



REPUBLIC OF THE PHILIPPINES  
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

# SOCIOECONOMIC REPORT 2015



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## **Socioeconomic Report 2015**

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**National Economic and Development Authority**

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# I. Overview

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## 2015: From lessons learned to concrete strategies and actions

Good governance coupled with good economics make for good-quality growth. This is shown by a continuing investor confidence which spurred the economy to grow by 5.8 percent despite a lackluster export performance. While this falls short of the 7 to 8 percent growth target for the year, this is still one of the strongest performances during a time of sluggish global markets. The country's gross domestic product (GDP) growth is likely to rank as the fourth fastest, next only to India (7.3 percent average in the first three quarters), China (6.9 percent for full year) and Vietnam (6.7 percent for full year).

The six-year moving average of real GDP growth as of 2015 is now at 6.2 percent, the highest since 1978. This current growth performance is of higher quality than that of the 1970s because it is driven by sound fundamentals and ongoing structural changes in the economy, instead of debt. Given this upbeat year-end performance, the economy is expected to further gain its momentum as emerging estimates show that it could expand between 6.7 and 7.7 percent in 2016.

### Public and private spending fuels growth.

Strong domestic demand fueled output growth in 2015, as government spending and household consumption significantly improved. Sustained improvement in public sector performance during the second half of the year also drove the full-year growth of government final consumption expenditure to 9.4 percent from 1.7 percent in 2014.

While underspending remains a problem, with the government still working below its programmed budget, 2015 figures show that the government is proving successful in its efforts to overcome the spending bottlenecks that previously hampered growth.

Household consumption also grew by 6.2 percent in 2015 (full year) as Filipino households increased their spending mostly on food and non-alcoholic beverages, miscellaneous goods and services, transport, restaurants and hotels, and communication.

Public and private sector investments also remained strong as capital formation rose to 13.6 percent from the 5.4 percent expansion last year. This is largely supported by private investments in durable equipment which grew by 20.3 percent reflecting strong business confidence in the country, amid slowdowns among Asian economies. Not far behind is the robust growth in public construction which increased significantly from 6.3 percent in the previous year to 20.6 percent in 2015.

On trade, imports of goods and services was likewise robust at 11.9 percent compared to 8.7 percent in 2014. Exports on the other hand, softened to 5.5 percent in 2015 from 11.4 percent in the previous year due to a still weak global economy. As a result, net exports plunged by 325.0 percent equivalent to a 295.1 billion-peso trade deficit, a further plunge from last year's contraction of PHP69.4 billion.

### **Services sector remains vibrant.**

The services sector drove growth on the supply side, growing by 6.7 percent for the full year of 2015. Major contributions came from trade, real estate, renting, and business activities or RERBA, and other services, particularly education, recreational activities, and hotels and restaurants.

The industry sector grew by 6.0 percent, although at a weaker pace than last year's 7.9 percent. Mining and quarrying contracted during the period by 1.3 percent in the same way that manufacturing slowed down to 5.7 percent from 8.3 percent in 2014 partly due to the slowdown in global industrial activity. Private construction also slightly weakened in 2015 following double-digit growths in the past as the industry adjusted to the demand for real estate spaces.

The modest growth of the agriculture sector, on the other hand, shows the impact of El Niño, as yields and harvests for *palay* and sugarcane were affected by the inadequacy of irrigation water and rain. However, stronger growth in livestock, poultry, and fishery subsectors resulted in a slight improvement in the sector's performance.

### **More jobs are being created.**

The October 2015 round of the Labor Force Survey showed that unemployment rate dropped to 5.7 percent, the lowest rate recorded in the last ten years<sup>1</sup> and better than the Philippine Development Plan (PDP) target of 6.6 to 6.8 percent. Employment in the services sector, which comprise more than half of the total employed, grew by 440,000 (2.1 percent employment growth) while the industry sector brought in a net additional employment of 169,000 (2.8 percent growth). Among industry subsectors, construction remained robust with 144,000 jobs generated, supported by public-led infrastructure development and the recovery of fiscal spending of the government<sup>2</sup>. Manufacturing also provided a boost of additional 35,000 jobs during the reference period.

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<sup>1</sup> The definition of unemployment was revised in 2005, thus figures previous to that cannot be compared to current figures.

<sup>2</sup> NEDA's report on the results of the National Income Accounts estimates for Q3 2015.

