushed through with the help of the Philippine National Police (PNP) and other law enforcement agencies. Some of its accomplished tasks were the implementation of the PNP Professionalization Program and other anticrime programs.

THE LAW ENFORCEMENT PILLAR

The DILG leadership believes that the professionalization of police officers and men will help realize genuine peace and order with the presence of highly efficient, competent and credible uniformed personnel. As a result: (a) 10,881 PNP personnel were recipients of various education and mandatory training courses; (b) meritorious awards and commendations were given to 96,323 and 1,768 PNP personnel, respectively, for their exemplary performance of duty; (c) 785 police personnel were found guilty of being *TABA* (*Tamad, Abusado, Bastos, Ayaw Madisiplina*), and underwent a month-long retraining program; (d) 5,546 PNP personnel were charged with administrative cases under the Letter of Instruction (LOI) Patnubay (i.e., inculcation of Courtesy, Action, Results and Example or CARE and weeding out of TABA, wherein 3,131 were penalized during the period; and (e) 92 *Kotong Cops* consisting of eight Police Commissioned Officers (PCOs) and 84 Police Non-Commissioned Officers (PNCOs) were apprehended.

In addition, the PNP professionalization program led to the issuance of various Memorandum Circulars to upgrade recruitment standards and increase the annual recruitment of qualified PNP personnel. A total of 3,970 Police Officers (POs 1) took their oath of office and had undergone training. Of these POs, 656 were female representing 16.5 percent or an average ratio of 1:5 against male appointees.

The rationalization of the role and functions of the PNP vis-à-vis National Police Commission (NAPOLCOM), Philippine Public Safety College (PPSC) and DILG was pursued. The NAPOLCOM issued policy guidelines on streamlining the PNP organizational structure and function to merge directorate and units with overlapping functions. In order to attain an effective and credible law enforcement, some vehicles were issued and some equipment and facilities were provided to various police stations in 2005. A total of 186 units of assorted vehicles were issued and distributed to PNP units nationwide. These include 150 motorcycle units, 23 patrol jeeps, 10

heavy trucks, two jet skis, and one light truck. On firepower capability, a total of 1,897 different firearms were procured. These include 846 units of long firearms, 1,049 units of short firearms and two units of crew-served. However, there is still a shortage of 27,475 short firearms procured and distributed PNP-wide.

On the other hand, some 77 construction projects (buildings/facilities) were completed. The PNP also facilitated the complete repair/renovation of 364 buildings or facilities inside the camps. Of the 1,617 police stations or buildings nationwide, only 26 percent or 423 stations were PNP-owned.

TABLE 15.1 CRIME SOLUTION EFFICIENCY

Year	No. of Crimes Reported	No. of Crimes Solved	Percent increase in the crime	Crime Solution Efficiency Rate
2003	83,704	76,246	2.40	91.10%
2004	77,253	69,417	-7.70	89.90%
2005	76,758	68,315	-0.60	89.00%

TABLE 15.2 ACCOMPLISHMENTS: ILLEGAL DRUGS

PARTICULAR	CY 2004	CY 2005
Operations conducted		12,488
Number of persons arrested	20,328	15,554
Number of cases filed in court	16,283	11,051
Dismantled shabu laboratories/chemical warehouse	15	12
Total value of confiscated illegal drugs and paraphernalia (in Billion PhP)	25.3	40

Source: DILG

TABLE 15.3 ACCOMPLISHMENTS: KIDNAP-FOR-RANSOM

PARTICULAR	CY 2004	CY 2005
No. of reported KFR incidents	31	48
KFR cases solved	20	19
KFR Solution Efficiency Rate (in %)	64.50	39.60
No. of KFR personalities neutralized	94	78

Source: DILG

Crime incidents were reduced by six percent from 77,253 cases in 2004 to 76,758 cases in 2005 with a slight decline in crime solution efficiency rate of 89 percent (Table 15.1).

About 12,488 anti-illegal drugs operations conducted by the Anti-Illegal Drugs Special Operations Task Force (AIDSOTF) led to the confiscation of PhP40 billion worth of illegal drugs, dismantling of 12 shabu laboratories/warehouses, the arrest of 15,554 persons and the filing of 11,051 drug-related cases in court (Table 15.2).

In 2005, the Police Anti-Crime Emergency Response (PACER) conducted kidnap-for-ransom (KFR) operations which resulted in the neutralization of 78 personalities, including prominent personalities such as former National Bureau of Investigation (NBI) Agent Martin Soriano and Mitchel Gumabao (Dennis Roldan). However, still, the KFR solution efficiency rate went down to 39.6 percent from 64.5 percent in 2004 (Table 15.3).

The campaign against antiterrorism was also strengthened in 2005. The antiterrorism operations that were conducted resulted in the recovery of sizeable amounts of explosive materials during the operation and the arrest of the following international terrorists: (a) Gamal Baharan at Tapay and Angelo Trinidad at Addul Khalil, both members of the Abu Sayyaf and suspects in the Makati City bombing on February 21, 2005; (b) Jemar Astalik y Muhamad *a.k.a.* Janjalani; (c) Rahib Buday, fourth suspect in the Valentine's Day bombing, who was arrested in Barangay Layog, Pagalungan,

Maguindanao on March 4, 2005; and (d) Fawas Zi Ajjur also known as Fawas Zaki Agour, a Palestinian national who was identified as one of the six foreigners who conducted training on the manufacture of homemade bombs at the Abu Sayyaf Group (ASG) Camp Adjid in Igasan, Patikul, Sulu.

Meanwhile, operations conducted against bank robbery resulted in the reduction of reported incidents in 2005 by 29 percent compared with the same period in 2004, i.e., from 48 bank robbery incidents in 2004 to 34 reported cases in 2005 as well as the arrest of 40 suspects (Table 15.4).

Due to the anticarnapping campaign in 2005, the number of vehicles stolen decreased by 125 percent to 1,003 from 2,252 cases in 2004 (Table 15.5). Out of the 1,003 reported stolen vehicles, 461 were recovered resulting in an improvement in the solution efficiency rate of 46 percent in 2005 from 40 percent the previous year. In addition, six carnapping syndicates were neutralized, 152 suspected carnappers were arrested and 99 cases were filed in court.

The volume of street crimes also went down to 14,569 in 2005 from 14,847 in the previous year. Moreover, there were only 12,293 cases that include illegal drug pushing, possession and using (street level) and incidence of robbery, theft, physical injury and estafa solved which translated to a reduction in street crime solution efficiency rate to 84.4 percent from 89.6 percent in 2004 (Table 15.6).

Meanwhile, the 6,505 antismuggling/piracy operations in 2005 led to the confiscation of PhP518.2 million worth of smuggled/pirated goods, which is PhP457 million more than the PhP61.565 million confiscated in 2004. About 219 felons were arrested while 114 cases were filed in court (Table 15.7).

But the crime rate incidence remains high. The PNP and the DILG are thus continuing their respective programs and activities to prevent and avoid street crimes.

Crime prevention and control support systems and activities were established and strengthened, such as: (a) the 3,499 Community Oriented Policy System (COPS) - Kababayan Centers nationwide; (b) 24-hour mobile and foot patrols; and (c) 292 satellite police stations nationwide manned by 9,830 policemen. In support of the government's campaign

TABLE 15.4 ACCOMPLISHMENTS: BANK ROBBERY

PARTICULAR	CY 2004	CY 2005
No. of bank robbery incidents	48	34
No. of cases solved	9	14
Bank Robbery Solution Efficiency Rate (%)	18.80	41.20
No. of persons neutralized	23	40

Source: DILG

TABLE 15.5 ACCOMPLISHMENTS: CARNAPPING

PARTICULAR	CY 2003	CY 2004	CY 2005
No. of stolen vehicles	2,272	2,252	1,003
No. of stolen vehicles recovered	738	900	461
Recovery Efficiency Rate (%)	32.00	40.00	46.00
No. of syndicates neutralized	11	5	6
No. of suspected carnappers arrested	227	204	152
Number of cases filed in court	150	172	99

Source: DILG

TABLE 15.6 ACCOMPLISHMENTS: STREET CRIMES

PARTICULAR	March-December 2003	CY 2004	CY 2005
Street Crime Volume	17,813	14,847	14,569
Cases solved	16,443	13,309	12,293
SC Solution Efficiency Rate (%)	92.00	89.60	84.40

Source: DILG

TABLE 15.7 ACCOMPLISHMENTS: SMUGGLING/PIRACY

PARTICULAR	CY 2003	CY 2004	CY 2005
No. of operations conducted		7,774	6,505
No. of persons arrested	579	203	219
Worth of smuggled items confiscated (in million Php)	82,130,000	61,565,339	518,161,220
No. of cases filed in court	156	97	114

Source: DILG

TABLE 15.8 CASES SOLVED UNDER LOI PATNUBAY

PARTICULAR	CY 2004	CY 2005
Total number of cases	4,228	5,546
Number of cases solved	1,952	3,131
% of Resolved Cases	46.20	56.50

Source: DILG

TABLE 15.9 ACCOMPLISHMENTS: CAMPAIGN AGAINST WANTED PERSONS/TOP MOST WANTED PERSONS

PARTICULAR	CY 2004	CY 2005
No. of TMWPs neutralized	132	155
No. of other wanted persons neutralized	35,624	34,552
No. of felons surrendered	430	437

Source: DILG

against terrorism, the PNP activated its 208 Bomb Data Centers, wherein technical assistance to bombing incidents, that transpired during the year, were provided. Another notable project launched in 2005 was the creation of Mindanao Area Police Intelligence Office (MAPIO) as embodied in LOI 34-05 dated June 27, 2005. The MAPIO is tasked to supervise the intelligence operations in the entire Mindanao especially on matters relating to terrorism and heinous crimes. The Automated Fingerprint Identification System (AFIS), a Japanese grant project, was formally turned over on May 24, 2005. The system is capable of electronically capturing latent fingerprint images (those found and

lifted from the crime scene) to include textual information. The AFIS database was installed at the PNP Crime Laboratory Group (PNP CLG) and has a current entry of more than 200,000 records (both criminal and noncriminal). Continuous data entry is being undertaken for the database. In addition, 25,100 Barangay Information Networks (BINs) were being maintained nationwide with 75,300 informants.

The strict implementation of LOI Patnubay was observed. Thus, in 2005, there was a total of 5,546 cases filed against PNP personnel including the 2,276 pending cases from previous years (Table 15.8). Of these cases, 3,131 were solved, registering a case solution efficiency rate of 56.5 percent. About 42 administrative cases were filed against 12 PCOs and 30 PNCOs for being “*Kotong Cops*.” Also, 87 PNCOs who were reported to be among the TABA cops were sent to a leadership retraining program.

The PPSC is the training arm of the DILG-Interior Sector and is responsible for providing education and Mandatory Training Courses for the PNP, Bureau of Jail Management and Penology (BJMP) and Bureau of Fire Protection (BFP) uniformed personnel. For 2005, various training enhancement activities were also implemented to support the conduct of PPSC courses.

The PNP, in the conduct of scientific investigation and expeditious disposition of cases, met the 100 percent target of investigation efficiency for the period. All the 76,758 cases reported to the police were investigated. Of the cases investigated, 68,151 were solved and filed in courts nationwide, registering a crime solution efficiency (CSE) rate of 88.79 percent. The investigation includes the 4,726 requests for scientific examination and collection of physical evidence

conducted by the PNP's Scene of Crime Operation (SOCO) Teams, the 7,979 Field Laboratory Works (FLW), and 392,417 laboratory examinations.

The PNP served a total of 32,498 out of the 40,806 warrants received which yielded a 79.64 percent service efficiency rate last year.

The campaign against Wanted Persons/Top Most Wanted Persons (TMWPs) in 2005 resulted in the arrest and/or surrender of 155 TMWPs with reward and 34,989 "other wanted persons" (Table 15.9).

From January 1999 to December 2005, 20,611 out of 29,843 cases were solved or a reduction of 69.1 percent in the number of unsolved cases which involved various modus operandi, crime syndicates and terrorists. These cases were recorded and documented.

THE COMMUNITY PILLAR

In 2005, efforts to improve community relations were intensified with the continuous coordination among 36 nongovernment organizations (NGOs) accredited and recognized by the PNP as partners in the promotion of peace and public safety. Weekly (Saturday) seminars on Moral Recovery, Values Formation Program, Drug Abuse Prevention and Control, Intelligence Gathering and Reporting, Crime Monitoring and Reporting and Criminal Justice System were continuously conducted for members of the Federation of PNP Accredited Nongovernment Organizations (FPAN).

FPAN members actively took part in activities against criminality such as the implementation of the school and community-based crime prevention programs, lectures on drug awareness, bomb awareness, traffic duties and other

mobilization activities in school-based, community-based protection program. Also, FPAN members were mobilized during the annual observance of the Lenten Season and All Saints/Souls Day.

In addition, the PNP strengthened its partnership with the Confederation of Community Oriented Policing System (CCOPS) NGOs, Inc. through a MOA signed on June 1, 2005. CCOPS is an umbrella organization composed of 14 different subgroups actively involved in community organizing and crime prevention activities. About 80 police community precincts were established and 3,354 centers were maintained nationwide. The PNP TXT 2920, which is an added avenue for public access to the PNP was maintained wherein a total of 4,647 text messages were received in 2005 relative to complaints against illegal gambling, illegal drugs, TABA and *Kotong Cops*, and requests for assistance and feedback on citizen satisfaction of police actions on their complaints.

In response to the President's call to heighten the war against crime, the DILG implemented and continuously enhanced the People's Action Team Responding On-Line (PATROL) 117, which is the people's direct link to emergency assistance services from the police, firemen and other emergency service providers. As of December 2005, PATROL 117 call centers were maintained in 22 cities and one municipality nationwide.

Chapter 16

Rule of Law

In 2005, the Judiciary continued implementing the programs and projects (PAPs) under the Action Program for Judicial Reform (APJR). This effort and initiative focused on changing the poor perception of the public toward the criminal justice system and achieving the goals and targets enunciated in the Medium-Term Philippine Development Plan (MTPDP) 2004-2010. However, there are still pending cases which clog court dockets and derail the smooth disposition of cases.

Last year, the Department of Justice (DOJ) pursued its plan of recruiting more prosecutors but there were only few takers particularly from Mindanao.

There is thus a need to continue the implementation of the various PAPs to improve the justice system and entice more prosecutors. The implementation is expected to increase investments and raise investors' confidence thus paving the way for a more responsive judicial system.

THE COURTS

The new Chief Justice, Artemio V. Panganiban, vowed to continue the implementation of the APJR with greater focus on four areas of concern: (a) access to justice, (b) corruption, (c) incompetence, and (d) delay in the resolution of cases. The judiciary will continue to implement the APJR and pursue activities that will support the attainment of the goals identified in the said program and the judiciary's vision.

The Committee on Justice on Wheels was in the process of formulating the case jurisdictional structure and operational

guidelines for the deployment of two additional Mobile Courts, one each for the Visayas and Mindanao to further improve case adjudication and access to justice. With the country's first mobile court bus, 754 cases were heard by judges and 300 juveniles in conflict with the law were facilitated and released in 2005.

In support to the Alternative Dispute Resolution (ADR) Act of 2004 or Republic Act (RA) 9258, the Supreme Court (SC) accredited 88 mediators. About 32 judges and 108 court personnel were trained on the practice of judicial dispute resolution and procedures for referring cases to the mediation center and processing of files. A total of 254 lawyers were also oriented on court-annexed mediation and judicial dispute resolution. As of June 30, 2005, a total of 2,502 cases from the courts were referred for mediation, of which 2,072 or 82.8 percent were set for mediation. Of the 2,072 cases that went through mediation, 1,326 or 64 percent were settled.

In providing access to justice by the poor, the following activities were undertaken to facilitate project

implementation once the amendments to the Project are approved: (a) drafting of the interagency Memorandum of Agreement (MOA) between and among the Departments of Social Welfare and Development (DSWD), Justice, Interior and Local Government and the Alternative Law Groups; (b) selection of the target barangays; and (c) review of the Terms of Reference (TOR) of the local consultants. The selection criteria for the project sites have already been agreed upon by the participating agencies. However, the 36 municipalities and 360 barangays have yet to be chosen. For the SC, 36 first level courts that satisfied all the criteria set will be its target.

During the year, the SC's draft literature on the justice system and reform efforts were completed and issued, such as the following: (a) Guidelines for Journalists Covering the Courts; (b) Glossary of Legal Terms; (c) Comprehensive Communication Plan for the Supreme Court; (d) "Justices to Journalists, Journalists to Justices: A Reader on Judiciary-Media Relations"; and (e) eight feature articles on APJR.

The SC has established its own Integrated Electronic Library System. The E-Library CDs are being produced by the SC Library Services. The uploading of executive orders, memorandum orders, and presidential proclamations is also ongoing. These services are now open to justices, judges, SC lawyers, chiefs of office, faculty of the UP College of Law, staff of the Philippine Law Journal, clerks of court, justices of the Court of Appeals, justices of the Sandiganbayan and Court of Tax Appeals, PAO chiefs, staffs from the Office of the Solicitor General, APJR development partners and selected schools. On the other hand, the enhancement of the Court Administration Management Information System (CAMIS) is ongoing.

A MOA was approved between the SC and the Armed Forces of the Philippines-Office of the Chief Engineer (AFP-OTCE) to support and rehabilitate internally-displaced persons (IDP) and communities in Southern Philippines. The Philippine Judicial Academy (PHILJA) also conducted the following seminars: (a) Strengthening *Shari'a* and Islamic Jurisprudence on July 25-29, 2005 in Zamboanga City; (b) Strengthening *Shari'a* Court System on September 26-30, 2005 at the Grand Men Seng Hotel, Davao City; (c) Strengthening the *Shari'a* Court System on November 7-11, 2005 at the Garden Orchid Hotel, Zamboanga City; (d) Strengthening the *Shari'a* Court System on November 14-18, 2005 at the Garden Orchid Hotel, Zamboanga City; and (e) Seminar on *Shari'a*, Indigenous and Local Justice System on December 14-15, 2005 at the Dynasty Hotel, Cagayan de Oro City.

Another important achievement was the completion of the repair and rehabilitation of the Hall of Justice (HOJ) in the following places: (a) Isabela City, Basilan; (b) Jolo, Sulu (extension of Annex Building for the *Shari'a* Court); and (c) Marawi City (extension of HOJ for *Shari'a* Court). Also completed were the repair and reconfiguration of Annex Building for *Shari'a* Court, repair and rehabilitation of HOJ in Cotabato City phase I and phase II, the construction of HOJ in Malabang Lanao del Sur and the repair and rehabilitation of HOJ in Zamboanga City.

Despite all these efforts to address the issues on case decongestion and declogging of court dockets, many cases remain pending and for disposal in 2006 (Table 16.1).