The country's underemployment rate also eased to 17.6 percent from 18.7 percent in the same period of 2014. This means that the number of employed persons who wanted more work declined by 413,000. This positive trend in the labor market is reinforced by an improvement in the quality of jobs generated, as majority of the labor force found relatively remunerative work and full-time employment. This is evidenced by the by 573,000 increase in the number of more remunerative and stable wage and salary workers, 77 of which were private establishment workers and 14 percent were government or government corporation workers. Also, in terms of hours worked, the share of full-time employment (worked more than 40 hours) to total employment increased to 65.2 percent (compared with 63.7 percent in October 2014), while part-time employment (worked less than 40 hours) went down to 34.2 percent (compared with 35.4 percent in October 2014).

However, underemployment remains a concern as it is an indication of inadequate incomes. While the 2015 poverty figures have not yet been released, there is a good indication of an improvement since inflation was only at 1.4 percent.

### **External markets are not hospitable to growth.**

Merchandise exports have been declining in 2015 with key commodity groups such as manufactured products, petroleum products, and mineral products, among others posting lower revenues. On a cumulative basis, total exports value for 2015 fell by 5.6 percent to USD58.6 billion from USD62.1 billion in 2014. It is USD6.4 billion short of the government's target of USD65.0 billion for 2015<sup>3</sup> or roughly 90.1 percent of the target. The global economic slowdown has negatively affected merchandise trade although this may be addressed by diversification of product offerings and an improvement in competitiveness.

Nonetheless, outsourcing and offshoring activities have been vigorous. Information Technology-Business Process Outsourcing (IT-BPO) and other business services subsectors, in particular, remain as the main engines of growth in trade-in-services, while revenues from travel and tourism activities have likewise been improving.

Despite difficulties, the external position remains robust mainly due to the sound fiscal position of the government. With the available fiscal space, government can further stimulate economic activity in the face of an uncertain global environment.

### **Underspending undermines revenue efforts.**

Persistent government underspending remains a problem. While there was an improvement in primary spending from 13.2 percent of GDP last year to 14.5 percent in 2015, a total of PHP328.3 billion or 2.5 percent of the GDP remained underspent. This partially explains deficiencies in the delivery of social services, infrastructure, disaster response and risk mitigation, as well as climate change resiliency efforts.

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<sup>3</sup> The PDP Midterm Update target of USD79 billion was revised by the Export Development Council to USD65 billion as reflected in the 2014 Socioeconomic Report.

Moreover, such underspending weakens the case for revenue and tax reform efforts. Given the still large spending requirements for infrastructure and human capital development, among others, a sustainable and equitable revenue and tax reform program is needed. However, it will be difficult to gain traction on this if agencies are often left with unspent resources.

### **Social services improve but reforms pose new challenges.**

Human capabilities have been enhanced through Universal Health Care or Kalusugan Pangkalahatan, the Pantawid Pamilyang Pilipino Program, and the K to 12 educational reform.

National Health Insurance Program (NHIP) coverage has likewise improved from 2014 and is poised to reach the 90 percent of population target by the end of 2015. Moreover, additional health facilities have been constructed and additional health professionals have been hired and deployed to various underserved communities.

Meanwhile, learner participation rates declined and missed the PDP target, but this may be attributed to the enhancement of the Basic Education Information System which reflected more accurate figures and the improvements made in tracking learners. New teaching positions and additional classrooms also improved teacher-pupil and classroom-pupil ratios.

The implementation of the Senior High School program (grades 11 and 12) in 2016 will pose certain challenges, particularly in the provision of basic inputs such as classrooms and equipment since an estimated 800,000 to 1.1 million students are expected to proceed to Department of Education schools. However, new teacher items have been created and classrooms continue to be constructed.

The Conditional Cash Transfer program as well as the Modified Conditional Cash Transfer exceeded the 2015 target by 148.59 percent largely due to the inclusion of families affected by disasters such as the Zamboanga Siege and Typhoon Yolanda. This was supplemented by livelihood assistance, which served a total of 851,505 families, who were linked with public and private partners for either microenterprise development or employment facilitation.

### **Resilience proves important amid climate change.**

Given the country's experience and vulnerability to disasters brought about by natural hazards and climate change, building resilience became one of the government's priorities. Two years after super typhoon Yolanda struck, most of the rehabilitation and reconstruction of infrastructure facilities in the affected areas are either completed or are nearing completion by November 2015. However, resettlement of survivors from danger zones has been challenging. The government is met with difficulties in finding safe and suitable location for housing and in ensuring the availability of basic needs such as potable water, power and other services.



On the other hand, about 76.3 percent of the targeted 1.03 million households benefitted from the Emergency Shelter Assistance (ESA) of the Department of Social Welfare and Development. Through ESA, households were able to purchase building materials for the repair and reconstruction of damaged houses.

To restore the livelihoods of farmers and fishers, fishing boats were either repaired or replaced, and rice and corn seeds were distributed to beneficiaries. The government also conducted entrepreneurship training for the survivors. With the support of the private sector and the international development community, most of the Yolanda survivors have resumed their normal lives, with many of them experiencing better quality of life due to new sources of income.

This steady stride in delivering high-quality and more resilient infrastructure facilities and various livelihood assistance and social services have provided Yolanda survivors with brighter prospects and the confidence that they could get back on their feet very quickly.

Meanwhile, an inter-agency task force led by the National Economic and Development Authority (NEDA), was convened to mitigate the anticipated severe drought from late 2015 to the middle of 2016. The task force prepared the Roadmap to Address the Impact of El Niño (RAIN) which addresses the phenomenon in four areas: food security, energy security, health, and safety. To ensure food security, RAIN aimed to increase the supply of food, keep food prices stable, and implement mitigating measures to protect farm incomes. Interventions include production support, timely importation, aggressive price monitoring, and income support through crop substitution and work substitution programs.

As El Niño is expected to peak in the first semester of 2016, programs that focus on capacity-building, provision of adequate natural resources, enhancing biodiversity, technological improvements, and intensifying public awareness campaigns are being monitored.

### **More improvements seen in governance, peace, and security.**

Governance reform efforts mostly focused on transparency and citizens' participation. In this regard, improvements in information and communication technology led to online availability of government data, making it easier for citizens to acquire or verify information. Efforts to strengthen rule of law focused on increasing the number of courts with continuous trials and the promotion of alternative dispute resolution, which facilitate judicial processes and reduce case backlogs. These contributed to the Philippines' rise in its percentile ranking in the Worldwide Governance Indicators.

The enactment of the Bangsamoro Basic Law remains crucial in the pursuit of peace in Mindanao, together with intensifying development and other peace-building initiatives in conflict-affected communities. Strong foundations have been laid, with a Bangsamoro Development Plan ready prior to the establishment of a new government.

The Armed Forces of the Philippines' (AFP) Payapa at Masaganang Pamayanan Program and “Oplan Bayanihan” successfully gained ground with 60 out of the target 76 provinces declared free from insurgency as of mid-2015. The Philippine National Police's (PNP) “Oplan Lambat-Sibat” on the other hand, resulted in a reduction of crime volume by more than half from its 2014 figure. The country has also achieved a one police-to-one pistol ratio and further improved the police-to-population ratio of 1:550 in 2015.

### **Infrastructure still underway.**

Government spending on public infrastructure rose almost 30 percent year-on-year to PHP25.4 billion in August 2015, from PHP19.7 billion in 2014 as the government increased its expenditure on infrastructure provision since fiscal year (FY) 2011. However, the infrastructure spending target for FY 2015 set forth in the PDP 2011-2016 Midterm Update has yet to be attained partly due to delays in the implementation of some projects. Causes of such delays include the following:

- Lack of forward planning, which often renders implementing agencies and the private contractors unprepared for projects;
- Right-of-way issues (e.g., presence of obstructions involving electric power lines and posts, telecommunication lines and posts, natural gas pipelines, water distribution lines and other utilities; determination of just compensation);
- Presence of Informal Settler Families (i.e. relocation entails investments in housing and livelihood that need budgetary support);
- Difficulty in securing social acceptability for projects (e.g., coal-fired power plants, large multi-purpose dams, sanitary landfills); and
- Delays in securing permits from relevant government agencies (e.g., local government units, Regional Development Councils, Department of Environment and Natural Resources, etc.).

Thus, while some projects were completed and infrastructure gaps were narrowed, more remains to be done to eliminate the infrastructure backlog. A clear government policy direction, fair competition and a level playing field for participants, an independent and credible regulatory regime, and established and well-coordinated infrastructure plans and programs are needed to ramp up infrastructure development and meet the 4.0 percent and 5.0 percent infrastructure spending targets for 2015 and 2016, respectively.