TABLE 16.1 SUMMARY REPORT OF CASES, 2005

COURTS	Pending Cases as of 31 December 2004	CASE INFLOW				CASE OUTFLOW			
		Cases Newly Filed	Cases Revived/ Reopened	Cases Received from Other Sala/Courts	Cases Decided/ Resolved	Cases Archived	Cases Transferred to Other Sala/Courts	Cases w/ Proceed- ings Suspended	
Supreme Court	6,780	4,348	0	0	4,105	0	708	0	6,315
Court of Appeals	22,461	0	0	0	0	0	0	0	22,461
Sandiganbayan	1,846	168	253	13	178	21	2	0	2,079
Court of Tax Appeals	671	300	28	12	259	0	1	0	751
Regional Trial Courts	355,780	148,292	11,518	15,917	115,710	41,351	17,053	0	357,393
Metropolitan Trial Courts	157,248	57,916	8,293	440	41,916	31,454	1,489	0	149,038
Municipal Trial Courts in Cities	120,265	63,101	10,035	1,409	51,977	25,453	2,693	0	114,687
Municipal Trial Courts	86,313	43,106	2,064	593	32,901	8,676	4,584	0	85,915
TOTAL	751,364	317,231	32,191	18,384	247,046	106,955	26,530	0	738,639

Source: Program Management Office- Supreme Court

THE PROSECUTION PILLAR

In 2005, the DOJ recruited 208 prosecutors and 38 associate prosecution attorneys to expedite the resolution of cases as mandated by RA 9297. From these new recruits, a panel of prosecutors was created to investigate and prosecute sensational cases and those of national significance. Likewise, during this same year, a Petition for Review Monitoring System (PRMS) has been developed. This consists of five percent of the National Prosecution Service Information System, which is part of the DOJ Information System Strategic Plan (ISSP) 2006-2008. Despite these initiatives, there are still pending cases to attend to.

The DOJ extended free legal services to the poor. The Secretary of Justice, prosecutors and public attorneys gave free legal advice and legal information through radio, television and print media (trimedia) to enhance public knowledge on all legal matters and issues. Aiming to upgrade the skills of its lawyers, the Public Attorney's Office (PAO) conducted training workshops including Mandatory Continuing Legal

Education (MCLE) as mandated by the SC for all lawyers. To further provide legal service, the DOJ established and launched the DOJ Action Center (DOJAC) in the regions. Members of the National Prosecution Service and the PAO were tasked to man the regional DOJACs.

The PAO also actively participated in the ongoing propoor programs of the government. The DILG was in close coordination with the courts in providing access to justice for the poor, with the assistance of the *Lupon Tagapamayapa*, which implements a functional justice system in 33,613 barangays including those in the Autonomous Region in Muslim Mindanao (ARMM). Other propoor programs such as the *Kapit-Bisig Laban sa Kahirapan* (KALAHARI) activities and “*Serbisyo Muna*” projects also provide legal assistance to barangay officials through the Barangay Outreach Program in order to maximize the utilization of the *Katarungan Pambarangay*. The enhanced outreach activities are done through media linkages for effective legal education, counseling and information programs. It also renders prompt, effective and adequate legal

services to the indigent sector in line with the 10-point agenda of the President. However, the DOJ has yet to coordinate with the DILG to conduct the *Katarungang Pambarangay* training for barangay officials.

A MOA was signed among the DOJ, DILG, SC and the Integrated Bar of the Philippines (IBP) to create the National Council on the Administration of Justice (NCAJ). There was also a forum sponsored by the United States Agency for International Development (USAID) spearheaded by the Program Management Office (PMO) of the SC to commence the EO institutionalizing the cooperation among the five pillars of the criminal justice system.

However, there is still a need to recruit more prosecutors especially in the southern part of the country where few takers are enticed due to low salary and the danger the job poses to their lives. The recruitment seeks to address the issue on immediate prosecution of cases to declog court dockets.

THE CORRECTIONS AND REHABILITATION PILLAR

In 2005, there were reductions in jail facilities and equipment and offices rented and being maintained. The decrease in jail facilities was due to the clustering of municipal and district jails while the reduction in facilities maintained was due to the depreciation of some firearms and vehicles (Table 16.2).

In order to improve jail/prison facilities, the Bureau of Corrections (Bucor) repaired furniture and other equipment. The following are the improvements implemented in the national penitentiary and penal colonies: (a) renovation of building 14-Cell for inmates

of special concern; (b) Bucor Museum; (c) Butterfly Garden; (d) Rehabilitation and Diagnostic Center (RDC) Prayer Room and Inmates Free Telephone Call Center at the New Bilibid Prison (NBP) Maximum Security Compound; and (e) purchase of Bucor's agriculture projects (BAP) and the penal farms.

To strengthen the rehabilitation programs for prisoners, the Bucor in coordination with the Department of Education (DepEd) and Commission on Higher Education (CHED), continued to provide formal and informal education to interested inmates. Out of 4,862 enrollees, 13 percent or 626 successfully graduated from the formal and nonformal education programs. There was an increase of five percent in the enrollment of inmates at the college level in the NBP and in the Correctional Institution for Women (CIW). The University of Sto. Tomas (UST) offered a modular program designed for inmates who wish to pursue formal education thru distance learning. The program has ten initial enrollees. Vocational training was held at the NBP Medium Security Camp and in CIW in cooperation with the Technical Education and Skills Development Authority (TESDA) and other

TABLE 16.2 JAIL CONGESTION

PARTICULAR	CY 2004	CY 2005	% DISPARITY
Jail facilities maintained	3,687	3,663	-0.70
Equipment (firearms, vehicles and supplies)	5,266	4,550	-13.60
Offices Rented	13	12	-7.70
No. of offenders released thru applicable laws	50,424	51,498	2.10
No. of sentenced prisoners transferred to other penal Institution	10,567	51,498	387.30

Source: DILG

TABLE 16.3 COMPARATIVE NUMBER OF INMATES PROVIDED WITH BASIC NEEDS, CY 2004 VIS-À-VIS CY 2005

PARTICULAR	CY 2004	CY 2005	% DISPARITY
No. of inmates provided with food	56,141	62,329	11.00
No. of inmates provided with health care needs	56,141	62,329	11.00
No. of inmates provided with personal care/hygiene materials	25,187	61,329	143.50
No. of inmates provided with livelihood	56,141	12,135	-78.40

Source: DILG

TABLE 16.4 IMPLEMENTATION OF THE ADOPT-A-JAIL PROJECT

PARTICULAR	CY 2004	CY 2005	% DISPARITY
No. of organizations approved as adoptors	823	304	-63.10
No. of inmates approved as adoptees	30,623	26,408	-13.80
No. of jails adopted	448	175	-60.90

Source: DILG

nongovernment organizations (NGOs) through lecture type and on-the-job training programs. On the other hand, the Parole and Probation Administration (PPA) assisted 13,364 probationers/parolees/pardonees in job placement, livelihood activities and skills training in line with the government's economic recovery program by helping decrease the rate of unemployment.

About 2,685 probationers/parolees/pardonees attended the adult education program and/or were encouraged to enroll and finish their formal studies. A

continuing program for social, moral activities was devised and attended by 28,367 probationers/parolees/pardonees while 28,034 probationers/parolees/pardonees rendered community service and participated in civic-oriented projects such as tree planting, clean and green project, beautification project, etc. A total of 5,027 probationers/parolees/pardonees underwent/participated in the Therapeutic Community Program for drug cases.

Except for livelihood, provision of basic needs such as food, health care needs, personal care and hygiene materials to inmates increased in 2005 (Table 16.3).

There is a need to encourage and generate more citizens' participation in rehabilitation activities, volunteerism, employment and training of volunteer probation aides (VPAs) in supervising parolees and pardonees. In connection with the revitalization of VPAs Program, Japan International Cooperation Agency (JICA) was tapped to conduct an in-country training program (ICTP) to implement a course on Holistic Approach to Volunteer Resource Development. About 51 field officers and volunteer probation aides have attended the trainings. To date, there were 2,084 VPAs appointed by the Secretary of Justice who are affiliated with PPA.

As regards the Adopt-A-Jail Project, there was a decline in the number of organizations approved as adoptors, inmates approved as adoptees and jails adopted (Table 16.4).

Chapter 17

Education and Skills Development

With education for all as a priority concern of the 10-point agenda, the overall education sector performance in 2005 was characterized by continuous development and implementation of institutional and policy reforms. The achievements in the sector were spurred by the formulation of three subsector plans that were meant to provide the enabling policy environment for pushing reforms to address the key challenges of providing equitable access and improving the quality of education that is values-laden and relevant.

EARLY CHILDHOOD AND BASIC EDUCATION

Following the launching of the Schools First Initiative (SFI) in 2004, a package of policy reforms called the Basic Education Sector Reform Agenda (BESRA) was formulated. The BESRA is the SFI's policy reform component which will support the attainment of the Education For All (EFA) 2015 goals and objectives. It will serve as the framework for a coordinated sector-wide approach to donors' and partners' participation in the SFI. Also, the Education For All (EFA) 2015 Plan was formally adopted by the government as the vision and the holistic program of reforms to achieve improved quality of basic education. The EFA vision and strategies shall be delivered through the formal school system and alternative learning systems.

The School-Based Management (SBM) is now being institutionalized in all public elementary and secondary schools in the country. All schools are being required to formulate, implement and evaluate a School Improvement Plan

with the active participation of education partners in the community, particularly the local government, and the Parent-Teachers-Community Associations (PTCAs). The use of a School Report Card was also implemented where schools are required to publicly disclose their performance and finances. To ensure compliance, 221 school heads were trained on the Basic School Management Course and 1,040 school heads for the special course on Learning Management Program.

In line with the government's policy to standardize preschool and day care centers, the curriculum to standardize the competencies of 5-year old children was formulated alongside the development of instructional materials and the massive orientation of teachers and parateachers from the Departments of Education (DepEd) and Social Welfare and Development (DSWD) and local government units (LGUs). The standard curriculum implemented in SY 2005-2006 necessitated the administration of

readiness tests to all Grade I entrants as mandated in DepEd Order No. 15, s. 2005.

The provision of critical resources to basic education continued to be a priority. The total number of classrooms constructed from July 2004 to December 2005 reached 13,500 (Table 17.1). This constitutes 87 percent accomplishment of the targeted 15,454 completed classrooms for 2005, combining targets from the Regular School Building Program (RSBP), ODA-assisted Programs and other school building projects financed primarily through the Priority Development Areas Fund (PDAF) and private sector assistance. Of those constructed, 589 classrooms were set up in 571 school-less barangays. By end of 2005, 1,954 classrooms were still under construction but are expected for completion before SY 2006-2007 commences. The difficulty in completing the project on time was attributed to legal issues which prolonged acquisition of school sites in certain barangays.

Classroom shortage was also partially addressed with the continuing adoption of double-shift classes and maintaining a classroom-student ratio of 1:50 per shift, particularly in highly-populated schools. Given the lower enrolment (as against the estimated enrolment for SY 2004-2005) in public schools, the classroom backlog estimated at 8,684 dropped to 8,072 by end of SY 2004-2005. The Government Assistance to Students and Teachers for Private Education (GASTPE) Program through the Education Service Contracting (ESC) Scheme was also expanded to further decongest the public secondary schools and involve private school participation in the delivery of secondary education.

For SY 2005-2006, a total of 383,222 students benefited from ESC while the Tuition Fee Supplement Scheme benefited some 10,692 students. From the original target of 50,000 additional slots per year beginning 2005 for ESC, about 60,000 new slots were actually accommodated during the year.

The provision of textbooks was successfully carried out during the year. With the procurement and delivery of about 105.7 million textbooks and 2.4 million teacher's manuals for all public schools, a textbook-pupil ratio of 1:1 for the five learning areas was achieved in SY 2005-2006, except for high school English III and IV, which had a ratio of 1:2. This represents an improvement from last year's ratio of 1:1 for the four key subjects only. It should be noted, however, that the 1:1 ratio for Makabayan (5th learning area) is for Social Studies only since procurement for the other learning areas has yet to be undertaken (targeted to be delivered from April-June 2006). With this additional procurement, textbook shortage declined from 34.7 million in 2004 to 26.85 million in 2005. School seats shortage decreased from 3.9 million units in 2004 to 2.24 million units in 2005. The provision of computers and internet connectivity from various sources (i.e., DepEd Computerization Program, the DepEd-Department of Trade and Industry PCs for School Project, Department of Science and Technology, etc.) were also intensified. As of 2005, 73 percent (3,512 high schools) of the country's public high schools (4,830) were provided with computers while 30 percent of these schools with computers were provided with internet connectivity. Internet connection for

TABLE 17.1 CLASSROOM CONSTRUCTION, JULY 2004 - DECEMBER 2005
(As of December 2005)

	PLAN TARGET*	REVISED TARGET**	ACTUAL	PERCENT ACCOMP.
Regular School Building Program	10,000	6,606	5,725	87
a. GAA, 2003		4,036***	3,739	93
b. GAA, 2004		1,527****	1,341	88
b. SEDIP		274	216*****	79
c. SEMP II		355	365	103
Other SBP, 2005	521	6,692	5,853	87
a. CGMA		315	234	74
b. DTI-NDC		213	183	86
c.1 Congressional Initiative (PDAF for CY 2003)		3,430	3,330	97
c.2 Congressional Initiative (PDAF for CY 2004)		734	616	84
c.3 PDAF of Sen. Drilon (remaining Projects)		580	430	74
d. FFCCCII		452	452	100
e. Adopt-A-School (30% of DepEd SBRMS Funds and Various Private Donors)		166	19	11
f. CY 2003-2004 SONA-School less Barangays (DPWH and AFP)		802	589	73
GRAND TOTAL	12,422	15,454	13,500	87

* MTPDP Target for 2004-2005

**Revised target of agency including carry-over of unfinished projects

***Additional funds were released to District Engineering Offices which increased the physical target for the month of June 2005

****Inclusive of SONA Commitments

*****SEDIP (January-September 2005 accomplishment only) only schoolbuilding projects which were previously included in June 2005.

Note: Adjustments were made on the PDAF Schoolbuilding Projects to exclude completed repair/rehabilitation of schoolbuilding projects which were previously included in June 2005.

the year represented a significant improvement from last year's level of 13 percent.

The shortage of teachers rose from 20,113 in 2004 to 20,874 in 2005 despite the 6,475 additional teacher items created in 2005. Efforts to improve teacher competencies also gave rise to the formulation of the National Competency-Based Teaching Standards (NCBTS). This framework will serve many development purposes, e.g., improvement of preservice teacher curriculum, in-service teacher training, and performance appraisal. It will

also utilize and improve the licensure system and teacher manpower planning, hiring and deployment.

Mobilization of private sector support for basic education was also continued through the Adopt-A-School Program. In 2005, a total of 155 donors participated in the program benefiting 143 schools. The Program also generated around PhP124.7 million resources in various forms during the year showing an increasing number of active partners promoting basic education.

As a social equity commitment and to ensure that the Muslim learners will be in the mainstream of quality basic education for all, the implementation of Madrasah Education Program was accelerated with the institutionalization of curriculum standards for Madrasah education mandated by DepEd Order No. 51, s. 2004. Workshops to review the learning materials as well as the actual writing and layout of the said materials were undertaken in 2005, alongside the conduct of teacher training on Arabic language and Islamic Values, printing of curriculum framework and launching of Madrasah Education (Islamic education) in 15 public elementary schools in the NCR (i.e., Manila, Quezon City, Taguig, Paranaque City and Pasay City).

To improve school participation and retention, the Food-For-School Program was launched to provide rice to school children for 120 school days with DepEd identifying the school

beneficiaries and the National Food Authority (NFA) providing the rice. As of March 2006, a total of 114,281 preschool and Grade 1 children benefited from Php200 million worth of rice released in 2005, exceeding the target of 107,500. To date, the program covers 1,605 public schools in the poorest urban and rural areas. The National Capital Region (NCR) posted the highest number of children beneficiaries with a total of 17,335 bags of rice delivered in 25 schools benefiting 20,227 pupils. Region VII, on the other hand, had the highest number of school beneficiaries of 168 with 7,100 school children as beneficiaries.

To complement formal education, DepEd intensified the implementation of programs under the Alternative Learning System, Distance Education, *Balik-Paaralan sa Out-Of-School Youths and Adults*, and Inclusive

TABLE 17.2 NATIONAL ACHIEVEMENT TEST RESULTS, SY 2004-2005

Subject	EFA Target*	Mastery 75-100	Mastery Level Near Mastery 50-74	Low Mastery Below 50
Elementary**	5	20.04	50.51	29.45
Math		30.51	35.59	33.9
English		26.41	42.98	30.6
Science		14.75	47.04	38.21
Filipino		30.13	44.66	25.21
HeKaSi		29.16	40.77	30.07
Secondary***	5	0.48	40.77	58.75
Math		16.41	31.31	52.28
English		6.59	49.16	44.25
Science		1.75	23.99	74.26
Filipino		0.002	27.37	72.63
Araling Panlipunan		3.31	50.41	46.28

* 2005 Target on 75% Mastery; targets set based on the 2002 results which was less than 1 percent

** Grade 6

*** Year IV

Note: The NAT in SY 2003-2004 covers Math, English and Science only while that of SY 2004-2005 covers all the subject areas (Math, English, Science, Filipino, HeKaSi (for elementary)/Araling Panlipunan (for secondary))

Education for the Differently-abled Children. Collectively, these programs reached an additional 24,000 beneficiaries.

The quality of basic education remains poor, however. The results of the National Achievement Test revealed very little improvement in the competency levels of students although higher achievement has been observed in areas that benefited from interventions with major public investments, e.g., TEEP, SEDIP, etc. (Table 17.2). In SY 2004-2005, the mean percentage score of elementary students was pegged at 58.73 percent, which is the lower range of the near mastery competency level of required elementary competencies. The performance of high school students was worse as the mean percentage score for high school competency was only 46.80 percent. Only about 20 percent of Grade 6 students and 0.48 percent of high school graduating students had mastery (75-100 percentage score) of the required competencies of their respective levels. More than a quarter of elementary students and more than half of high school graduating students had no mastery of basic education competencies. The performance level of students was found lowest in Science for both levels.

TECHNICAL VOCATIONAL EDUCATION AND TRAINING (TVET)

The enrolment trend in TVET is encouraging. From the 1,683,382 students enrolled in TVET courses in 2005, about 1,354,322 graduated. The enrollment figures exceeded the sector target of one million TVET students. The figures are far greater than the 1,220,438 enrolment and the 618,030

number of graduates in 2004. There was also an increase in the number of apprentices trained from 21,733 in 2004 to 101,514 in 2005 (however, target is 200,000) under the *Kasanayan at Hanapbuhay* Program which aims to provide the needed basic skills and work experience to new entrants to the labor force thus facilitating greater chances for employment. The other enterprise-based training program, the Dual Training System registered a total of 2,866 trainees.

The number of beneficiaries of various TVET student/trainees financial assistance and scholarships surpassed targets for 2005. The Private Education Students Financial Assistance (PESFA) total beneficiaries are 13,944 which is one percent over the 13,800 target. The Technical Education and Skills Development Project (TESDP) also exceeded its 5,120 target by 29 percent by awarding financial assistance to 6,587 beneficiaries. On the other hand, only 44 families out of the 1,979 target for 2005 to 2006, availed of the Certificates of Education Assistance under the *Iskolar ng Mahirap na Pamilya* Program. The Jobs-Directed Scholarship Program, a subcomponent of the Tendering System, was initiated in 2005 covering a total of 1,913 trainees out of the targeted 800 scholars. This scholarship program is being carried out in private enterprises, eventually preparing the trainees for gainful employment and/or entrepreneurship.