## **Much room remains for growth.**

The pursuit of higher and more inclusive growth continues. An increasing demand for infrastructure need to be met in order to make the delivery of public services more efficient and to facilitate ease of doing business.

In addition, there remain risks to the country's growth. One of these is El Niño, which has been hindering growth in agriculture. As El Niño is expected to worsen in the first half of 2016, the government has been taking measures to mitigate the impact. Uncertainties brought by an impending change in leadership also pose risks of policy reform reversals. Government and citizens must therefore be vigilant and must remain focused on ensuring that the economy is on the right path as political changes take place.

Notwithstanding these risks, the exceptional performance of the economy in 2015 amid global slowdown, coupled with a focus on sound fundamentals, support our optimism for continued growth in 2016. As long as we do not lose sight of our goals and continue to further deepen governance reforms, rapid and inclusive growth in the medium and long term is highly achievable.







## II. Macroeconomy

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*The macroeconomic fundamentals of the Philippines have further improved owing to sustainable and resilient fiscal and monetary sectors, and healthy and robust external system—providing the conditions for greater access to financing and increased investments which made the economy resilient against external and domestic shocks—but critical issues like sustaining improvements in public spending need to be addressed.*

The national government fiscal deficit (0.27 percent of gross domestic product [GDP] as of September 2015) and the debt-to-GDP ratio (43.9 percent as of end-November 2015) remain stable and sustainable. Revenue and tax effort (16.8 percent and 14.2 percent respectively, for the first three quarters) continue to improve. However, relative to peers in the region, more needs to be accomplished. Primary expenditure (14.4 percent of GDP as of September) continues to increase, while the public sector posted a surplus (2.0 percent of GDP preliminary as of September). The local government units' (LGU) local sources of income has exceeded the target (14.8 percent as of September). Inflation remains subdued (1.4 percent for January to December) while the overall external position remains robust, characterized by a healthy current account balance (2.6 percent of GDP as of September) and a low external debt to GDP ratio (26.0 percent as of end-September).

### Assessment

*The Philippines remains among the fastest-growing emerging economies, although recent economic performance is admittedly below potential growth and the official growth target.* In the first nine months of 2015, the Philippine economy expanded by 5.6 percent, slower than the 6.0 percent in the same period a year ago, although full year growth could still reach 6.0 percent. The economy drew its strength from domestic private sector demand. Public spending is showing signs of improvement albeit still lower than programmed. External demand also weakened for the period.

***The government's financial position remains stable but this is due to under-spending amid good revenue performance.*** Revenue effort continues to improve, rising to 16.8 percent of GDP as of September 2015 (compared to 15.7 percent a year ago) and looks likely to exceed the target by year-end. As of September 2015, revenue collections increased by 12.6 percent compared to a year ago. Tax effort also remains on an uptrend (14.2 percent of GDP as of September), but is likely to remain below target. The two major collecting agencies, the Bureau of Customs and the Bureau of Internal Revenue, continued to post year-on-year revenue increases equal to 0.92 percent and 7.9 percent, respectively, as of September. Internal revenues rose largely due to a 4.9 percent increase in income tax collections (10.3 percent up from corporations), an 81.5 percent increase in 'Other domestic taxes', and a 13.3-percent increase in excise taxes. The latter was probably due to the continuing impact of the implementation of the Sin Tax Law of 2012. Sales taxes are down by 11.6 percent, likely due to depressed oil prices. Non-tax revenues, on the other hand, have been exceeding the annual targets. Non-tax revenue to GDP (including grants) rose to 2.0 percent as of September.

***As of June 2015, the consolidated public sector financial position<sup>4</sup> remained in surplus at 2.6 percent of GDP.*** This contrasts with the full-year target for 2015 for the consolidated public sector position, which is a deficit level of PHP153.5 billion or 1.1 percent of GDP. For 2016, amid continued spending on infrastructure and social services, the consolidated public sector financial position is expected to result in a lower deficit level of PHP129.8 billion or 0.8 percent of GDP due to the improvement in the performance of the monitored government-owned and controlled corporations and the combined surpluses of social security institutions, government financial institutions, and local government units.

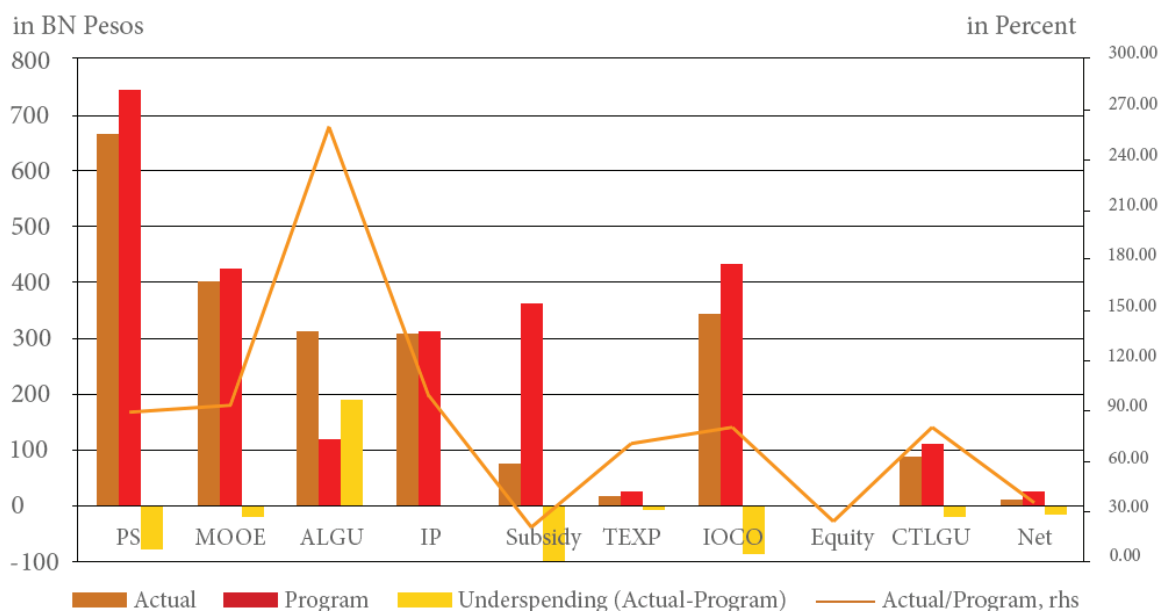
***On local government fiscal operations, the growth of the local sources of revenues as of the third quarter of 2015 stood at 14.8 percent, exceeding the target of 5.7 percent.*** Tax revenue (consisting of real property tax, tax on business and other taxes) accounted for 74.2 percent of the local revenues and 26.2 percent of the total current operating income of the LGUs, while non-tax revenues shared 25.8 percent of the local sources and 9.1 percent of the total LGU income.

***Although public spending has improved in recent months, underspending remains a problem, potentially reaching some 2 percent of GDP by year-end.*** It is noted that primary spending improved from 13.1 percent of GDP in 2014 to 14.4 percent in the first three quarters of 2015. The agencies have also improved in terms of utilizing the allotments given to them; however, underspending still remains. In fact, for the first nine months of the year, underspending amounted to PHP276.4 billion.

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<sup>4</sup> The consolidated public sector financial position is the combined financial positions (in terms of balances) of the National Government, the monitored non-financial government corporations, the GFIs, LGUs, Social Security Institutions as well as the cost of restructuring the defunct Central Bank and the financial position of the present Bangko Sentral ng Pilipinas

Figure 1. National government spending, January to December 2015



Source: Department of Budget and Management

Note: PS – Personal Services, MOOE – Maintenance and other Operating Expenses, ALGU – allotment to LGUs, IP – Interest Payments, TEXP – Tax Expenditures, IOCO – Infrastructure and other Capital Outlay, CTLGU – Capital Transfers to LGUs

**Meanwhile, debt sustainability continues to improve, underpinned by declining debt level and a more resilient risk profile.** The debt-to-GDP ratio has fallen remarkably from 51.5 percent in 2012 to 43.9 percent as of end-November 2015, which is already lower than the target for 2015. Within the same period, the foreign component of the debt was also reduced from 36.2 percent to 34.6 percent, easing the exposure of debt service to exchange and roll-over risks. Furthermore, debt service burden, as measured by the share of interest payments to total expenditure, remained on a diminishing trend, narrowing steadily from 17.6 percent in 2012 to 14.4 percent as of November 2015. One of the opportunities in the sector is the prospect of further credit ratings upgrade from major credit rating firms, which is expected to have positive bearing on sovereign borrowing costs.