A total of 12,900 TVET programs were registered under the Unified TVET Registration and Accreditation System (UTPRAS), from the 11,228 registered programs in 2004. The number of persons assessed

(271,161) and certified (136,304) also increased. A structure within the agency called the Competency Assessment and Certification Office (CACO) was established in December 2005 to focus on the delivery and implementation of competency assessment and certification programs and services.

In addition, equivalency programs were implemented in 21 pilot tertiary education institutions covering seven disciplines namely: agriculture, health, tourism, engineering, education, maritime and information technology. A total of 1,863 students were awarded equivalency credits and gained TVET qualifications with opportunities to earn higher education in 2005 (target is only 1,000 students). Mapping of competencies between TVET and higher education programs has been undertaken to identify which can be given equivalency. In addition, a series of activities such as conferences and orientation workshops were conducted among the CHED, TESDA and deputized HEIs to address concerns, resolve issues and plan for the establishment of a viable interface between ETEEAP and the Ladderization of TVET courses and higher education programs.

Significant work in 2005 focused on formulation of the National Technical And Skills Development Plan (NTESDP), 2005 – 2010 and the pilot implementation of Executive Order No. 358 on the “Ladderized Interface between TVET and Higher Education”. The year also stressed the importance of improving the quality of TVET curriculum. An additional 34 curriculum exemplars were developed along with the efforts to continuously review and revise TVET curricula to incorporate work values and ethics, and

gender-fair principles, among others. In addition, a total of 69 training regulations (TRs) were developed, of which 52 are new, and remaining 17 TRs were reformatted. Under the job-skill matching program (JSMP), five labor market intelligence reports were prepared under the SEEK-FIND-TRAIN Strategy of TESDA. The Youth Profiling for Starring Careers (YP4SC), a multicomponent career guidance program, was also piloted for aptitude profiling in 2005 and covered a total of 100,500 fourth year high school students nationwide.

Four industry working groups (IWGs) were established on priority disciplines namely: agri-fishery, health, tourism and ICT. The establishment of these IWGs provides for the sustainability of efforts towards quality standards and qualifications, and in the implementation of a competency-based industry-led TVET system. These existing IWGs were maintained and thus continued to be active partners in competency standards development and planning for the development of required skills in their respective sectors.

HIGHER EDUCATION

The overall enrolment in higher education decreased by 0.77 percent from 2,420,856 in AY 2003-2004 to 2,402,315 in AY 2004-2005. In 2005, there were around 1,431 private (sectarian and nonsectarian) higher education institutions (HEIs) serving 65.9 percent of total higher education enrolment. State universities and colleges (SUCs), on the other hand, numbered 111 in 2005 and catered to 31 percent of the total enrolment. Four percent of the remaining enrolment are

served by other government schools, special HEIs, Local Universities and Colleges (LUCs) and a CHED-supervised institution. Enrolments in identified priority disciplines in higher education, especially in medical and allied courses, registered a two-percent increase from 1,526,993 in AY 2003-2004 to 1,558,118 in AY 2004-2005.¹ Enrolment in SUCs increased by 0.3 percent from 742,108 in AY 2003-2004 to 744,751 in AY 2004-2005. On the other hand, enrolment in private HEIs' decreased by 2.5 percent from 1,590,929 in AY 2003-2004 to 1,550,558 in AY 2004-2005. Both SUCs and private HEIs recorded lesser number of graduates in AY 2003-2004 than the previous academic year. The SUCs posted 2.3 percent less graduates from the 132,483 recorded in AY 2002-2003 to 129,398 in AY 2003-2004. Likewise, the number of graduates produced by private HEIs decreased by four percent from 256,615 in AY 2002-2003 to 246,469 in AY 2003-2004. The decrease in graduation figures were attributed to the trend of more students dropping out of college to seek employment that do not require a college degree or for students to shift to TVET courses such as physical therapy and care-giving short-term programs which have prospects of immediate employment locally or abroad. This attribution, however, would still need to be validated through tracer studies as this would have broad policy implications on both TVET and higher education enrolments.

A total of 33,180 students were given financial assistance totaling PhP18.2 million through the various financial assistance programs including the Private Education Student Financial

Assistance (PESFA) Fund, Student Financial Assistance Programs, Loan Funds and Student Study Grants. However, the number of beneficiaries served is 22 percent short of the targeted 42,600 for 2005. Nonachievement of the target is mainly due to a lack of adequate information reaching the potential applicants/grantees and insufficient coordination and facilitation involving implementing partner higher education institutions (HEIs). Students wanting to pursue science and technology (S&T) courses were also provided scholarships under the DOST-SEI scholarship program. In 2005, a total of 9,266 beneficiaries for undergraduate and 75 for postgraduate were granted S&T scholarships. A total of 2,041 S&T scholars graduated in 2004, 318 of them with honors.

In order to improve the systems and procedures in the administration of scholarships and other student assistance programs, possible legislation to improve the package of Study-Now-Pay-Later Program (SNPLP) was initiated. This proposal to rationalize the Philippine System on Student Loans was inspired by the Thailand Income Contingent and Allowance Loan (TICAL) Scheme. However, pending any reforms through legislation, a revised set of SNPLP guidelines that include a better repayment scheme was drafted. New policies, guidelines and procedures on various financial assistance programs administered by CHED were also prepared.

The College Bridge (pre-Baccalaureate) Program's first placement test was administered during the year to 915 examinees from seven of the 10 pilot institutions. Orientation meetings were also held with the 10 selected pilot

¹ Higher education priority disciplines for AY2004-2005 are Maritime Education, Information Technology, Agriculture and related fields, Teacher Education, Engineering and Health Sciences.

institutions located all over the country, seven of which sent 76 of their faculty members to participate in teacher trainings for English, Math and Science. Instructional materials and modules were developed and distributed. A PhP15,000 grant per semester was agreed to be given to pre-Baccalaureate students to cover for tuition and stipend over and above other incentives to be provided to participating institutions and faculty members.

The Policies, Standards and Guidelines (PSGs) on the implementation of the Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP) was revised and finalized. The reported number of ETEEAP graduates reached 1,947 in 2005, mostly in the fields of Engineering, Business Administration and Criminology. PSGs on legal education, maritime education, business and health related programs, science and engineering programs, among others, were updated. In particular, curricular program offerings in the nursing profession are being improved by identifying and integrating applicable and appropriate skills and courses from the various nursing curricula in other countries, especially the US and the UK, to the local nursing curricula. This is part of the international benchmarking efforts to make nursing graduates of Philippine HEIs globally competitive.

Support to 275 Centers of Excellence (COEs)/ Centers of Development (CODs) in different disciplines lodged in 79 HEIs all over the country was also sustained with the provision of PhP19 million for student scholarships, faculty development, library and laboratory upgrading, research and extension services, development of

instructional materials and networking and linkage activities. For quality-assured LGU-funded Local Colleges and Universities (LCUs). CHED issued Memorandum Order No 10, s.2005 in consultation with LCUs and LGUs to standardize offerings of new degree programs and curricular revisions. Financial assistance amounting to PhP17.8 million was also allocated to 24 SUCs for the implementation of their income generating programs with cost-recovery arrangements under the Corporatization Program being carried out under the HEDP. A Manual of Guidelines for SUCs in the utilization of their assets was also drafted in accordance with the RA 8292 (Higher Education Modernization Act). Application of the normative financing formula in 25 percent of SUCs MOOE was started, making unit cost-per-student the basis for budget allocation of instruction and research in these SUCs.

The year also saw the development of Institutional Quality Assurance on Monitoring and Evaluation (IQuAME) documents such as primers and operations handbooks for monitoring and evaluation. The number of HEIs with accredited programs under the Quality Assurance System (QAS) also increased from 11.35 percent or 160 in 2001 to 12.67 percent or 193 in 2004.

In pursuing a rational and efficient SUC system, a model regional university system (RUS) was piloted in Region XI under the RUS Project. A bill was also drafted to establish RUS that would integrate the four existing SUCs in Region XI. Moreover, the voluntary merging of SUCs has already been done in Regions II, IV and VIII.

Chapter 18

Science and Technology

Efforts on science and technology (S&T) focused on finding comparative advantages and niches to enable the country to compete in the global economy. Resources were channeled towards S&T initiatives, which were nurtured and developed to world-class standards to increase the country's competitiveness.

The S&T system takes on increased importance in a knowledge economy, which is directly based on the production, distribution and use of knowledge and information. In this economy, innovation is driven by the interaction of producers and users in the exchange of both codified and tacit knowledge.

The investments in research and development (R&D) have fueled knowledge creation and transfer in the Philippines. These efforts resulted in the 209 mature technologies that are now ready to be commercialized, as well as in the extension centers that serve as channels for information dissemination at the grassroots level all over the country.

The Department of Science and Technology (DOST), through the Small Enterprise Technology Upgrading Program (SETUP) and the Technology Incubation for Commercialization (TECHNICOM) programs continuously support micro-, small- and medium-scale enterprises (MSMEs) by extending various technological assistance to generate economy-wide benefits from innovations in terms of productivity gains and job generation.

ACCELERATE KNOWLEDGE CREATION AND TRANSFER

The link between the growth of economic welfare and the development and exploitation of scientific and technological understanding is further strengthened through knowledge creation and mobilization. Defined knowledge networks are essential in the documentation and eventual packaging of productivity-enhancing technologies vital to the development of the rural and remote areas in the country.

Knowledge Creation

Over the years, DOST's rigorous pursuits to spur technological innovation resulted in the development of 209 mature technologies. These technologies are classified into four levels: (a) technologies with adaptors that could still be transferred to interested takers; (b) technologies with adaptors under partnership agreement; (c) technologies with feasibility studies and ready for commercialization; and (d) technologies for verification without feasibility studies. The distribution of mature technologies on an agency basis is shown on Table 18.1.

TABLE 18.1 MATRIX OF CLASSIFICATION OF DOST MATURE TECHNOLOGIES (Per Agency Basis)

DOST Agencies	A	B	C	D	TOTAL
PCAMRD	6			2	8
PCARRD	7		4	29	40
PCASTRD			1	2	3
PCHRD	5		4		9
PCIERD	10	3	5	1	19
ASTI	3	3	1	2	9
FNRI	2	16	2	22	32
FPRDI	14	1		1	16
ITDI	23		6	7	36
MIRDC	5		3	3	11
PNRI	7	1	1	1	10
PTRI	6	1		6	13
PAGASA				2	2
PHIVOLCS				1	1
TOTAL	88	25	27	69	209

Of the 209 mature technologies, 88 (42.11%) were already adapted but can still be disseminated for further utilization of other individuals or firms, which then translates to jobs and ultimately, wealth creation. Twenty-five technologies (11.96%) were adapted under a partnership agreement, indicating the increasing participation of the private sector in productivity enhancing initiatives such as the commercialization of mature technologies.

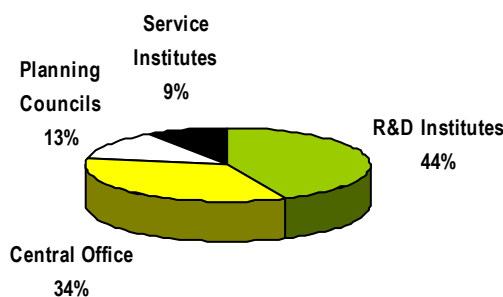
In 2005 alone, 68 research contracts were signed with costs shared by the private sector partner. The DOST also supported invention development through patenting and testing/prototyping/piloting assistance, endorsement of tax/duty exemption, and provision of support to inventors' fora and training.

A total of Php304.5 million was allocated for R&D investment in 2005, with 44 percent to the seven R&D institutes of DOST, 34 percent to DOST Central Office through its grants-in-aid program, 13 percent to the five sectoral planning councils and 9 percent to the six S&T service institutes of the agency (Figure 18.1).

The bulk of the R&D budget went to the R&D institutes. These equipped these institutes to undertake R&D programs in the following fields: (a) agriculture and biotechnologies; (b) marine sciences; (c) industry; (d) energy; (e) advanced science and engineering technologies; (f) health/medical sciences; (g) information and communication technologies; and (h) disaster/hazard mitigation and environment.

Testing and calibration services were also provided by DOST to MSMEs to help in the development of new products and improvement of quality and competitiveness. These include chemical

FIGURE 18.1 R&D BUDGET ALLOCATION OF DOST



testing, physical materials and microbiological testing and measurement. A total of 60,084 clients were served under the program.

To further boost the morale of local scientists and encourage them in their S&T work, recognition and awards incentives were given to outstanding scientists and researchers. These included the First NAST-Lino Ed. Lim Educational Development Foundation, Inc. (LELEDFI) Award for Outstanding Research in Tropical Medicine and the NAST-Hugh Greenwood Environmental Science Award. Fifty-one academicians and 11 national scientists were also given incentives for their significant contributions to the advancement of S&T in the country.

Knowledge Transfer

The importance of knowledge transfer has grown in recent decades because knowledge, as an asset, appears to be of increasing proportion in many organizations. Advances in information and communications technology (ICT) have created new means of knowledge transfer. The advent of the Internet, for one, paved the way for increased diffusion of innovations. However, technology alone cannot facilitate knowledge transfer successfully. Organizational structures and practices have to be defined and put in place to facilitate and motivate knowledge transfer.

Extension Centers

In the agricultural sector, the Farmers Information and Technology Services (FITS) Centers continued to be the means of disseminating information and technologies to the farmers. It is a one-stop shop for information and technology services

in agriculture and natural resources. Through the centers, farmers and fisherfolk can avail of information and communications materials in different formats such as print, audiovisual, broadcast and e-based media. It also responded to clients' need for technology training and information caravans, thus ensuring availability of quality planting materials and animal stocks, fostering linkages and enterprise development.

The FITS Centers are hosted by the local government units (LGUs), integrated with the functions of the municipal agricultural officers, state colleges and universities, line agencies of the Departments of Agriculture (DA) and Environment and Natural Resources (DENR), DOST provincial science and technology centers, and nongovernmental organizations (NGOs).

The impact assessment of the project conducted by DOST-Philippine Council for Agriculture, Forestry and National Resources Research and Development (PCARRD) in 2005 showed that farm income for rice almost doubled to PhP51,937 in 2005 from PhP26,018 in 2001. The rise in income resulted from an increase in harvest of PhP65,762 per farm from PhP36,111 after the FITS was set up. For corn production, net income also increased to PhP118,332 per farm in 2005 from PhP25,356 in 1999.

Each center focuses its services on one or two commodities of major importance to the area where it is located, supported by one or two farmer scientists who serve as resource persons for the centers' technology services. There are now 173 FITS Centers all over the country.

Another initiative is the Knowledge Networking Towards Enterprising Agricultural Communities (K-Agrinet) program of the Development Academy of

the Philippines (DAP) in collaboration with the Department of Agrarian Reform (DAR), DOST, and DA. This aims to create a network of knowledge generators, providers and users working to increase productivity of farming communities. Through K-Agrinet, the farmer's productivity increases while his risks decrease due to knowledge diffusion that led to informed decisions.

Moreover, the DAP was able to disseminate three technologies and document a total of 23 best practices, which were packaged and distributed to the beneficiaries. Four business technical support services for MSMEs have been set up while three partnerships for knowledge sharing were organized per region, province and municipality. The DAP originally targeted three LGUs to enhance its local economic and enterprise development framework, but exceeded the target by actually having nine LGUs with the desired development framework by the end of 2005. It was also able to organize three sectoral benchmarking networks.

In 2005, trainings were conducted for local partners, including the ongoing development of content databases for Short Messaging System (SMS) services for farmers and extension workers. Also, the DAP has conducted site assessments for the establishment of community e-centers (CeCs) in selected agrarian reform communities and cooperatives. The CeCs serve as access points for delivery of e-government and other services. It also provided universal access to information and communication services in unserved areas, link communities, facilitate trade and commerce, and empower rural communities socially, culturally, economically and politically.

At present, there are three projects under the Community e-Center program, namely: (a) Telecommunications Office

(TELOF) CeCs, which aims to convert the exchanges of the telecommunication office into Community e-Center; (b) i-Schools, which aims to establish 200 computer laboratories in high schools all over the country; and (c) e-LGU CeCs, where the LGU delegates to the Knowledge Exchange Conference are active participants.

As of November 2005, the National Computer Center (NCC) organized 75 CeCs all over the country, 40 of which are operational. The TELOF has established a total of 119 CeCs nationwide. These were established mostly at its Local Exchanges, municipal halls, selected university and public high schools, with 56 in Luzon, 25 in Visayas and 38 in Mindanao. Its major offerings include national and local government e-services, community-based services, special services and commercial services.

Moreover, a new "expense-free" business technology center that promotes technology awareness has been launched to help Filipino MSMEs become globally competitive. The business technology center aims to empower these enterprises by taking advantage of technology towards profitability.

The center facility is located at the Department of Trade and Industry (DTI) Regional Operations Group Office in Makati, and was created through a joint industry effort by Intel Microelectronics Philippines, Microsoft Philippines, and the Philippine Long Distance Telephone Company (PLDT) in partnership with the government.

In this center, a consultation area is provided for MSMEs to seek guidance from DTI experts on business planning and using software applications that can help automate their operations. The center also serves as a venue for technology skills-building seminars teaching these

entrepreneurs how to use personal computers for their businesses.

The presence of extension centers all over the country facilitated the equitable distribution of knowledge and information in the countryside. However, there is a need to harmonize efforts of government agencies on these extension centers to be able to provide better services in terms of content as well as explore the possibility of sharing resources to address sustainability issues.

Government Web Portals

The NEDA Knowledge Emporium, a networking initiative to leverage knowledge or intellectual capital for greater efficiency and national productivity, is essentially a one-stop web portal to promote greater productivity in industry, farming communities, and among MSMEs. Users can download or post their own good practices and success stories on enhancing productivity, which can then be shared with others through the Internet. It is a virtual market place for sharing and exchanging productivity enhancing technologies and experiences for everyone. In 2005 alone, there was a total of 217 productivity-enhancing technologies posted in the Emporium. About 53 percent, or 115 out of 217 technologies are best practices and

success stories in the agriculture, agrarian reform and natural resources sector. The distribution of these technologies on a per sector basis are shown on Table 18.2.

Similar initiatives are being undertaken by other government agencies, thus contributing to the NEDA Knowledge Emporium. These include the DA, DTI, DENR, DOST, DAP, Biotechnology Information Center, Philippine Council for Sustainable Development, National Wages and Productivity Commission, Knowledge Management Association of the Philippines, Children's Knowledge Center, Philippine Communication Centrum, Excellence in Local Governance Case Studies, Ramon Magsaysay Awardees, and the United Nations Development Programme (UNDP).

In support of strengthening knowledge institutions, extension workers and civic organizations on knowledge sharing/dissemination, the Philippine e-Library was launched. The project is a collaborative effort on the part of DOST, CHED, DA, the University of the Philippines (UP) System and the National Library. It has a collection of 800,000 bibliographic records consisting of more than 25 million pages of local and international material, 29 full text journals and 15,000 theses and dissertations, among others.

TABLE 18.2 NUMBER OF PRODUCTIVITY ENHANCING TECHNOLOGIES POSTED IN THE NEDA KNOWLEDGE EMPORIUM IN 2005

Sector	Number of Productivity Enhancing Technologies Posted
Agriculture, Agrarian Reform and Natural Resources	115
Governance and Institutional Development	4
Industry	80
Infrastructure	4
Social Reform and Development	10
Others	4
TOTAL	217

Although the latest survey of the National Computer Center (NCC) showed that 93.3 percent of national government agencies have already established their web presence, the Philippines has yet to establish a country gateway/portal, which will serve as the one-stop shop for accessing and disseminating knowledge and information and shall strategically serve as a vehicle for promoting and strengthening close interaction with citizens, private sector, civil society, NGOs and other communities.

Training

The APEC Digital Opportunity Center (ADOC)-Manila Partner Office was launched in June 2005 through funding from the Chinese Taipei Government. The Center's aim of helping generate international e-Commerce in the APEC region fits well with the 10-Point Agenda through creating jobs through ICT.

Through the Center, e-Business (eBiz) training for MSMEs was conducted with the goal of educating the MSMEs on eCommerce. The training gave the participants the knowledge, guidelines, strategies and skills for applying e-Commerce to their businesses.

Meanwhile, fora, seminars, fairs and exhibits were continuously organized and held all year round. DOST held 122 technology fairs and exhibits and 468 fora while DAP held six seminars in 2005 that were attended by 326 participants.

Information Campaign

In the health sector, the Nutrition and Communication Network or NutriComNet serves as the portal for media releases of food and nutrition information;

while the Nutrition Research Information Network or NutriNet, is a network of libraries and information centers, for food and nutrition.

For its part, the Philippine Information Agency (PIA) conducted a nationwide information campaign on the BEAT THE ODDS. It consisted of production of print materials as well as a photo essay with the theme of *"Hanapbuhay Para sa Mahihirap"*. The Agency also conducted information dissemination through infomercials on microcredit and finance. Moreover, an information campaign on fuel and energy conservation and on good nutrition were undertaken in cooperation with the Departments of Energy (DOE) and Health (DOH), respectively.

PROMOTE TECHNOLOGY-BASED ENTREPRENEURSHIP

The SETUP is a banner program of the DOST in diffusing knowledge and technologies to the stakeholders, and it has an impact on the productivity of the MSMEs. Production volume increased by an average of 430 percent for each SME while 682 firms were able to generate a total of 21,703¹ jobs for 2005, a 58.73 percent increase from 2004. Also the packaging assistance provided to MSMEs resulted in an increase in sales totaling Php26,116,000.

Another priority program, the Technology Incubation for Commercialization (TECHNICOM) originally targeted to establish 35 technology-based firms for 2005. Although no firm was established, initiatives were geared to fast track commercial application of innovative technologies developed by the S&T community. Its interventions are in terms of the following: (a) commercial

¹ Employment computed on the basis of a person working for 20 days a month regardless of the nature of the employment i.e., contractual, seasonal, per job order.

prototype development/technology; (b) assessment/pilot plant production; (c) technology commercialization plan; (d) Intellectual Property Rights (IPR) protection; (e) technology negotiation and licensing; and (f) training/consultancy services.

Notable achievements of the program include the signing of a Memorandum of Agreement with Superlative Snacks Incorporated for the Enriched Rice Premix. Another was the agreement with the BONCOM Enterprises for commercializing the

technology to produce coconut milk beverages. Also under the program, the Digital Multimeter was launched together with Yongden Technologies Corporation (YTC). The Digital Multimeter is a standard test instrument used in electronics. It is classified as a basic yet necessary technical commodity. The Advanced Science and Technology Institute (ASTI) in collaboration with YTC pioneered the development of a local, low-cost digital multimeter. This breakthrough is promising in the absence of a local design company for test instruments.

Chapter 19

Culture

Most of the targets identified for the priority activities for 2005 — covering heritage conservation, cultural education, promotion of culture and the arts, support for artistic excellence, peace advocacy, culture and development, and culture and diplomacy — were realized, some even exceeding the output targets. However, the implementation of some activities was deferred, due to budget constraints and delays in the release of funds.

The conservation of built heritage, particularly efforts in preserving the UNESCO World Heritage Sites and the 26 churches declared as National Cultural Treasures (NCTs), were sustained. One of the notable accomplishments for 2005 was the completion of the restoration of the Bamboo Organ (declared as a NCT) and the Church of St. Joseph in Las Piñas where it is housed. The rehabilitation and restoration of the Metropolitan Theater in Arroceros, Manila is also underway with the preparation of the detailed engineering study. In Mindanao, the restoration of the Torogan in Marawi is still ongoing while the work on the Loay Complex in Bohol is almost complete. In support of preserving traditional knowledge and arts, aside from the nine Schools of Living Traditions (SLTs) being maintained for the *Garwad sa Manlilikha ng Bayan* (GAMABA) artists, 25 new SLTs were approved for establishment in Panay, Tabuk-Kalinga, Tadian, Buhangin-Davao City, Caburao-Ilocos Sur, Puerto Princesa, Laoag, and Davao Oriental, among others.

Specific projects on the cultural heritage of indigenous peoples were also done. Activities that highlight their cultural and historical heritage and promote public awareness on their rights were carried out through ten community-based projects (involving community festivals, rituals and gatherings). Support activities for the production of traditional crafts were implemented. These comprised 11 projects that aim to provide a source of livelihood and sustain the transfer of knowledge to younger generations. Initial work on the documentation of customary laws and indigenous knowledge system and practices (IKSP), as an aid to policy formulation and legislation, were carried out as well.

Three new traditional artists — Haja Amina Appi, a mat weaver from Tawi-Tawi; Darhata Sawabi, a pis yabit weaver from Jolo; and Eduardo Mutuc, a metal artist from Pampanga — were awarded the GAMABA. In celebration of the Centennial of the Feminist Movement in the Philippines, 31 prominent women

were awarded the *PAMA-AS Gintong Bai*, a lifetime achievement recognition for women with outstanding contributions in arts and heritage preservation.

Activities to improve cultural education were continued under the implementation of the Philippine Cultural Education Plan (PCEP). These include enrichment programs for teachers, training for cultural workers, and curriculum and instructional materials development.

Culture and development initiatives posted significant gains in its role in peace-building and values formation. Peace advocacy was bolstered when the National Commission for Culture and Arts (NCCA) completed its collaborative activity with the Office of the Presidential Adviser on the Peace Process (OPAPP) and

the National Youth Commission (NYC), particularly the Mindanao Youth Peace and Development Advocacy Component of the Mindanao NATIN Project. Some 800 youth delegates from Lumad, Christian, and Muslim communities participated in the activity. The government's leadership in tapping the various forms of media (e.g. television, radio, print and cinema) in fostering positive values was realized with the completion of four major productions.

The KALAHI Cultural Services for the Poor was launched in 28 provinces with the highest incidence of poverty. Capability building for local communities was also pursued together with the creation of 16 local culture and arts councils in partnership with local government units (LGUs).

Chapter 20

Anti-Corruption

The Medium-Term Philippine Development Plan (MTPDP) 2004-2010 combines punitive, preventive and educational strategies to reduce the prevalence of corruption. The implementation of key punitive measures resulted in the prosecution and conviction of erring government personnel in 2005. The preventive measures, on the other hand, were mostly at the initial stages of development and implementation in 2005, and did not meet some of the targets. The electronic New Government Accounting System (e-NGAS), for instance, was installed in only about eight percent of the target agencies due to the noncompliance of agencies' hardware and software with the e-NGAS requirements. This points to the need to refine the resource requirements of these pilot preventive measures to facilitate their adoption and implementation. Educational measures were implemented as planned. These measures have to be sustained and expanded to further promote a corruption-intolerant society.

IMPLEMENT PUNITIVE ANTI-CORRUPTION MEASURES

Expand and institutionalize lifestyle checks in government

The earlier accomplishments of the lifestyle checks program prompted the government to expand and institutionalize it as a key anticorruption measure. In 2005, the Presidential Anti-Graft Commission (PAGC) broadened its network of government and nongovernment partners in the conduct of lifestyle checks. PAGC entered into an agreement with 10 selected government agencies, namely the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), Departments of Education (DepEd), Interior and Local Government (DILG), Justice (DOJ), Health (DOH), Environment and Natural Resources

(DENR), Agrarian Reform (DAR), Public Works and Highways (DPWH), and the National Labor Relations Commission (NLRC). The agreement aims to encourage these agencies to conduct lifestyle checks on their respective employees, and forward the results to PAGC and the Office of the Ombudsman (OMB) for appropriate action. PAGC also entered into an agreement with the Coalition Against Corruption (CAC) and Transparency and Accountability Network (TAN) for these groups to provide qualified volunteers to PAGC for its lifestyle check crusade.

Aside from these initiatives, PAGC investigators participated in trainings conducted by the OMB, Federal Bureau of Investigation (FBI) and World Bank (WB) to strengthen their capability in conducting lifestyle checks. To further

facilitate the lifestyle check process, PAGC established a database of statement of assets, liabilities, and net worth (SALN); personal data sheet (PDS); and appointment papers of presidential appointees.

In 2005, the conduct of lifestyle checks led to the suspension of 14 high-ranking officials, dismissal of seven, and filing of forfeiture cases against three. As targeted, the conviction rate among cases handled by the OMB improved from 23 percent in 2004 to 39 percent in 2005.

Showcase BIR and BOC in the fight against graft and corruption

As showcases in the fight against graft and corruption, the BIR and BOC continue to expand their electronic services and implement programs on personnel integrity and internal audit.

The Automated System for Customs Data (ASYCUDA) World (e-Customs) Project of BOC aims to develop a faster end-to-end cargo clearance process through the use of mobile broadcasting and internet/electronic data interchange connectivity. The BOC has completed the migration to ASYCUDA World core software. And in cooperation with other government agencies, it began implementing 30 automated systems in 15 ports. These systems include informal entries, bonds management, raw materials liquidation, legal case tracking; and licensing and clearance. Other project activities that were completed are the rehabilitation of the Customs Computer Center; conduct of 75 percent of the planned training sessions; and the Association of Southeast Asian Nations (ASEAN) Single Window Pilot Implementation Project with Thailand. Through the Trade-Related Technical Assistance Programme, the BOC installed Risk Management System in major ports

and began conducting the Management and Technical Training.

The BIR is also expanding the computerization of its system operation and business processes. Details of these computerization efforts, which aim to improve revenue collection efficiency, are found in Chapter 1 (The Economy).

The Personnel Integrity Program in BOC and BIR led to the prosecution of erring customs and revenue personnel. In 2005, the BOC filed 20 formal charges involving 40 erring customs personnel. Of these cases, one led to a fine penalty equivalent to six months salary while the rest are still pending. In the BIR, 46 formal charges were filed against erring revenue personnel. As a result of these and other previously filed charges, 16 revenue personnel were dismissed; 13 were suspended; 11 were reprimanded and 6 were exonerated.

In line with the target to strengthen its Internal Audit Program, the BOC established an Interim Internal Control Office. The Office would, among other things, ensure that all rules governing BOC operations are strictly and uniformly applied. It would also ensure that all programs, projects and contracts are properly implemented and complied with. The Office shall exist until a permanent Internal Control Office is created.

The Internal Audit Program of BIR aims to conduct postaudit review of terminated tax cases as well as audit the cash and noncash accountabilities of Revenue Collection Officers (RCOs) and other accountable personnel. The BIR completed the preevaluation of 1,106 tax cases as of January 31, 2005. The BIR also conducts continuing review of audit reports on noncash accountabilities of RCOs and accountable officers and chiefs of various revenue district offices.

Create an Anti-Corruption Body in the nature of ICAC and emulate its best practices

The success of the Independent Commission Against Corruption (ICAC) in curbing corruption in Hong Kong serves as a model for the Philippines' own battle against corruption. The government aims to establish an anti-corruption body in the nature of ICAC. In line with this target, the OMB is pushing for the amendment of the Ombudsman Act to replicate the structure and functions of the ICAC. The PAGC also adopted the three-pronged ICAC approach in fighting corruption - investigation, prevention and education - in its organizational mission, vision and goals.

Support the SOLANA Covenant

The SOLANA Covenant is a joint anticorruption plan by the OMB, Commission on Audit (COA) and Civil Service Commission (CSC). Signed in 2004, the SOLANA Covenant lists anticorruption initiatives to be undertaken either jointly or individually by the three institutions within five years after its signing. One of the joint initiatives is the monitoring of unliquidated cash advances by accountable officers (AOs), which may constitute a prima facie case of gross neglect of duty under existing Civil Service laws. As part of the collaborative effort, COA submitted to CSC and OMB reports of cash advances which remain outstanding/unliquidated beyond the prescribed period and other supporting documents to cases. As of 2005, formal investigations are ongoing against 13 AOs. To reinforce this initiative, the CSC issued Office Memorandum 56 s.2005 that prohibits the transfer of cash advance from one AO to another. Related to this, COA also issued the following policies: COA

Memo 2005-001, providing a monitoring basis for unliquidated cash advances; COA Memo 2005-072, on referral of COA complaints/cases and COA reports involving unliquidated cash advances; and COA Memo 2005-074, on the campaign for the unliquidated cash advances under the SOLANA Covenant.

Another initiative under the SOLANA Covenant is the Inter-Agency Liaison Network for corruption cases. The inter-agency collaboration under the SOLANA Covenant and the Inter-Agency Anti-Graft Coordinating Council (IAGCC) facilitated the investigation and prosecution of corrupt practices. The COA was able to evaluate 13,789 audit observation memorandums, which led to the issuance of 825 notices of disallowance/suspension and charges. Through the cash examination of AOs, COA discovered shortages amounting to PhP26.29 million. The COA was also able to file with OMB 57 malversation cases involving PhP 115.59 million. The COA also decided on 22 administrative cases against 33 respondents, out of which 24 were found guilty and nine were exonerated.

As provided in the SOLANA Covenant, the three participating agencies conducted "self-cleansing" by dismissing erring personnel within their organization. In CSC, 19 personnel were dismissed; in COA, 20; and in OMB, 3. Pertinent legislative measures were also pursued such as the protection and reward for whistleblowers and the waiver of bank secrecy for corruption-related investigation.

In view of the considerable progress made under the SOLANA Covenant, the CSC, COA and OMB renewed their commitment to these initiatives by signing SOLANA Covenant II on July 15, 2005. Under SOLANA

Covenant II, the three agencies commit to new and continuing efforts to detect and prevent corruption in the government. These include the promotion of gift registry policy as an antibribery mechanism, wherein government employees may be required to report the gifts they receive in a gift registry that will be made public. SOLANA Covenant II also includes improving the regulation of job orders and service contracts.

Comply with international standards in fighting corruption

The government recognizes that international cooperation is also essential in fighting corruption. One of the targets of the MTPDP, 2004-2010 is the immediate ratification of the United Nations Convention Against Corruption (UNCAC). The UNCAC provides countries with a comprehensive set of standards and rules to strengthen their legal and regulatory framework to fight corruption. It seeks to criminalize prevalent forms of corruption in both public and private sectors, ranging from bribery to concealment and laundering of corruption proceeds. It also harnesses international cooperation in the recovery of assets obtained through corruption. In 2005, the Senate Committee on Foreign Relations held a committee hearing and drafted a Committee Report on the ratification of UNCAC.

IMPLEMENT PREVENTIVE ANTICORRUPTION MEASURES

Strengthen the integrity infrastructure of public sector institutions

The creation of Internal Audit Units (IAUs) is one of the key interventions to strengthen integrity in the

public sector. It is one of the measures in the Integrity Development Action Plan (IDAP) of the Executive Branch. The PAGC created an IDAP Committee on the Institutionalization of IAUs to assist government agencies in complying with the laws and issuances regarding IAUs. The Committee is headed by the Office of the President (OP) and the Department of Budget and Management (DBM). In 2005, the Committee met with various government agencies and the Association of Government Internal Auditors (AGIA) to facilitate the creation and operation of IAUs in public sector institutions.

In line with this, the government and the WB signed a grant on June 2005 for the “Strengthening of IAUs for Effective Procurement Monitoring and Enforcement” amounting to US\$300,000. The grant seeks to develop the following internal audit tools: (a) quality assurance program for IAUs; (b) internal audit manual focusing on procurement review and monitoring; (c) national training program for internal auditors; and (d) procurement records management and monitoring system for national agencies. It also seeks to strengthen the role of the PAGC as performance monitor of IAUs. The grant covers nine government agencies (Office of the President, DBM, Department of Agriculture (DA), DPWH, DOH, DepEd, Department of Social Welfare and Development (DSWD), Department of National Defense (DND), Philippine National Police (PNP)), Office of the Ombudsman (OMB) and three local government units (Province of Bulacan, City of Marikina and Municipality of Cainta).

The other priority intervention is the implementation of Corruption Prevention Reform Program (CPRP). The CPRP has since been subsumed under

the preventive strategy of the IDAP. The IDAP prescribes 22 anticorruption measures for prevention, education, investigation and strategic partnership. By the end of 2005, 41 agencies have begun implementing the IDAP. The PAGC monitors the IDAP implementation through bi-monthly follow-up with IDAP focal persons; monthly progress reports by agencies; conduct of performance indicators workshop, IDAP enhancement seminar and IDAP briefings; and the creation of IDAP committees.

To further instill integrity in government agencies, the Integrity Development Review (IDR) is being used to identify areas vulnerable to corruption and formulate corresponding preventive measures. The target is to apply IDR in 30 agencies within the medium term, at five agencies per year. In 2005, the IDR was conducted in DepEd, CSC, OMB and DBM. It is currently being rolled out in BIR, BOC, Land Transportation Office (LTO), DPWH and PNP.

The establishment of ICT-enabled corruption complaints system is also being pursued to enable public participation in developing integrity in the government. In 2005, the PAGC updated its website (www.pagc.gov.ph) to allow the public to email their complaints. The public may also send their complaints to PAGC via phone call (9241311 local 1) or short message service or SMS (0920895709). The COA established a Fraud Alert link in its website (www.coa.gov.ph). The link enables the public to report allegations of fraud or fund mismanagement. A fraud alert feedback is provided to the complainants to monitor action taken thereon by COA. The OMB also seeks to broaden and strengthen people's participation in anticorruption efforts through the *Dulugan Bayan* Project. It has identified Regions IV, VI, and X as locations of satellite offices for the project.

Fully implement the Government Procurement Reform Act

Republic Act (RA) 9184, or the Government Procurement Reform Act aims to modernize, standardize and regulate procurement activities in the government. One of its features is the Government Electronic Procurement System (G-EPS), which shall serve as the primary source of information on all government procurement. The Plan aims to have the G-EPS operational for the purchase of common supplies beginning 2005 and to train suppliers on its use. From 2001 to 2005, 161,302 notices and 20,949 awards have been posted in the G-EPS. However, the full development and implementation of the G-EPS was delayed. The first phase, i.e., the Electronic Bulletin Board, Supplier Registry, and Electronic Catalogue, was delayed from May 2005 to May 2006. This was due to the failure of the system to pass the System Walkthrough/User Acceptance Testing. Consequently, the target launching date of the remaining phases, i.e., Electronic Payment, Virtual Store, and Electronic Bid Submission were also delayed.