***Inflation remains subdued given softer commodity prices.*** From January to December 2015, average inflation was at 1.4 percent, 0.6 percentage point (ppt) below the low-end of the government's target range of 3.0 percent  $\pm$  1.0 ppt for 2015. Tempered inflationary pressures may be attributed mainly to the deceleration in price increases of non-food items (0.46 percent), due to lower prices of oil-related items like electricity, gas and other fuels, and operation of personal transport equipment, caused by price reductions in domestic petroleum products during the period. Food inflation and non-alcoholic beverage (2.54 percent) also slowed down due mainly to ample domestic supply and lower import prices of certain food items, particularly rice, corn, oils and fats, and vegetables. The decline continued for the period January to October, and only picked up again in the last two months of the year as El Niño affected agricultural production. Core inflation (2.0 percent), which excludes certain volatile food and energy items to better capture the underlying price pressures, was higher than the headline inflation rate, although it is also slower compared to core inflation in the same period last year. This indicates that the broad underlying price pressures are weaker. The higher-than-headline core inflation is due mainly to price increases in water supply and miscellaneous services, actual rentals for housing, and transport services. Inflation will likely be within the midpoint of the target range from 2016 to 2017, supported by a firm underlying growth momentum in domestic economic activity.

***The economy's external position remains robust.*** Despite the challenging external environment, current account balance for the first semester of the year remains healthy. Robust performance of outsourcing and offshoring activities, particularly those in IT-BPO and other business services subsectors, remain as the main engines of growth in trade-in-services, in addition to improving revenues from travel and tourism activities. The combined impact of weak global demand and easing commodity prices caused a slight decline in the balance-of-trade position for the nine months of 2015. Export of goods was particularly hit while exports of services sustained its growth. For January to September this year, total trade balance declined by 21.6 percent. Trade balance in merchandise goods deteriorated by 20.9 percent further widening the deficit to USD13.8 billion from USD11.4 billion deficit in the same period last year. Meanwhile, the country's external debt as of end-September 2015 stood at USD75.6 billion, 1.9 percent lower than the USD77.1 billion recorded in the same period in 2014. Reliance on foreign currency financing has declined since 2012 from 32.0 percent of GDP to 26.0 percent of GDP as of the reference period. One of the primary reasons for this is the improving fiscal position of the national government and the government's debt rebalancing strategy of tapping domestic financing to take advantage of the available resources and favorable interest rates in the domestic market.

## Challenges

The fragility of the global economy is expected to remain as an important challenge to the country's economic performance over the medium term. As economic developments in Japan, United States of America (US), China, European Union (EU) and Southeast Asia continue to evolve, the country's economic managers must always be ready with measures to mitigate negative impact as well as to seize opportunities that may arise. A strong fiscal position and a stable macroeconomy will be crucial in maintaining and enhancing resiliency and achieving higher growth.



**Depending on the results of the upcoming national elections, a change in administration poses challenges to continuity of reforms that are already being implemented.** The private sector, in particular, is very concerned about the predictability of the investment climate, specifically in terms of the state honoring contracts. While the Philippines has shown resilience amidst fragile global demand, it still remains vulnerable to natural hazards and extreme weather events, which include typhoons, monsoon rains, El Niño, La Niña, earthquakes, tsunamis, and volcanic eruption.

**Sustaining the gains in revenue generation is a continuing challenge.** The table below shows that the country's revenue and tax efforts have improved, in contrast to the deterioration in other countries. The Philippines is now slightly ahead of Indonesia in terms of revenue effort, though still below most of its other peers among Southeast Asian nations.

*Table 1. Tax and revenue effort of selected ASEAN countries, 2013-2014*

Country	Tax effort (% of GDP)		Revenue effort (% of GDP)	
	2013	2014	2013	2014
Philippines	13.3	13.6	14.9	15.1
Indonesia	11.3	10.9	15.0	14.7
Malaysia	15.3	14.8	20.9	19.9
Thailand	16.5	15.3	18.4	17.5
Vietnam	19.1	18.2	22.8	21.8
Singapore	13.4	...	21.9	...

Source: ADB key Indicators for Asia and the Pacific 2015  
... - figures not available before cut-off date

Although revenue and tax efforts have improved, Philippine tax efficiency remains low relative to its regional neighbors as can be seen in the table below showing personal income tax (PIT) efficiency ratios.

*Table 2. Personal income tax (PIT) efficiency ratios*

Comparative PIT Rate (2012)	PIT Rate (A)	PIT (% of GDP) (B)	PIT Efficiency (C=B/A)
Philippines	32.0	2.0	6.2
Indonesia	30.0	0.04	0.1
Malaysia	26.0	2.29	8.9
Thailand <sup>5</sup>	37.0	8.10	21.9
Vietnam	35.0	8.8	25.1
Singapore	20.0	2.06	10.3

Source: WB, USAID

<sup>5</sup> Thailand has recently reduced its top tax rate to 35 percent, but remains to have a higher tax efficiency ratio than the Philippines.

***There is a growing support for income tax reform, particularly to address the growing vertical inequity due to “bracket creep”.*** Many income earners were pushed into higher income brackets as their incomes increased to adjust to inflation. Since the tax structure has not been changed to take account of erosion in purchasing power, income earners are effectively taxed at higher rates. The resulting inequity thus calls for a reform in the income tax structure. In addition, there is a need to reduce the cost of tax compliance as an important aspect of reforming tax administration. Along this line, the new Tax Incentives Management and Transparency Act is expected to result in transparency, accountability and rationalized responsibilities in tax incentives administration.

***Underspending undermines the efforts to raise more revenues.*** Persistent government underspending is partly attributed to the low conformity to expenditure management reforms. As government agencies slowly adjust to new “standards and requirements for new personnel, software systems and hardware,”<sup>6</sup> implementation of programs and projects gets delayed. To ramp up spending, government thus needs to increase the absorptive capacities of agencies and to strengthen the link between planning and budgeting. The resulting increase in efficiency of public sector expenditure management will strengthen the case for raising revenues.

***On debt management, financing costs may increase as price pressures and greater volatility in global capital markets may push up inflation and interest rates.*** Pending petitions for power rate adjustments and the impact of stronger-than-expected El Niño on food and utility prices present upside risks to inflation. Over the period ahead, volatilities in the global financial markets resulting from a slowdown in China and policy normalization in the US could be important considerations for the inflation outlook in the next quarters to the extent that they influence inflation expectations and market sentiment on the domestic front. Notwithstanding, risks to the inflation outlook are considered to be broadly balanced and inflation expectations remain anchored within the inflation target band.

Meanwhile, asynchronous monetary policies across countries pose risks of higher interest rates. The normalization of interest rates in the United States on the back of improving economic activity will likely result in increased volatility in financial markets, especially in equities, bonds and currency markets, as investors seek higher yields in US treasuries. However, quantitative easing in many emerging and developed economies such as Japan and the Eurozone may continue over the short-term as economic activity remains slack.

***External trade in goods and services has become volatile.*** Uneven global economic conditions could weaken external demand for Philippine products and services. In major oil-producing countries in the Middle East, which host roughly 2.5 million workers or 24 percent of all Filipinos overseas, the demand for labor could be reduced as a result of low oil prices. Widening fiscal deficit due to falling revenues from oil could also result in reduced government spending in those countries. These may ultimately lead to a decrease in remittances from the Middle East, which contributes roughly 20 percent of the total annual cash remittances or around USD5.0 billion yearly. With such global volatility, the country will need to substantially improve its competitiveness.

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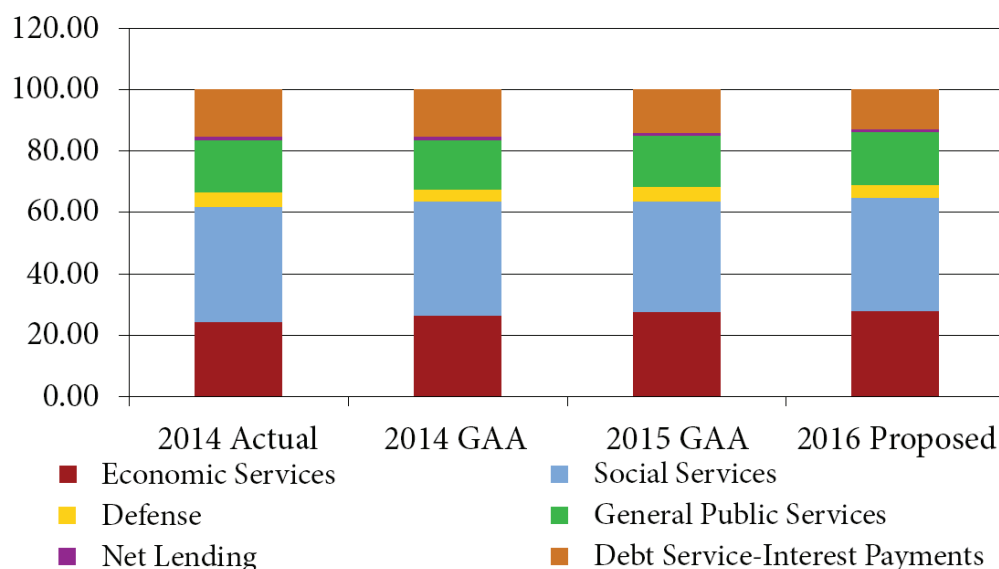
<sup>6</sup> Budget Priorities Framework for the Preparation of the FY 2016 Agency Budget Proposals under Tier 2 of the Two-Tier Budgeting Approach