The DBM, nevertheless, continues to train suppliers on the use of G-EPS. As of December 2005, 5,162 suppliers have been trained. And 14,597 suppliers have been registered with the system beginning 2001. Regarding government agencies, 4,534 have been trained while 3,943 have registered from 2001 to 2005.

A related target is the development of a Procurement Planning, Monitoring and Evaluation System (PMES) by 2005. The PMES aims to monitor and assess the compliance of government agencies with the G-EPS and the rules and procedures of the Government Procurement Policy Board (GPPB). It also aims to assess the efficiency and effectiveness of trainings

conducted on RA 9184 and its Implementing Rules and Regulations Part A (IRR-A). The PMES is currently being developed, and is expected to be functional within 2006. Related to this, 42 participants from 15 government agencies were trained on detecting fraud and corruption by the World Bank. The training included investigative techniques on examination of fraud schemes and red flags in procurement projects.

To further strengthen the implementation of the Government Procurement Reform Act, civil society organizations (CSOs) were targeted to be trained on procurement monitoring by 2005. The DBM is currently carrying out a study on institutionalizing support mechanisms for Bids and Awards Committee (BAC) observers/CSOs. This includes the establishment of information exchange and help desk; deployment system for BAC observers (in partnership with TAN); and self-evaluation training for BAC observers.

To supplement and enhance the understanding of Government Procurement Reform Act, the GPPB issued the second edition of the Philippine Bidding Documents (PBDs) on May 26, 2005. Trainings and seminars on the use of the PBDs were conducted by the GPPB-Technical Support Office (TSO) and accredited State Universities and Colleges. As of December 2005, 88 percent of LGUs and 20 percent of national government agencies/government-owned and controlled corporations /government financial institutions were trained on the use of the second edition PBD. On the other hand, the Customized Agency Procurement Manuals were pilot-tested with the participating agencies while the Generic Procurement Manual is being reviewed by GPB. Both manuals are expected to be released by the 2nd quarter of 2006.

In support of RA 9184, the Plan aims to develop and implement guidelines for value engineering for major infrastructure projects costing PHP50 million and above. Towards this end, the DBM conducted orientation and trainings on value engineering. As of 2005, three batches of government officials from various agencies participated in the module I workshop on value engineering. A Trainor's Training on value engineering was also conducted. These trainors are responsible for rolling-out the principles of value engineering in their respective regions. A related target is to fully implement the contractor's performance evaluation system (CPES). The Construction Industry Authority of the Philippines (CIAP) has released its CPES Report for ongoing and completed projects from April 2003 to December 2005. This report may be downloaded from the GPPB website (www.gppb.gov.ph).

Implement the New Government Accounting System (NGAS) to strengthen public financial accountability

The NGAS aims to simplify government accounting; conform to international accounting standards; and generate periodic and relevant reports for better monitoring of performance. Related to this, the e-NGAS software was developed for installation in all national, local and corporate government agencies. The e-NGAS aims to enhance uniformity in the application of government accounting rules and facilitate the consolidation of financial reports. The target and actual number of agencies installed with e-NGAS in 2005 are shown in Table 20.1.

**TABLE 20.1 INSTALLATION OF E-NGAS
IN 2005**

Agencies	Target	Actual
National	296	26
LGUs	338	23
Corporate	27	5

The wide gap in the installation of e-NGAS is largely due to the low level of agency hardware compliance and readiness. Some agencies also encountered difficulty in purchasing licensed software. These have prompted COA to consider the migration of the system to an open source system to limit cost and dedicate expenses for required hardware. Another priority measure on e-NGAS implementation is to intensify e-NGAS training for COA personnel. The target for 2005 is to train 150 personnel as roll-out teams. The actual number of personnel trained is 982, and 370 of which were deployed as part of the e-NGAS roll-out teams. The e-NGAS software is continuously being enhanced. Version 1.2.0 of the e-NGAS software was installed in roll-out agencies. Version 1.0.10 of the Budget System was installed in national agencies, while version 1.0.2 was installed in LGUs. The Cash Receipts and Payroll System was pilot tested at COA Central Office. The rest of the application software is being developed.

Improve frontline services to simplify and speed up agency processes

One of the priority measures to improve frontline services of government agencies is to institutionalize performance excellence in the public service. The DBM, together with the Development Academy of the Philippines (DAP), is

implementing the project “Institutionalizing Public Service Performance Excellence through the Establishment of International Organization for Standardization (ISO) 9000-Aligned Quality Management System (QMS)”. The project aims to make government agencies more responsive, competitive, effective and innovative.

The pilot agencies for the project are: the licensing service of LTO; Organization and Productivity Improvement Bureau (OPIB) of the DBM; Civil Aeronautics Board (CAB) of the Department of Transportation and Communication (DOTC); Intellectual Property Office (IPO) of the Department of Trade and Industry (DTI); and the Philippine Council for Industry and Energy Research and Development (PCIERD) of the Department of Science and Technology (DOST). The CAB and IPO are currently finalizing their QMS manual. The PCIERD, on the other hand, has completed the manual and passed the third party audit conducted by the TUV Rheinland Philippines, Inc, an independent ISO audit and certifying body.

PROMOTE ZERO TOLERANCE FOR CORRUPTION

Conduct Ethics Compliance, Awareness Raising and Values Formation Seminars in public institutions

In the Career Executive Service, 215 Career Executive Officers (CEOs) and other third level eligibles participated in the Executive Leadership Program. This program has modules on public service ethics and accountability. The Career Executive Service Board (CESB), in partnership with the Philippine Government Employees Association

(PGEA), also conducted a separate seminar on public service ethics and accountability. Thirty participants from both government employees unions and management based in the National Capital Region (NCR) attended the seminar. The CSC, on the other hand, conducted values orientation workshops attended by 2,640 employees in 2005.

On August 24, 2005, the participation in and conduct of trainings, seminars and workshops on values formation was exempted from Section 1.a (5) of Administrative Order 103.¹ Hence, government agencies and personnel may now participate in or conduct values formation trainings and seminars.

Implement the Code of Conduct for Government Executives

The CESB amended the policy on the conferment of CES eligibility to applicants with pending administrative/criminal cases, with particular attention to graft and corruption. Under CESB Circular No. 1 s. 2005, if the applicant has a pending administrative case involving grave offenses of graft and corruption and/or sexual harassment, the CESB shall manifest to the quasi-judicial body or the agency where the complaint is lodged, the speedy disposition of the case possibly within six months from receipt of the written manifestation. If the case is resolved within six months, the applicant shall not be conferred CES eligibility if the penalty is dismissal from service. In case of penalty other than dismissal, the CES eligibility shall not be conferred until the applicant has served the penalty. In case the said period lapses without the case

being resolved, CESB shall confer the CES eligibility, while reserving the right to cancel it should the final judgment require dismissal from service. CESB Circular No. 1 s. 2005 also provides that an applicant with pending criminal case involving graft and corruption and/or sexual harassment, or other grave criminal offense, shall not be conferred CES eligibility.

The CESB continues to develop the new Career Executive Service Performance Evaluation System (CESPES). The system was pretested at the central offices of DTI and DOF, and at the regional offices of DTI and DepEd.

Expand multisector alliance to promote zero-tolerance

As mentioned earlier, the PAGC forged partnerships with various government and nongovernment organizations (NGOs) as part of its strategic partnership strategy to fight corruption. It has also cooperated with various TV and radio programs to advocate for zero-tolerance for corruption.

The OMB, on the other hand, continues its strategic partnership with NGOs such as the Philippine Province of the Society of Jesus (PPSJ); Coalition Against Corruption (CAC); Barug! Philipino; Procurement Watch Inc.; Concerned Citizens of Abra for Good Government (CCAGG); and People's Graftwatch of Iloilo. In partnership with DepEd and NGOs, the OMB also embarked on an anticorruption education program among the youth as well as corruption prevention projects nationwide.

¹ AO 103 orders all national government agencies to adopt austerity measures, including the suspension of the conduct of trainings, seminars and workshops, except if funded by grants or if the cost may be recovered through exaction of fees.

Chapter 21

Bureaucratic Reforms

To develop a more accountable bureaucracy, the following priority strategies were pursued in 2005: (a) to rationalize and improve public service delivery; (b) to pass the Reengineering Bill; (c) to improve governance of GOCCs and other corporate entities; (d) to improve the level of professionalism, meritocracy, accountability and competence in the civil service; and (e) to harness the full potential of information and communications technology (ICT) for faster and efficient delivery of government services at the national and local levels.

However, many of the 2005 targets of these strategies have not yet been achieved. Some of the reforms are still at the preparatory or development stage, while the others encountered some difficulties during implementation. Nevertheless, these priority reforms and targets need to be fasttracked in 2006 to have considerable impact on public service delivery and the bureaucracy within the medium term.

**TABLE 21.1 STATUS OF RATIONALIZATION PLAN SUBMISSION
(As of December 2005)**

	No. of organizations	No. of organizations that submitted their Rationalization Plans to DBM
Departments and other Executive Agencies	48	16
GOCCs	76	9
Total	124	25
Source: DBM		

RATIONALIZING AND IMPROVING PUBLIC SERVICE DELIVERY

Implement Executive Order (EO) 366

EO 366 calls for a strategic review of the operations and organizations of the Executive Branch. The Medium-Term Philippine Development Plan (MTPDP) 2004-2010 targets that, by 2005, the strategic review should have been conducted alongside the implementation of impact mitigation measures for affected personnel, and the development of capability-building programs for retained personnel.

The Executive Branch began the strategic review in 2005. By the end of the year, only 33 percent of the target national government agencies (NGAs)/ executive agencies and 12 percent of the target GOCCs have completed the internal strategic review and submitted their Rationalization Plans to the Department of Budget and Management (DBM)(Table 21.1). Two of these Rationalization Plans were approved by DBM in 2005. Some of the factors that

may have affected the rate of completion/submission of the strategic review were: (a) the seven-month gap between the issuance of EO 366 and its Implementing Rules and Regulations (IRR)¹; (b) the weak observance and implementation of the timeframe set in the IRR; (c) the changes in the organizations' leadership; and (d) the change management issues that confronted the organizations.

Impact-mitigating measures were put in place for personnel who may be affected by EO 366. An interagency Skills/Livelihood and Investment Program (SLIP) Team was organized to assist affected personnel in maximizing the benefits they would receive, should they opt to retire or be separated from the government service. The Team is composed of three groups: Business Opportunities, Job Facilitation and Investment Services. The Business Opportunities Group provided trainings and financial assistance to affected personnel who intend to start a business. The Job Facilitation Group assisted affected personnel seeking employment opportunities in the private sector. The Investment Services Group provided information and guidance regarding investment/financial products and trust services. The DBM prepared and distributed brochures to raise the awareness of government agencies and personnel regarding the assistance they may avail through this program.

In anticipation of the demand for placement assistance by affected personnel who opt to remain in government service, the DBM, in coordination with various public sector unions, has identified agencies that would likely require new personnel upon rationalization. These agencies were requested to identify the positions they would likely require, to

facilitate the placement of affected personnel.

The capability-building program for retained personnel consisted of the regular trainings conducted by the Civil Service Commission (CSC) for government employees. In 2005, the CSC conducted Orientation Courses, Values Development Program, Middle Management Program, Supervisory Development Program and Executive Training Program, among others.

Implement the Organizational Performance Indicators Framework (OPIF)

To rationalize and improve public service delivery, the MTPDP targets to implement an OPIF-based budget in all departments/agencies by 2005. It also aims to implement by 2005 a personnel management system (PMS) that is linked to the OPIF. However, both the OPIF-based budget and PMS are still at the development stage and have not been fully implemented.

The DBM has been finalizing the OPIF-based budgets of 13 pilot Departments and three attached agencies.² It has also begun developing the OPIF-based budgets of the other attached agencies of the 13 pilot Departments, along with the remaining seven departments (i.e., DepEd, DND, DOF, DOST, DOTC, DTI & NEDA) in time for the 2007 budget call.

The OPIF-based PMS was pilot-tested among the Divisions Chiefs and Field Directors of the CSC in 2005. Based on the results of the pilot test, the CSC is simplifying the PMS processes and forms before its implementation in selected agencies. In view of the linkage of the

¹ EO 366 was issued on October 4, 2004, while the IRR was issued on May 11, 2005.

² The 13 pilot Departments and three attached agencies are the Departments of Labor and Employment (DOLE), Justice (DOJ), Environment and Natural Resources (DENR), Interior and Local Government (DILG), Public Works and Highways (DPWH), Health (DOH), Foreign Affairs (DFA), Tourism (DOT), Agrarian Reform (DAR), Agriculture (DA), Energy (DOE), Budget and Management (DBM), Social Welfare and Development (DSWD), Technical Education and Skills Development Authority (TESDA), Philippine National Police (PNP), and the National Police Commission (NAPOLCOM).

PMS to the OPIF, the implementation of the PMS would largely depend on the implementation of the OPIF in the departments and agencies.

Rationalize the pay of government workers

The target set in the MTPDP is to rationalize the compensation for government workers by 2005. While efforts were undertaken in the said year towards this direction, further work is still required to achieve the target. The CSC, in partnership with the DBM, is implementing the Position Classification and Compensation System (PCCS) Reforms. This initiative aims to develop reforms in the PCCS to achieve effective governance.

The first component of the PCCS reforms is the Compensation and Total Rewards Management Project by the CSC. The project aims to develop an updated compensation structure for civil servants. It is composed of five activities: (a) review of the current system; (b) development of a compensation and benefits philosophy; (c) job analysis, evaluation and pricing; (d) review of the salary administration systems; and (e) preparation of communication strategy. The CSC has completed the first three activities. It has completed a compensation study that identifies the internal distortions/inequities and external inequities of the existing government salary structure. It recommends a compensation and benefits philosophy founded on internal and external equity; performance-based policies and incentives programs; and effective and efficient pay systems. It also proposes a salary structure that is competitive to that of medium-sized private firms.

The CSC expects to complete the two remaining project activities in 2006. Once the CSC findings are completed and submitted to the DBM, the latter will commence with the second component, i.e., the PCCS Study Project. The project aims to develop a revised PCCS and a bill proposing the revised system.

Aside from the compensation system, the government also expects to rationalize the retirement benefits of government workers within 2005 and 2006. Although the DBM has initiated actions to achieve this target, it expects to complete it in 2007. In 2002, the DBM began the project "Rationalization of the Retirement Benefits of Government Workers". Its first phase involves the study of existing retirement schemes and determination of the implementation cost of these schemes. Its second phase involves the design of a unified, equitable and fiscally sustainable retirement scheme, including the costing and funding scheme; preparation of a draft rationalized retirement bill; and advocating for the passage of said bill. So far, the project has completed only one sub-activity of the first phase, i.e., the review of the legal and regulatory framework of existing retirement and pension laws. The DBM aims to complete the remaining project components in 2007.

PASSING THE REENGINEERING BILL

The House Committee on Government Reorganization has come up with a consolidated Reengineering Bill which proposes the creation of a Commission on Government Reengineering that will formulate the reengineering plans for specific agencies or sectors, subject to the review and approval of the President. The Bill

provides for appropriate incentives and skills and livelihood assistance for personnel who may be affected by this effort.

IMPROVING THE GOVERNANCE OF GOCCS/OTHER GOVERNMENT CORPORATE ENTITIES (OGCEs)

For 2005, the targets under this strategy are the issuance of an EO to strengthen the oversight of Departments over government-owned-and-controlled corporations (GOCCs), and the rationalization of the compensation system of GOCCs and government financial institutions (GFIs). These targets were not achieved.

The EO drafted by DBM and the Department of Finance (DOF) has not yet been issued. The draft EO aims to strengthen the supervision of the Office of the President (OP) and concerned Departments over GOCCs/other government corporate entities (OGCEs). It also directs Presidential appointees to the boards of GOCCs/OGCEs to sign a covenant adopting the ethical standards prescribed under RA 6713.³ The DBM is updating the list of GOCCs/OGCEs for resubmission to the OP.

The rationalization of the GOCC/GFI compensation system is being considered in the ongoing PCCS Reforms being undertaken by the CSC and DBM. This concern was also incorporated in the Fiscal Responsibility Bill. (*See Chapter 7, Fiscal Strength*)

IMPROVING THE LEVEL OF PROFESSIONALISM, MERITOCRACY, ACCOUNTABILITY AND COMPETENCE IN THE CIVIL SERVICE

Develop market-driven and performance-based compensation and incentive framework

In 2005, the government accomplished its target of reviewing and identifying the weaknesses in the current PCCS, but it still has to develop a competitive compensation package/scheme based on the study's findings.

As mentioned earlier, the compensation study conducted by the CSC identified internal distortions/inequities and external inequities in the current salary structure of the government. First, the progress across the salary step increments within each salary grade is based on longevity (i.e., one step every three years of service) rather than performance. Second, the salary step increments sometimes result in overlaps between salary grades. Hence, subordinates with long years of service may have higher salary than their supervisor. Third, various GOCCs are exempted from the supposedly standardized compensation of government officials and employees. Fourth, there are wide salary gaps between rungs of one job although the difference in responsibility is not clearly defined. Fifth, jobs of the same nature are graded differently across agencies. Sixth, the salary structure seems to discriminate against frontline jobs. Lastly, increase across salary grades is highest at the administrative level and lowest at the executive level. Based on these findings,

³ Republic Act (RA) 6713 is the Code of Conduct and Ethical Standards for Public Officials and Employees.

the CSC and DBM are developing an equitable and competitive PCCS.

Improve merit-based recruitment, performance evaluation and promotion

The Ethics-Based Assessment Test aims to incorporate value orientation in the minimum qualification standards of the civil service. The test was developed and pilot-tested among CSC employees in 2005. The CSC plans to finalize and integrate it in the CSC examination system in 2006. The Human Resource Information System Strategic Plan (HRISSP) was also started as planned. The HRISSP aims to develop the Human Resource (HR) Database and Human Resource Management Information System (HRMIS) in 2006. In 2005, the CSC began to develop the Human Resource (HR) Database of all government employees to further encourage merit-based recruitment, performance evaluation and promotion.

Strengthen the civil service legal framework

The government continued to pursue the passage of the Civil Service Code in 2005. The CSC spearheaded the filing of the Civil Service Code (Senate Bills 1045 and 1142 and House Bills 0081 and 0798), pursued the passage of “An Act Declaring as Unlawful any Form of Cheating in CS Examination” (Senate Bill 1888 and House Bill 4435), and the Career Executive System Act of 2005 (Senate Bill 1889 and House Bill 3687). These bills are pending with the Committee on Civil Service of both Houses of Congress.

Strengthen the civil service policy oversight and implementation

To build the capability of the human resource management officers (HRMOs) in various areas of personnel management, training modules for the Competency-Based Training 1 (CBT1) were developed and pilot-tested in 2005. The CSC plans to implement it in 2006.

Push for reforms that aim to strengthen the career executive service

The target of the MTPDP is to have the bill on establishing the career executive system passed by 2005. As mentioned earlier, the bills regarding this are still pending with the Committee on Civil Service of both Houses of Congress.

In the meantime, the CSC and CESB forged an agreement to implement the Unified Third Level Examination System. The system aims to attain efficiency and uniformity in the conduct of third level examination and grant of eligibility. This system merges the Career Service Executive Examination (CSEE) of CSC and the Career Executive Service Examination of the CESB into the Career Executive Officer (CEO) Examination.

The CESB also launched the Third Level Champions (TLC) program. The program aims to actively involve Career Executive Service Officers (CESOs) and third level eligibles in meeting the CESB’s mandate to promulgate rules, standards and procedures in the selection, classification, compensation and career development in the career executive service.

HARNESSING THE FULL POTENTIAL OF ICT FOR FASTER AND EFFICIENT DELIVERY OF GOVERNMENT SERVICES

Strengthen/streamline/restructure ICT-related activities

To ensure the effective coordination and implementation of the national ICT agenda, the MTPDP aims to establish a Department of Information and Communications Technology (DICT) and strengthen the institutional capacity of the National Telecommunication Commission (NTC). In 2005, House Bills 5282 and 4942 were taken up at the House of Representatives. House Bill 5282 seeks the creation of DICT to promote, develop and oversee the government's integrated ICT system. It provides for an e-Government Fund for priority ICT projects of the government and the transfer of the National Computer Center (NCC) from the Commission on Information and Communications Technology (CICT) to the DICT. Meanwhile, HB 4942 seeks to reorganize the NTC (*See Chapter 6, Infrastructure*).

Enact supportive laws and policies

The MTPDP targets to institutionalize e-Government Fund by 2005 to fund the priority ICT projects of the government. It is planned to be institutionalized either as part of the DICT Law or as a line item in the General Appropriation Act (GAA). In the 2005 budget, the e-Government Fund was established as a line item. It was categorized as a Special Purpose Fund with an appropriation of PhP1 billion.

The same item and amount was incorporated in the proposed 2006 budget.

Enhance access to government information and services through e-Government frontline services

During the 13th meeting of the Information Technology and Electronic Commerce Council (ITECC), President Gloria Macapagal-Arroyo directed all government agencies to comply with at least Stage 1 of the United Nation's five stages of e-government development by June 2002. Stage 1, emerging web presence, refers to formal but limited web presence through independent government websites that serve as public information sources. Stage 2 refers to an enhanced web presence which enables users to access specialized and regularly updated information through an increasing number of websites. Stage 3, interactive web presence, is characterized by an increase in the number of websites providing access to a broad range of government institutions and their respective services. Stage 4, transactional web presence, enables the users to conduct complete and secure transactions online. Stage 5, fully integrated web presence, provides all services and links through a one-stop-shop portal.⁴

⁴ Source: United Nations Online Network in Public Administration and Finance (<http://www.unpan.org/e-government/stages.htm>)

From April 2002 to fourth quarter of 2005, the NCC conducted a survey on the web presence of 375 NGAs, GOCCs and Constitutional Commissions. Table 21.2 shows the results of the survey.

The GOCCs that have reached Stage 4 or transactional web presence are listed in Table 21.3.

ICT-enable LGUs to the barangay level

The DILG implemented the Local Government Unit Information Portal (LGUIP) that will serve as a gateway and one-stop shop of information and

TABLE 21.2 STATE OF WEB PRESENCE OF NGAS
(As of Fourth Quarter 2005)

Stage of e-Government	No. of NGAs/ GOCCs/ Commissions
Stage 1 (Emerging Web Presence)	68
Stage 2 (Enhanced Web Presence)	132
Stage 3 (Interactive Web Presence)	142
Stage 4 (Transactional Web Presence)	8
Stage 5 (Integrated Web Presence)	0
Without web presence	25
Total	375

Source: National Computer Center (<http://www.ncc.gov.ph/files/wp4thqtr.pdf>)

TABLE 21.3 NGAS/GOCC IN STAGE 4 OF E-GOVERNMENT
(As of June 2005)

NGA/GOCC URL Address	Online Payment System/Online Services
1. Bureau of Internal Revenue www.bir.gov.ph	<ul style="list-style-type: none"> ▪ e-FPS (e-Filing and Payment System) ▪ e-TIN (Electronic TIN Application) ▪ e-Sales (Electronic Sales Reporting System) ▪ e-Accreg (Electronic Accreditation and Registration of Business Machines Generating Cash Receipts/Invoices) ▪ eBroad (Electronic Broadcasting System)
2. Securities and Exchange Commission (SEC) www.sec.gov.ph	<ul style="list-style-type: none"> ▪ SEC-iRegister ▪ Search Reserved/Registered Companies ▪ Online Calculator
3. Philippine Health Insurance Corporation (PHIC) www.philhealth.gov.ph	<ul style="list-style-type: none"> ▪ e-payment
4. National Statistics Office (NSO) www.e-census.com.ph	<ul style="list-style-type: none"> ▪ e-Census
5. Development Bank of the Philippines (DBP) www.devbankphil.com.ph www.gophilippines.ph www.buyphilippines.ph	<ul style="list-style-type: none"> ▪ DBP Electronic Payment System ▪ Go Philippines (RORO Reservation and Ticketing System) ▪ Buy Philippines
6. Home Development Mutual Fund (HDMF) www.pagibigfund.gov.ph	<ul style="list-style-type: none"> ▪ Pag-IBIG Overseas Program (POP)
7. Land Bank of the Philippines www.landbank.com	<ul style="list-style-type: none"> ▪ Electronic Tax Payment System (ETPS)
8. Philippine Amusement and Gaming Corporation (PAGCOR) www.casinofilipino-online.com	<ul style="list-style-type: none"> ▪ Basketball Jackpot ▪ Online Soccer

Source: National Computer Center (<http://www.ncc.gov.ph/files/stage-1june2005.pdf>)

e-services of the DILG and the LGUs. The portal development has six components: (a) development of LGUIP and its components; (b) development of server-based computing system; (c) acquisition of personal computers for DILG central and field offices; (d) establishment of the DILG Operation Center; (e) enhancement of the roll-out of the Local Governance Performance Management System (LGPMS); and (f) ICT capability-building program for DILG officials and personnel. In 2005, the DILG accomplished the first three components. It will implement the remaining three components in 2006.

Chapter 22

Defense Against Threats To National Security

The Department of National Defense (DND) is mandated to protect the people and the state, assist in socioeconomic development including assistance during and mitigation of disasters and calamities and similar emergencies, and provide for the welfare of the veterans. Its mission is “to provide and maintain the conditions of security, stability and peace and order conducive to economic growth and national development”. The DND is committed to pursue the following four-point agenda:

- 1) implementation of the Philippine Defense Reform (PDR) Program;
- 2) upgrading the capability of AFP over a six-year period;
- 3) supporting the peace process efforts; and
- 4) enhancing the ability to fight terrorism.

The four-point agenda is being implemented through the following programs or mission areas: (a) Internal Security; (b) Territorial Defense; (c) Disaster Response; (d) Support to Nation Building; (e) International Defense and Security Engagements; (f) International Humanitarian Assistance and Peace-keeping Operations; and (g) Force-Level Central C2, Training and Support.

Implementing the PDR program

Institutional and Strategic Improvement.

The PDR provides the framework for introducing a comprehensive, institutional, structural and systemic reform package at the strategic level for the defense and military. The ten key areas of reform consist of the following interrelated programs:

- 1) Multiyear defense planning system;
- 2) Improvement of operational and

training capacity;

- 3) Improvement of logistics capacity;
- 4) Staff development program;
- 5) Improvement of personnel management system;
- 6) Multiyear capability upgrade program to push for AFP Modernization;
- 7) Optimization of defense budget and improvement of management controls;
- 8) Centrally-managed defense acquisition system manned by a professional acquisition workforce;
- 9) Improvement of civil-military operations capability; and
- 10) Information management development program.

In order to institutionalize further the abovementioned reforms, two top-level RP-US Executive Steering Committee meetings were held in April and

August 2005. Likewise, the DND is currently implementing DND Directive No. 1-2003 on Strategic Defense Planning and Execution System (SDPES) and DND Directive No. 1-2004 on Multiyear Capability Program System (MYCaPS). All planning, programming and budgeting (PPB) activities have also been integrated into calendar-driven process through the Defense Resource Management System (DRMS), Defense Acquisition System (DAS), and the establishment of the Resource Management Office (RMO).

To enhance check and balance, the Office of the Deputy Chief of Staff for Comptrollership, OJ6 was deactivated and its functions were distributed into independent offices. Defense Resources Management Offices were established for the following programs: (a) Program 1 on Land Forces; (b) Program 2 on Air Forces; (c) Program 3 on Maritime Forces; (d) Program 4 on Central C2, Training & Support; and (e) Program 5 on DND-Level Central Administration & Support. Senior DND-AFP executives designated for each program are directly accountable to the SND to achieve the desired capabilities and responsibilities for the medium-term capability plans. The Office of the Deputy Chief of Staff for Material Development, OJ9 was likewise collapsed and transformed into the AFP Modernization Planning Office (AFPMPO) to improve efficiency and allow the AFP to focus on core competencies. The self-reliant defense posture (SRDP) function of OJ9 was transferred to the Office of the Deputy Chief of Staff for Logistics, OJ4.

The DND has taken serious efforts to eventually establish a Defense Procurement Agency. The Defense Acquisition Committee (DAC) was created to review and evaluate the following: (a) the AFP Table of Organization &

Equipment (TOE); (b) the AFP Capability Upgrade Program for CY 2006-2011, including the Battalion Upgrade Program; (c) the 18-Year CUP (2006-2023); and (d) the Circular of Requirements (COR) of defense and military equipment with cost value of PhP50 million.

For the 1st Cycle of the MYCaPS, the Department conducted “Lessons Learned” Exercises that aim to enhance the performance of the RMO of Programs 1-5, review the experience gained in the 2006-2011 PPB cycle, improve techniques and practices, identify changes to the DND Directive No. 01-04, set the national calendar for the 2007-2012 PPB and examine measurements used to express capability targets. To date, a Multiyear Capability Planning & Execution System (MYCaPeS) is now in place.

In 2005, the 1st pilot Cycle of DAS and Financial Management System (FMS) were implemented. The 2nd DRMS seminar was conducted to provide the DND personnel with MYCaPeS-related concept management geared toward improving the understanding of the roles, responsibilities and interdependence of the process, participants and products used in typical modern PPB system. Relatedly, the 1st half of the pilot cycle of the Long-Term Capability System (LTCaPS) was also implemented.

To further enhance the development of the MYCaPeS and to synchronize the programs and projects of the civilian bureaus with the DND thrusts and programs, the Defense Planning Guidance for 2007-2011 was drafted.

Similar to the AFP, the DND civilian bureaus now align the delivery of their respective missions and functions to address the department’s mission areas.

Several initiatives were undertaken by the DND Proper and the civilian bureaus to transform their budget structures from function-based to capability or mission area-based. At the DND Proper, the Office of the Assistant Secretary for Finance was reorganized with three divisions: (a) Resource Management Division (RMD) which is in charge of the Program 5 budget integration; (b) Budget Development & Analysis Division for DND-Wide budget integration; and (c) Fiscal Management Division (FMD) for budget execution. The Budget Estimate Submission Guidance (BESG), which is based on the National Budget Call (NBC), was also developed. The DND now uses the BESG to translate the NBC into clear terms to guide the bureaus in aligning their respective budget proposals with that of the NBC.

Institutionalizing Improvements through a new National Defense Act.

Considering current realities, the Department continues to pursue the drafting of the new National Defense Act to replace the 1935 Commonwealth Act No. 1 as it implements the series of reform package under the PDR.

Promoting the Welfare and Benefits of Soldiers.

The DND-AFP exerted efforts to implement the recommendations of the Feliciano and Davide Commissions to ensure the grant of better benefits and services to the soldiers.

Initiatives are being undertaken to implement offbase and onbase housing program for the soldiers. During the period, around 8.1 percent of the total AFP strength benefited from the onbase housing program, budget of which included the

Php1.5 billion fund from the Office of the President. For offbase housing, 220 out of the targeted 1,700 units at Fort Bonifacio Heights area were completed. About 79 of these units have been awarded. A total of 252 out of the targeted 999 units were completed at the Riego de Dios area in Tanza, Cavite. Out of the 519 qualified applicants, only 69 have completed the paper requirements and were awarded the units. Housing assistance was extended to 492 of the 1,293 beneficiaries under the killed-in-action (KIA)/total personnel permanently disabled (TPPD) category. The remaining 801 are still awaiting a Php133.4-million fund. Further studies are also currently being conducted regarding the distribution of the remaining areas for offbase housing projects in Cavite, Zambales, Zamboanga, Laguna, Fort Magsaysay, Capiz, Ormoc City and in Gau, Isabela. There is also an ongoing study on the development of offbase housing near the air and naval bases for the PAF and PN personnel.

Medical services and assistance to AFP personnel and veterans were likewise improved. Coordination with the Philippine Health Insurance Commission for grant of special privileges for AFP members has been initiated. In 2005, the VMMC rendered hospitalization, medical care and treatment to 128,817 inpatients; 178,112 outpatients (visits), 83,677 outpatients (treatment), and 6,801 inpatients (contract hospitalization). The FILVETS donated 184 intraocular lenses to indigent veteran patients. These were distributed by the VMMC Social Services. About 612 diabetic patients and their dependents were also provided dietetic information and instructions at the VMMC.

The AFP has further looked into the grant of scholarships and tuition fee

discounts to soldiers and their dependents. It has started to study the grant of educational benefits through the AFP Provident Trust Fund.

The AFP retirement fund and funding pension are likewise being addressed. There were also two bills already submitted to Congress in 2005. One refers to an act granting assistance and scholarship for higher education to deserving members of the AFP and PNP and their dependents, while the other is an act on the establishment of a uniform retirement system for the AFP.

On the other hand, the PVAO reported the approval of the following: (a) 8,561 out of 15,707 claims for old age pension; (b) 1,967 out of the 1,977 claims for death pension; (c) 1,485 claims for disability pension; (d) 6,309 out of 8,064 claims for burial benefits; (e) 6,747 claims of student wards for educational benefits; (f) 846 veterans patients for hospitalization; and (g) 12 claims for veterans preference. In 2005, PVAO paid PhP13.3 billion for the settlement of veterans' claims for pension, educational benefits, expanded hospitalization and burial assistance of veterans, their heirs, wives and dependents under RA 6948 as amended by RA 7696.

PVAO continuously validates the list of beneficiaries and introduces changes and measures to pursue reforms that are focused on IT intervention that would improve systems and processes, strengthen operations and services, review policies on benefits and enhance personnel and organizational development. These reforms are accompanied by process simplification and the shifting of 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.

Moreover, the Military Shrines Services (MSS) generated PhP1,730,085 from entrance collections and rental fees in various military shrines during the year. In line with the environmental efforts and programs of the government, MSS maintained the 22,000 reforestation trees at the Capas National Shrines, including the 300 seedlings planted in other military shrines.

At the DND Proper, deliberate efforts are being undertaken to develop the core competencies of its personnel by simultaneously instituting specific structural changes to conform to the requirements of the PDR Program. In this connection, a strategic communication (STRACOM) concept and process have been introduced to support the program requirements. The DND STRACOM organization is expected to be in place in the near future.

Upgrading the capability of the AFP

Another policy thrust of the defense establishment is the attainment and maintenance of mission-capable armed forces through the AFP Capability Upgrade Program (CUP). This is being carried out through a Multiyear Capability Upgrade Program that will improve the land, air and maritime force capabilities, as well as the joint command and control capability of the AFP.

The AFP CUP replaces the AFP Modernization Program (AFPMP) Rolling Plan. The CUP serves as the equipment procurement plan of the AFP for the next six years, with the projects listed according to priority in accordance with the capability enhancement aim of the AFP. The focus of the 2005-2010 CUP is the provision of basic tactical

requirements by at least 68 percent. The main priorities involve the acquisition of systems and platforms designed to establish capabilities for Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), mobility and firepower. The CUP is presently undergoing revisions in line with the policies enunciated by the Secretary of National Defense (SND) in October 2005. As directed by the SND, the focus of the new CUP will shift to the retrofitting (retraining and reequipping) of a marine battalion and 12 infantry battalions annually for the next six years.

During the period, the AFP implemented the train-the-trainer program for the four Light Infantry Battalions, the Combat Life Savers Training, NCO Advancement Training and the Light Reaction Company Training. The AFP also conducted the assessment of the SOUTHCOM organization to include the development of its proposed organizational structure and criteria for personnel assignment. The Program of Instructions (POIs) for personnel of the Joint Command Headquarters and battalion level and higher unit staffs in SOUTHCOM was likewise undertaken in coordination with the Major Services Doctrine Centers, the AFP Command and General Staff College (AFPCGSC) and the NDCP.

The PA implemented the retraining of battalions through the integration of personnel fill-up and equipment refurbishment. The Table of Organization and Equipages (TOEs) of the Infantry and Marine Battalions was also formed. Furthermore, the AFP inventoried and assessed training facilities, realigned the International Military Education and Training Program (IMETP) courses to

support development of training programs, and reviewed bilateral exercises to determine support to the battalion training. The template and list of Mission Essential Equipment of Infantry and Marine Battalions based on the TOEs were also reviewed for acquisition. The study of the separation of the AFP Doctrine Development Center (AFPDDC) from the AFP Command and General Staff College (AFPCGSC) and the subsequent upgrade of the Center into an AFP Wide Service Support Unit (AFPWSSU) was also pursued.

The Health Services Support (HSS) Infrastructure Reform Coordination Team and the Senior Medical Officers' Quorum were established as part of the Health Services Support Project. In addition, the coordination and monitoring of actions to field the Forward Surgical Team in early 2006, revision of the POI on combat medicine, and Emergency Medical Technician (EMT) training in the US of six AFP medics who will become school cadres were instituted. In the pursuit of these undertakings, the educational career paths for officers and enlisted medical personnel are being worked out for incorporation into the career management of the AFP including the development of the appropriate echelons or structure of the AFP HSS.

With emphasis on the improvement of the intelligence, operations and training capacity of its various units and personnel, the AFP is able to sustain its capability to address the various mission areas of the DND.

On Internal Security

The AFP continues to address the problem of insurgency and terrorism in

accordance with the National Internal Security Plan (NISP). During the period, the AFP neutralized 1,868 CPP-NPA members, 122 MILF members and 174 ASG bandits. A total of 581 high-powered firearms were recovered during the various operations conducted by the AFP against these threat groups. Of these, 460 were from the CPP-NPA, 72 from the MILF and 49 from the ASG.

The AFP also programmed 619 target barangays for its Special Operations Team (SOT) Operations but only 561 of the target were funded. Of these, 234 were completed, 163 have not yet started and 164 are still ongoing. The AFPSOT Center monitored and supervised 20 SOT trainings of 35 officers and 548 enlisted personnel who compose the 64 SOT Squads distributed nationwide. The Center also continued with a study on the “Analysis and Assessment of SOT and *SALAAM* Operations” that started in January 2002.

Extra efforts to enhance its ISO were also done by the AFP. In November 2005, it spearheaded a Workshop on Hernandez Doctrine relative to the suspension of the Joint Agreement on Safety and Immunity Guarantees (JASIG). It also hosted the RP-US Scenario Development Conference/Workshop on the War on Terrorism (Land and Maritime) in lieu of the proposed Kapit-Bisig concept. In December 2005, the AFP conducted a workshop on the Formulation of the CY 2006 Thrusts and ISO Target Goals. The initiative aims to keep the current thrusts consistent with the current operational environment and generate realistic capability-based ISO target goals for 2006. The workshop also provided the venue for determining priority areas and success parameters in the WIN and HOLD areas, identifying and

resolving the gaps, as well as disconnecting and disseminating relevant issues and concerns in the conduct of the ISO. Specifically, the workshop was designed to create a common understanding of the ISO thrusts.

On Territorial Defense

The AFP drafted a Unilateral Defense Plan (UDP) dubbed OPLAN LAPU-LAPU which shall provide the strategic operational plan for the defense of the country against external attacks. However, it is currently undergoing further study because of the issue raised regarding the components of the National Maneuver Force (NMF). In connection with this, the AFP conducted a review workshop and site visit in August 2005 and validated the UDP through a war game.

In particular, the AFP continues to monitor the Kalayaan Islands Group (KIG) and the external borders of the country against intrusions. During the period, 34 aerial reconnaissance and photo missions were carried out by the Philippine Air Force (PAF) to update capabilities/developments of foreign-held islets and shoals in the KIG. The missions involved 197.36 flying hours. Aerial monitoring was also conducted over the site of the Malampaya Natural-Gas-to-Power (MNGP) Project in Palawan. Eleven aerial photo missions involving more than 12.3 flying hours were carried out. On the other hand, the Philippine Navy (PN) intelligence gathered and processed 1,123 summaries of information on foreign intrusions/illegal poaching by fishermen from China, Taiwan, HongKong, Malaysia, Vietnam and Indonesia who were entering the waters of Palawan. It also conducted 57

aerial reconnaissance of “sovereignty” patrols in the KIG.

On Disaster Response

In 2005, the AFP has undertaken 209 disaster-related activities and 50 evacuation activities throughout the country benefiting 2,704 persons and 6,600 evacuees, respectively. It also conducted 34 rescue operations that benefited 11,408 persons in the NOLCOM area of operations and 386 rescue operations in the SOLCOM AOR.

Meanwhile, the Office of Civil Defense (OCD) facilitated the approval and release of calamity fund assistance amounting to PhP685 million for the immediate relief and rehabilitation of disaster-affected communities. It also extended relief assistance to 11,622 affected families amounting to PhP15,188,200. As the secretariat and coordinating arm of the National Disaster Coordinating Council (NDCC), the OCD continues to pursue the implementation of the NDCC Four-Point Plan of Action on Disaster Preparedness, namely the upgrading of PAGASA and PHILVOCS capabilities especially in forecasting, public information campaign on disaster preparedness, LGU’s capacity building, and collaborative partnership program. This was done to strengthen linkages of NDCC with other government agencies and the private sector. The AFP continues to support the OCD-NDCC in almost all disaster and emergency-related activities.

On Support to Nation Building

The AFP vigorously supports the country’s development by undertaking civic action as well as civil-military

activities. In 2005, the AFP conducted medical and dental missions nationwide with 353,134 beneficiaries. In line with the government environmental protection program, the AFP engaged in 98 tree planting activities. The PN in particular also entered into a MOA with the Bureau of Fisheries and Aquatic Resources (BFAR)-DENR on the Fisheries Improved for Sustainable Harvests (FISH) Project. The FISH project aims to provide technical assistance in the areas of fishery management information, education and communication, coastal fishery law enforcement and establishment of maritime protected areas in Palawan, Bohol, Surigao and Tawi-Tawi.

On community relations, the AFP participated in 4,408 national/historical events with 57,671 beneficiaries. It also participated in 4,164 religious events that involved 13,368 beneficiaries. Further, the AFP carried out 10,325 cleanliness and beautification projects. There were also infrastructure projects of the AFP Corps of Engineers that involved 20 road projects, 249 building units, 14 water systems, 17 ground development projects, seven drainage systems, 15 power/telephone facilities, 16 survey project for 394.345 hectares of land, 13 fencing projects, one bridge and 20 other related projects with a total value of PhP842,311,409.

On International Defense and Security Engagements

The AFP continues to engage with counterparts in the Asia-Pacific Region to enhance the country’s self-defense capabilities and ability to operate with forces from partner militaries. In 2005, the AFP conducted 22 Mutual Defense Treaty (MDT) exercises with US

counterparts such as the BALIKATAN Exercises wherein 3,452 AFP officers and enlisted personnel participated. The 2005 BALIKATAN Exercises resulted in the treatment of 21,428 patients and 1,119 animals and the construction of a one unit two-room school house, one unit three-room school house and a 1.2 km farm-to-market road. Three bilateral exercises that involved 212 AFP personnel were held with the Malaysian counterparts. Likewise, six Passing Exercises (PASSEX) involving the ships of Malaysia, Thailand and France were conducted in the country. In these exercises, 216 AFP personnel consisting of 27 officers and 189 enlisted personnel participated.

The AFP also played key roles in the following DND-hosted visits: (a) Japanese Defence Ministers and Vice Defence Minister Takemasa Moriya in May 2005 and November 2005, respectively; (b) Australian Defence Minister Robert Hill in November; (c) Spanish Defense Minister Jose Bono, in November; and (d) Singaporean Defence Minister Teo Chee Hean in December. Assistance was also extended in connection with the visits of SND Avelino Cruz, Jr. to Australia and New Zealand in February 2005, the United States in November and to Singapore in June for the annual Shangri-la Dialogue.

Important activities in which the DND-AFP were involved include the following: (a) hosting of the Philippines-Brunei Darussalam Joint Defense Working Committee Meeting in Manila in January; (b) conduct of the first Philippines-Japan Political-Security Dialogue in February; (c) 5th Philippines-Australia Joint Defense Cooperation Committee held in Canberra in February; (d) conduct of the first Philippines-China Annual Security Dialogue in May;

(e) signing of an Agreement on China's Provision of Military Aid Gratis to the Philippines for CY 2005 in July; (f) conduct of the 2nd Philippines-Australia Defense Working Group in August; (g) hosting of the ASEAN Regional Forum (ARF) Meeting on Civil-Military Operations in Manila in September; (h) conduct of the ARF Inter-Sessional Group on Confidence Building Measures held in Germany in February and Honolulu in October.

In pursuing proactive defense diplomacy, the AFP also participated in the Final Planning Conference of the Pacific Endeavor 2005 held in Honolulu, Hawaii. The conference focused on assessing Single Channel Radios (SCR) and Telephone Switches (TS) the nations would likely deploy in support of a crisis response and in providing a peacetime exchange for participants to engage socially and establish relationships to foster human interoperability. AFP participants were also sent to Honolulu, Hawaii for the Multinational Planning Augmentation Team Tempest Express-8 Workshop. This activity focused on two aspects – first, the coalition peace operations and humanitarian assistance/disaster relief planning and second, transition planning to a UN peacekeeping mission.

On International Humanitarian Assistance and Peacekeeping Operations

In line with the Philippine commitment to contribute to regional peace and stability and to foster closer ties with its regional counterparts, the AFP participated in the UN peacekeeping operations in Timor Leste, Ivory Coast, Aceh, Liberia, Burundi and Sudan as military observers, staffs or peacekeepers.

In 2005, 69 officers and 313 were deployed for the purpose. The AFP also issued assorted vehicle spares amounting to PhP7,672,474 to support the motor vehicles maintenance requirements of the Philippine Contingent to Liberia and Haiti. The AFP took initiatives to reorganize its Peacekeeping Operations Center (POC) by designating it as an AFP Wide Service Support Unit (AFPWSSU). The AFP-POC is tasked to prepare and administer the requirements of personnel and units for all peacekeeping missions.

On Force-Level Central Command and Control [C2], Training and Support

The AFP continued with its personnel recruitment program and commissioned the 149 members of the PMA Class 2005 into the Regular Force on March 12. On the other hand, 47 graduates of the PAF OCC Class 2005 were commissioned into the Regular and Reserve Forces on March 22. The 68 members of the PAF OCC Class 28-2005 were also commissioned into the Regular and Reserve Forces in October. During the year, 123 inactive Technical Service officers were Called to Active Duty (CAD) for three years.

Logistics management is continuously enhanced to support the ISO and contribute to regional peace and security. Significant accomplishments in this area are the following: (a) procurement of 6,668 ammunition worth PhP60 million from Singapore Technology Ammunition; (b) issuance of 5,733,478 basic load training and miscellaneous ammunition worth to PhP180.34 million; (c) issuance of 70,559 ammunition basic load, training ammo and accessories amounting to PhP132,928 in support of the CAFGUs; (d) issuance of 207,394 rounds

of ammunition costing PhP3,030,075.70 in support of the conduct of RP-US BALIKATAN Exercises and 2,000 rounds costing PhP42,800.00 for the AFP-US Exercise TALON; (e) surveillance/inspection of two military supply units, one forward service support unit and six suppliers/manufacturers; and (f) the conduct of a joint training with the US forces to the Light Reaction Company (LRC), Light Infantry Battalion (LIB) and the use of Night Vision Google (NVG).

The AFP also took various initiatives to improve its communications, electronics, and information system (CEIS). Most significant among others were: (a) the provision of 41 CEIS operational support to various AFP task forces in support of the ISO; (b) establishment of a communication electronic support system in connection with the RP-US BALIKATAN Exercise in Laguna; (c) provision of 336 CEIS support services to various presidential engagements; and (d) the provision of CEIS requirements to the Asean Regional Forum (ARF) and to the ASEAN Defense Chief Intelligence Informal Meeting held at Dusit Hotel in Makati City. Special attention was also given to facilitate the processing of certain requirements like the PhP22.8 million worth Geographical Information System (GIS), the PhP60 million contract of the Integrated Radio Trunking System (IRST); the PhP30 million worth Base Communication Network (BCN) of ISAFP; the PhP46.5 million Mobile Communication Network (MCN); the PhP466 million worth two-phase Consolidated Fixed Communication System (FCS), the PhP37million satellite communication (SATCOM), the PhP23.8 million E-Services Portal project, the PhP37.5 million worth of medical equipment, and

the PhP12.5 million worth of dental equipment.

The strengthening of its reservist and reserve force development was also given emphasis. Significant accomplishments include the commissioning and training of 2,908 Reservist Officers to improve organizational development.

The AFP likewise participated in bilateral/multilateral strategic planning exercises and interagency planning conference like in the development of RP-US scenario on the War on Terrorism with the USPACOM and in the Multinational Planning Augmentation Team Tempest Express, among others.

Supporting the Peace Process

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). It also continues to be vigilant and prepared to address insurgent activities and attacks.

The DND-AFP continues to adhere 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 participated 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-AFP is also actively involved in the implementation of the “Kalayaan Barangays” Program (KBP) of the national government. The KBP is part of the convergence efforts to address armed conflicts pursuant to Agenda No.9 (A Just End to the Peace Process) of the Government’s 10-Point Agenda as outlined in the National Peace Plan or Chapter 14 of the Medium Term Philippine Development Plan (MTPDP) 2004-2010. As envisioned, the DND, through the AFP, shall undertake the construction of the basic infrastructure projects such as additional school buildings, access roads, potable water system, electricity and appropriate health facilities for the 500 barangays identified by the DND-AFP and the 100 peace agreements areas identified by the Office of the Presidential Assistant to the Peace Process (OPAPP). The process involves the clearing of the conflict-affected barangays and rapid needs assessments (RNAs) to determine exactly the basic services needed in the particular barangay. During the year under review, the RNAs for the 600 barangays nationwide is almost 65 percent done.

In 2005, 800 rebel returnees under the *Balik-Baril* Program of the former National Peace Unification Development Council (NPUDC) were processed. These rebels surrendered 478 firearms and 97 explosives. Since the inception of the program on March 1, 1987, the total number of rebel returnees is registered at 52,166. Total number of firearms surrendered is at 26,131 and explosives, 3,567.

Enhancing the Ability to Fight Terrorism

The DND-AFP is committed to pursue the global fight against terrorism. The AFP continues to intensify its operations against various threat groups like the Abu Sayyaf Group (ASG), the CPP-NPA, the MILF and the Jemaah Islamiyah (JI) by monitoring closely their activities and denying them sanctuaries, training ground and bases of operations. As of end-2005, the AFP neutralized 1,868 CPP-NPA, 122 MILF and 174 ASG. The AFP also recovered 581 high-powered firearms. To enhance its capability to address the threat of terrorism, the AFP came up in December 2005 with a proposal to merge the AFP Joint Special Operations Group (AFPJSOG) and the Anti-Crime Task Force (ACTAF) into a more potent force for counter-terrorism and anticriminality. The proposal also includes the activation of the Chemical, Biological, Radiological, Nuclear (CBRN) units as an organic unit of AFPJSOG.

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 facilities against terrorist attacks. Personnel of DND-AFP likewise underwent several counter-terrorism trainings offered by the US, Australia and the United Kingdom. These include 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 ADND representative was also invited as

observer in the UK Atlantic Blue Counter-terrorism Exercises held in London in April 2005.

At the home front, the National Defense College of the Philippines (NDCP) also conducted terrorism-related fora and trainings. The NDCP conducted the following: (a) Medical First Responders Instructors Workshop and Interdicting Terrorist Organizations Training Course in February 2005; (b) Training for CBRN Response and Consultation with Policy Makers in March 2005; and (c) two Hazardous Materials First Responders Awareness Training in May and July 2005, among others. These training-workshops were undertaken through the help of the US Embassy in Manila as well as the Australian Embassy. The Office of Civil Defense (OCD), on the other hand, conducted simulation exercises in coordination with the member-agencies of the National Disaster Coordinating Council (NDCC), particularly with the Health Emergency Services (HEMS) of the Department of Health (DOH), and the local government units to test the contingency plans of the local governments in addressing terrorism.

The DND-AFP also actively participated in the series of simulation exercises conducted by the Philippine National Police (PNP) and Philippine Center on Transnational Crimes (PCTC), to test the government's preparations and contingencies for the hosting of the International Parliamentary Union (IPU) in April 2005 and the Southeast Asian Games (SEAG) in December 2005. Both simulation exercises focused on addressing the threat of terrorism. These activities were successfully undertaken under the auspices of the RP-UK Crisis Management Programme (RP-UK CMAP).

In February 2005, the DND-OCD-AFP took part in the testing of the guidelines of the World Health Organization (WHO) in the country's readiness to respond to the deliberate use of CBRN agents. In December 2005, the DND-OCD-AFP also participated in the 3rd National Health Emergency Management Convention. The convention tackled the threat of natural disasters such as flooding and landslide as well as man-made disasters like terrorism that usually result in mass casualties and pose danger to national and public security. Through this gathering of experts, the DND-OCD-AFP representatives had the opportunity to partake, share and learn experiences on how to deal with such global threats. At the same time, they were able to increase their capacities to prepare and respond to crises in the future.

The DND likewise actively participated in the Technical Working Group on the drafting of the proposed Anti-Terrorism Bill. As a member of the Anti-Terrorism Task Force (ATTF), it

participated in the ongoing initiative of the National Anti-Terrorism Coordinator (NATC), who is the concurrent National Security Adviser (NSA), to harmonize the government policies, strategies and responses to terrorism. Meanwhile, the National Plan to Address Terrorism and Its Consequences (NPTC), which is a major annex to the National Internal Security Plan (NISP), continues to provide the overall framework for the Government's action against terrorism.

In conclusion, the year 2005 has become very challenging for the entire defense and military establishment as it went through the tedious process of transforming itself with the implementation of the Philippine Defense Reform (PDR) Program. But despite the challenges, the DND and its bureaus, particularly the AFP remained steadfast in carrying out the DND mission "to provide and maintain the conditions of security, stability and peace and order conducive to economic growth and national development".

Chapter 23

Responsive Foreign Policy

The country's foreign policy continued to respond to the realities in the global and regional environment. Measures have been initiated and/or implemented to enhance the country's economic and national security, as well as to protect the rights of Filipinos overseas. Given the continuing nature of most foreign policy targets, the accomplishments in 2005 would have to be sustained and maximized in the proceeding years to achieve the desired foreign policy goals within the medium term. The immediate term, however, calls for intensified efforts to implement the machine-readable passport and visa (MRP/V) system, as well as to achieve the target high rate of overseas absentee voters registration for participation in the 2007 elections.

ENHANCE ECONOMIC SECURITY

Expand economic diplomacy efforts

In 2005, the Department of Foreign Affairs (DFA) established the Economic and Trade Core Negotiating Team in response to the need to strengthen the country's economic diplomacy efforts. To expand these efforts, the country conducted business missions and facilitated business/trade agreements, which are the key targets throughout the medium term. In 2005, 16 outbound business/trade missions by government and private sector were arranged, including trade missions to Saudi Arabia, Bahrain and Myanmar. In turn, 13 foreign business missions to the Philippines were conducted. Aside from these, 51 international fairs and conventions, and eight local ones were coordinated to facilitate business engagements in the areas of trade, investment, finance and tourism.

Maximize exports and investment opportunities offered by trade agreements

The country pursued free trade and/or economic partnership agreements to further enhance its economic security. An exploratory trade mission was conducted in Eastern Indonesia to strengthen trading between the Jose Abad Santos-Glan-Sarangani Cooperation Triangle (JAGS-CT) and the nearby islands of Talaud, Sangihe, North Sulawesi and Gorontalo. The mission led to trade and economic cooperation in the areas of fisheries, shipping, human resources, agricultural business, electronics, and general trade. Energy cooperation between the National Power Corporation (NPC) and the Indonesian Coal Mining Association (ICMA) was also promoted through the Memorandum on Understanding (MOU) on Cooperation on Long-Term Coal, Oil

and Gas Supply and Geothermal Energy Development.

The Philippines continued to negotiate with Japan for the Japan-Philippines Economic Partnership Agreement (JPEPA). The agreement is expected to be finalized and signed by 2006. The Philippines also initiated and pursued negotiations for an economic partnership agreement with the Republic of Korea (ROK). Research and feasibility studies for possible bilateral free trade agreements with the United States of America (USA), South Korea and the European Union (EU) were also initiated.

In line with the goals of the Association of Southeast Asian Nations (ASEAN), the country extended support to the negotiations for ASEAN regional free trade agreements with China, Japan, ROK, India, Australia and New Zealand. It also led the development of the ASEAN Millennium Development Compact (AMDC) during the ASEAN Workshop on Regional Cooperation on Poverty and the Millennium Development Goals (MDGs), which the Philippines chaired in Jakarta in August 2005.

In preparation for the 6th World Trade Organization (WTO) Ministerial Conference in December 2005, the government conducted multisector consultations to develop harmonized Philippine positions on trade issues. The country actively participated in WTO negotiations particularly in the areas of agriculture; non agriculture market access; services; development; rules; trade facilitation; trade and environment; trade-related aspects of intellectual property rights (TRIPS); and dispute settlement. The country pushed for the advocacy and achievement of a fair and optimum result from the Doha Round for developing countries and has invited other countries

to work for equitable trade relations.

Among the activities to develop and enhance Philippine trade in services, the Philippine Services Coalition (PSC) was established in May 2005 through the assistance of the European Commission and the International Trade Center. With the DFA as its Secretariat, the Coalition held consultations with the government, the private sector and the academe to: (a) increase awareness among the public and private sectors on the WTO Agreement on Trade in Services; and (b) to strengthen the involvement of stakeholders in both services export promotion and services trade negotiations.

ENHANCE NATIONAL SECURITY

Strengthen the strategic relationship with the United States to propel common commitment to fight against terrorism

The country continued to strengthen its security cooperation with the US through bilateral discussions and activities related to the Philippine Defense Program, the Mutual Defense Treaty and the US Security Assistance to the Philippines. Joint exercises on RP-US Counter-Terrorism were conducted as part of the security cooperation. Other areas of cooperation entered into with the US include US military training, operational support against the Abu Sayyaf Group and training of the anti-terrorism Light Reaction Companies.

Maximize bilateral and multilateral ties to improve RP's defense and military capabilities

The country also maintained its security cooperation with Australia. The

3-year security package aims to enhance the capacity of Philippine law enforcement agencies in the fields of intelligence sharing, bomb investigation techniques, forensic capacity and other counter-terrorism strategies. In 2005, the amount of the security package was doubled from Aus\$5 million to Aus\$10 million. To further expand the number of Philippine partners in the fight against terrorism, the government has initiated security talks with Pakistan, India, Egypt, Russia, China and Japan.

The country participated in multilateral fora on political and security issues. The Philippines participated in the 38th ASEAN Ministerial Meeting in July 2005, during which the ASEAN-ROK Joint Declaration for Cooperation to Combat International Terrorism was signed. At the September 2005 Summit of World Leaders in New York, President Gloria Macapagal-Arroyo chaired the 3rd Security Council Summit, shepherding the adoption of a resolution on the prevention of incitement to terrorism and a resolution on the prevention of conflict particularly in Africa.

The country also maximized its diplomatic ties to extend assistance to other countries. It sent Filipino medical, civic and forensic teams to Aceh, Indonesia; Phuket, Thailand; and Colombo, Sri Lanka to assist the victims of the Indian Ocean tsunami.

Build the capacity of local law enforcement agencies on counter-terrorism

The government continued implementing the three major capacity building projects on counter-terrorism: the Counter-Terrorism Capacity Building Project (CTCBP); the RP-United Kingdom

Counter-Terrorism Crisis Management Assistance Programme (RP-UK CMAP); and the Philippine Border Management Project.

The Philippine Center on Transnational Crime (PCTC) led the implementation of the CTCBP with the assistance of the Australian Federal Police and the Australian Agency for International Development (AusAID). One of the target outputs of the CTCBP is the Philippine Bomb Data Center (PBDC), which would be the main repository of data on all unlawful use of explosives and provider of technical expertise on counter-terrorism to government agencies. In 2005, an Executive Order creating the PBDC has been drafted and awaiting approval. The target Case Management and Intelligence System (CMIS) has been installed and operational. As further planned, 14 PCTC personnel were trained on the CMIS operation and 11 were trained on intelligence analysis.

The PCTC also led the implementation of the RP-UK CMAP. As targeted, a core group of trainers from concerned government agencies were trained on crisis and consequence management. However, the trainers were not able to echo the training in their respective agencies due to budget constraints and the adoption of Administrative Order No. 103.¹ As part of the project, simulation exercises on crisis management were conducted for the 112th Inter-Parliamentary Union (IPU) Assembly and 23rd Southeast Asian (SEA) Games. Selected Philippine officials were also sent as international observers in a counter-terrorism exercise in the UK.

The International Organization for Migration (IOM) led the

¹ AO 103 orders all national government agencies to adopt austerity measures, including the suspension of the conduct of trainings, seminars and workshops, except if funded by grants or if the cost may be recovered through exaction of fees.

implementation of the Philippine Border Management Project funded by the European Commission (EC). It aims to enhance the Philippines' national border management policies and practices to actively support the country's commitment to combat terrorism and facilitate the orderly flow of aliens and citizens. In 2005, the requirements for the Exchange of Letters between the Government of the Philippines (GOP) and EC were completed.

Ensure the national sovereignty and territorial integrity of the Republic

Negotiations with the Philippines' neighboring countries were pursued to delineate maritime boundaries and preserve the territorial integrity of the country. The RP-China Memorandum of Understanding (MOU) on Maritime Cooperation was finalized on April 27, 2005. The country continued its negotiations with Indonesia and Vietnam through the RP-Indonesia Working Group on Maritime and Ocean Concerns and Sub-Working Group on Maritime Boundary Delimitation and the RP-Vietnam Working Group on Maritime and Ocean Concerns, respectively.

The country continued to implement the ASEAN-China Declaration on the Conduct of Parties in the South China Sea (DOC-SCS). It hosted the 1st Meeting of the ASEAN-China Joint Working Group on the Implementation of the DOC-SCS on August 4-5, 2005 where guidelines for the implementation of the DOC and areas of cooperation were discussed. As part of the DOC, an agreement was concluded among RP, the Republic of China and Vietnam on a joint seismic undertaking.

The country also strengthened its participation in regional fora on maritime concerns. The Philippines revived its participation in the Asia-Pacific Economic Cooperation (APEC) Marine Resource Conservation Working Group, the Fisheries Working Group and the APEC Ocean-Related Ministerial Meetings. The country also participated in the Joint Oceanographic Maritime Scientific Research Expedition in the South China Sea (JOMSRE-SCS).

Proactive involvement in shaping the regional environment through the ASEAN

The country was deeply involved in the ASEAN Regional Forum (ARF) to promote mutual confidence and preventive diplomacy in the region. The Philippines hosted the ARF Workshop on Civil-Military Operations in September 2005, and the ARF Seminar on Cyber-Terrorism in October 2005. The Philippines and the US co-chaired the ARF Inter-Sessional Support Group Meeting on Confidence Building Measures and Preventive Diplomacy held in Hawaii in October 2005.

Contribute to the peaceful settlement of the problems facing southern Philippines and the rehabilitation of the Autonomous Region in Muslim Mindanao (ARMM) and Central Mindanao

The Philippines continued to participate in regional and international fora and organizations to articulate and gain support for the development efforts in Southern Philippines. On February 10, 2005, the government conducted a diplomatic briefing for the Heads of

Missions of the member-states of the Organization of the Islamic Conference (OIC) to present the Government of the Republic of the Philippines-Moro Islamic Liberation Front (GRP-MILF) peace talks and solicit support for the Mindanao Trust Fund. On June 28-30, 2005, the country participated in the 32nd OIC Islamic Conference of Foreign Ministers in Yemen where the government's efforts to implement the 1996 GRP-Moro National Liberation Front (MNLF) Peace Agreement were presented. On August 22, 2005, a diplomatic briefing on the conduct of the ARMM elections was held for the OIC Ambassadors. On October 26, 2005, another briefing on the status of the GRP-MILF Peace Talks was held for the diplomatic corps and development agencies. On December 7-8, 2005, the country participated in the Extraordinary Islamic Summit in Saudi Arabia.

The government held bilateral meetings with OIC member-states to gain support for the government's bid for observer status in the OIC. It also facilitated the renewal of participation by the Malaysia, Brunei and Libya in the International Monitoring Team for the implementation of the GRP-MILF ceasefire agreement. On the other hand, the country assisted Indonesia in securing its peace agreement with Aceh by sending Filipino monitors to the Aceh Monitoring Mission.

Develop institutional capacities for culture

The DFA has developed a strategy for cultural diplomacy, which use culture as an instrument of foreign policy. The Office of Cultural Affairs was proposed in the DFA Rationalization Plan to take the lead in this strategy and institutionalize

cultural diplomacy in the Philippine Foreign Service. While waiting for creation of this Office, the Foreign Service Posts, in coordination with other Philippine government agencies and their respective host countries, pursued projects to promote interest in and appreciation for Filipino culture in the international community. To complement this effort, the Foreign Service Institute (FSI) continued to conduct courses on Philippine culture and values as well as tourism policies and promotion to build the capacity of Philippine Foreign Service Officers on cultural diplomacy.

An MOU between the FSI and Venezuelan Diplomatic Institute Pedro Gual was signed on September 1, 2005. The MOU aims to enhance the two institutions' programs on international law, diplomatic practices and international relations through a linkage program.

Promote mutual understanding and appreciation of cultures

The country pursued bilateral cultural agreements to promote mutual understanding and appreciation of cultures. The Marikina City-Brampton City (in Ontario) Twinning Agreement was signed on August 1, 2005. The agreement establishes cultural and community linkages, as well as economic and business cooperation between the two cities. As part of the RP-Thailand Cultural Agreement, five Filipino artists held workshops and exhibit in Bangkok from June 24 to July 8, 2005. The Philippines also participated in such cultural exchange programs as the Japan-ASEAN Youth Friendship Programme for the 21st Century and the Ship for Southeast Asian Youth Program, which

provide opportunities for the Filipino and Japanese youths to learn and appreciate each other's culture. The country also participated in the Dialogue between Cultures and Civilization organized by the Asia-Europe Meeting (ASEM); Tripartite Conference on Interfaith Cooperation for Peace; and Asia-Middle East Dialogue.

Information and communication technology was also used to promote cultural understanding. Videos and other relevant materials on Philippine culture and tourist spots were disseminated in Malaysia, Indonesia and the People's Republic of China. To encourage the establishment of Philippine Studies Program in universities abroad, the DFA networked with universities in Canada, Japan and China. The Beijing University established a Philippine Studies Program under its School of Foreign Languages. In support of the program, the DFA provided books on the Philippines; assisted in the conduct of Filipino speech contests; facilitated the students' study visit to the Philippines and organized interaction between students of Philippine and Chinese studies.

The country partnered with foreign governments, Foreign Service Posts and Filipinos overseas to improve access to Filipino literary works. In cooperation with the Fairfield City Library, the country launched the Read Philippines Program in Sydney on August 20, 2005. The program aims to augment the existing Filipiniana in the said library and encourage community participation as donors and volunteers. Books on Philippine history and culture were also provided to China's State Administration of Cultural Heritage and the Philippine Consulate-General in Osaka. The DFA also pursued the country's participation in the Sydney Writers Festival.

To showcase and market the Philippine cuisine in the international market, the government helped organized Philippine food festivals in 2005 in Sydney (Shangri-la Hotel and Grace Hotel), Kuala Lumpur (Legend Hotel), Petaling Jaya (Hilton Hotel) and Beijing (Hilton Hotel). The Philippine Embassy also participated in the Blue Star Beer Festival and First World Chinese Conference in Beijing, which showcased Philippine food product and fashion, respectively.

PROTECT THE RIGHTS AND PROMOTE THE WELFARE OF FILIPINOS OVERSEAS

Work with regional and multilateral organizations

The Philippines won its candidature to the United Nations (UN) Committee on the Protection of the Rights of All Migrant Workers and Members of their Families. As the Vice Chair, the country played an active role in ensuring the success of the Committee projects.

The country also assumed the role of coordinator for the Asia-Pacific Group at the International Labor Organization (ILO) in June. It was also elected as titular head of the ILO Governing Body for the term 2005-2008, giving the Philippines the opportunity to formulate and influence ILO policy towards improving the welfare of migrant workers.

On a bilateral level, the country negotiated for agreements for the welfare of Filipinos in specific countries. It pursued talks with Malaysian government officials to ensure the welfare of undocumented Filipinos in Malaysia who were subjected to repatriation. The delegation also negotiated for a labor

agreement with Malaysia with a view to reemploy the repatriated Filipino workers. Philippine representatives also attended a series of meetings regarding the new immigration policy of the Japanese government on Filipino entertainers. The RP-Belgium Consultative Meeting on the Derogation to the Convention on Social Security for Filipino Seamen was also held in 2005.

Adopt a more proactive approach in ensuring the security of Filipinos overseas

The country coordinated and/or participated in the following fora to consolidate efforts against human trafficking: Conference on Strategies for Combating Human Trafficking from Southeast Asia to Taiwan; Orientation Program of the Joint Task Forces on Anti-Human Trafficking; Dissemination Workshop on Non-Traditional Security in Asia; National Summit for Effective Prosecution of Cases under RA 9208; Orientation on Trafficking in Persons; 1st Council for Security Cooperation in the Asia Pacific Study Group Meeting; and the Asia Regional Cooperation on the Prevention of People Trafficking.

On the domestic front, the government coordinated dialogues with concerned nongovernment organizations (NGOs) and institutions such as MIGRANTE International, International Social Services (ISS), Visayan Forum Foundation, Asia Foundation, and Action for Health Initiatives Inc. (Achieve Inc.) to improve the welfare of Filipinos overseas.

Pursue a worldwide doctrine of security for Filipinos

To better coordinate security measures for Filipinos communities abroad, the government aims to develop security manuals for these communities. In 2005, the DFA and DOLE developed a security manual for Filipinos in Iraq. The DFA also convenes a Crisis Management Team as the need arises.

Strengthen the welfare mechanisms for overseas Filipinos workers (OFWs)

The government continued to assist victims of human trafficking. In 2005, the DFA repatriated and assisted 70 victims. Their cases have been referred to the Inter-Agency Council Against Trafficking in Persons (IACAT) and concerned law enforcement agencies for the filing of appropriate charges.

The government aims to develop a performance monitoring system for FSOs to ensure their service orientation. The DFA is now implementing the Organizational Performance Indicator Framework (OPIF), wherein its major final outputs (MFOs) serve as the basis of its quantitative performance indicators and targets. This is being used to monitor the performance of FSOs.

Implement the Overseas Absentee Voting (OAV) Law fairly and effectively

The government continued to implement the OAV Law and target a high rate of registration and participation among Filipinos overseas. For the May 14, 2007 national elections, the application for registration/certification as overseas absentee voter began on October 1, 2005 and will end on August 31, 2006. An OAV

registration center was established at the Philippine Overseas Employment Administration (POEA) Main Building to cater to the POEA clients, which average 2,500 daily. The registration center began its operation on October 17, 2005. Preparations to establish an OAV registration center at the DFA premises were also initiated to target Filipinos who are applying for or renewing their passports.

Improve consular services

Reforms to improve the issuance of passports and authenticated documents were initiated in 2005. OPLAN FASTPORT was able to reduce the waiting time for the processing and release of passports from two hours to an average of half an hour. The DFA has also initiated talks with the National Statistics Office (NSO) on the possibility of obtaining electronic access to its database on a read-only basis, in order to facilitate verification of documents. Another component of OPLAN FASTPORT is the deployment of mobile passport services (MPS) teams to make consular services more accessible to the people. In 2005, 163 MPS missions were conducted in different parts of the country with 59,578 passports issued.

Project 30-15, on the other hand, was able to meet its target to reduce the waiting time for the processing of authenticated documents by 30 minutes, and the waiting time for release by 15 minutes.

The government aims to fully implement the machine-readable passport and visa (MRP/V) system. It specifically planned to issue MRPs in 2005. However, this was not implemented as planned due to technical and funding issues that need

to be resolved. In the meantime, the DFA participated in the Asia Pacific Regional Seminar on Facilitation (Machine Readable Travel Documents, Biometrics) and Radio Frequency Identification (RFID) conducted by the International Civil Aviation Organization (ICAO) in Hong Kong in June 2005.

To strengthen the capabilities of DFA in providing Assistance to Nationals (ATN), the Foreign Service Institute (FSI), in partnership with the International Labor Organization (ILO) conducted a project entitled "Protecting Domestic Workers from their Vulnerability to Forced Labor, Trafficking and Human Rights Abuses and Providing Support to Victims: A Training Tool for Foreign Service Officers, Staff Officers, and Attache Corps". The FSI also partnered with Achieve Inc. to deepen the knowledge of FSI trainers and students on HIV/AIDS issues affecting Filipinos overseas.

Chapter 24

Constitutional Reforms

Current political and economic policies remain the focus of massive street demonstrations. Thus, this situation provides the impetus for the government to pursue Constitutional Reforms for CY 2006. The reassessment of the 1987 Constitution and the introduction of amendments are still viable options to attain an effective and more stable political institution, effective and accountable political parties and more liberal economic policies to address the prevalence of graft and corruption in government.

ASSESSMENT OF ACTIVITIES

The House leadership from the 12th Congress to the present has been consistent in its legislative agenda to institute constitutional reforms as part of the package to uplift the economic condition of the country. In response, the Committee Members and the Secretariat lived up to their respective responsibilities.

As early as the first regular session of the 13th Congress, the Committee was able to dispose of all matters under its jurisdiction in the committee level with the leadership of its Chairman.

It filed the following four Committee Reports:

- 1) Committee Report No. 413, recommending the approval of the House Current Resolution No. 14, the concurrent resolution calling for the Senate and the House of Representatives to constitute themselves as a Constituent Assembly to introduce amendments to the 1987 Constitution;

- 2) Committee Report No. 835, the proposed “Rules of the 13th Congress acting as Constituent Assembly” in the exercise of its constituent power to propose amendments to the 1987 Constitution;
- 3) Committee Report No. 1065, recommending the approval of House concurrent Resolution No. 26, concurrent resolution calling Congress to convene jointly to propose amendments to, or revision of, the 1987 Constitution; and
- 4) Committee Report No. 1227, proposal for specific amendments to the 1987 Constitution, recommending its adoption as the Proposed Specific Amendments to the 1987 Constitution by the Congress acting as a Constituent Assembly.

The House Concurrent Resolution (HCR) No. 26, which was

issued on November 29, 2005, calls on Congress to convene jointly to propose amendments to, or revision of, the 1987 Constitution. This was approved by the House of Representatives and the same has been forwarded to the Senate for its concurrence. The Committee Report (CR No. 1065) containing HCR No. 26 was debated lengthily in the plenary hall but was nevertheless approved. This signified the overwhelming stance of the members of the House of Representatives to go for Constituent Assembly as the preferred mode for introducing constitutional amendments or reforms. HCR 26 proposes the following specific areas of amendments to the 1987 Constitution:

- 1) Review of the form of government, principally the shift to a unicameral parliamentary form, and from the unitary to the federal system;
- 2) Review of basic economic provisions to maximize the benefits and welfare of the people without being shackled by unnecessary and impractical constraints and limitations; and
- 3) Provide a mechanism for the orderly transition from the present to the new form and system that may be adopted.

Before the approval of HCR 26, the Committee has previously approved the following three committee reports, which were made as bases for a new committee report (CR 1065):

- 1) House Concurrent Resolution No. 14, entitled: "Concurrent

Resolution calling for the Senate and the House of Representatives to constitute themselves as a Constituent Assembly to introduce amendments to the 1987 Constitution";

- 2) Resolution on the Proposed Rules to govern the proceedings of the Constituent Assembly; and
- 3) Resolution on the proposed specific amendments.

Despite these efforts, the issue as to what mode should be considered in amending the 1987 Constitution remains unsettled. The present administration is pushing for the Constitutional Convention, whereas the House Committee on Constitutional Amendments is in favor of amending the Constitution through Constituent Assembly. This long delay in coming up with the best mode of amending the Constitution makes the plan unfeasible and untenable.

The Commission on Elections (COMELEC) has exerted efforts in improving governance through the reassessment and amendment of the 1987 Constitution. The Commission has prepared and submitted Proposed Constitutional Reforms, basically on Article VI, Sec. 5(2), and Article IX (C) Secs. 2(7), 3, 6, 8.

Likewise, Commissioner Resurreccion Z. Borra attended the Constitutional Consultative Committee meetings/conferences and disseminated information to COMELEC Officials on the development of the Proposed Constitutional Amendments.