## Strategies

***Policymakers need to actively monitor and anticipate the potential impact of the abovementioned challenges. To ensure that revenue gains from previous reforms are sustained, any income tax reform implemented should at least be revenue neutral.*** Ideally, reforming the income tax structure should have a holistic approach and should be part of a comprehensive reform package. Given competing interests of various stakeholders, this will ensure that the benefits of reforms as a whole outweigh costs or losses for affected sectors. Building constituencies and better coordination among stakeholders will be important in order to steer the design and execution of these reforms. The implementation of the new Tax Incentives Management and Transparency Act will also require appropriate processes and resources in place. Likewise, the implementation of the various tax administrative reforms of the Bureau of Internal Revenue and the Bureau of Customs—in particular, significant improvements in voluntary tax payments from and compliance costs for self-employed and professionals as well as from estates—will need to be strengthened. Moreover, tax reforms should also seriously consider the costs of tax compliance – an important area of study that should inform tax policy.

***In the area of expenditure management, the linkage between planning and budgeting needs to be strengthened further, with greater emphasis on the planning side.*** Part of this strategy is the introduction of the fiscal calendar that will serve as guide for the agencies in the timely conduct of their planning and budget activities. In compliance with Administrative Order No. 46 s. 2015, more full-time delivery units should be created to proactively monitor agency performance. There is a need to simplify information and analysis across the oversight agencies through the creation of a common database that will support various Public Financial Management (PFM) functions such as budget management, cash management, accounting and fiscal reporting. Moreover, as part of the Public Financial Management Reforms, the adoption of the Treasury Single Account will continue to be implemented. Consistent with the government's goal to reduce poverty, social services spending should remain an important priority. Social services accounted for 36.6 percent of the budget in 2015, rising slightly to 36.8 percent in 2016. Of equal importance is the management of contingent liabilities arising from public-private partnership (PPP) contracts. Some PHP30.0 billion has been allocated in the 2016 General Appropriations Act (GAA) under the Unprogrammed Fund to cover contingent liabilities associated with PPP contracts.

Figure 2. Sectoral breakdown of expenditures, ratio to total (in percent)



Source: Department of Budget and Management

***In order to build resiliency to external shocks, the government should continue to improve the National Government's debt profile through prudent borrowing strategy and proactive engagement in liability management transactions.*** Given the increased volatility in currency markets, there should be continued bias towards domestic financing, which would also support the development of the local capital markets. In fact, domestic borrowing is projected to account for 84.5 percent of the total financing in 2016 from 83.6 percent in 2012. As of November 2015, 58.0 percent of the total financing was raised from the domestic market. Risks arising from contingent liabilities, including those arising from infrastructure projects and calamities, should also be continuously monitored and quantified.

***Evolving domestic developments and increasing influence of global factors require a more responsive policy toolkit in the conduct of monetary policy.*** Monetary policy design shall be continually revisited to enhance policy frameworks and implement measures towards a more effective monetary policy transmission mechanism. By the second quarter of 2016, the Bangko Sentral ng Pilipinas (BSP) intends to implement an interest rate corridor (IRC) system to enhance the effectiveness of monetary policy in the country. The IRC supports the inflation targeting policy framework by operationalizing or enforcing the policy stance, enhancing the transmission of policy rate adjustments to money market rates and ultimately to macroeconomic variables of interest (output and inflation), and achieving the benefit of a more effective policy signal when market rates closely track the policy target rate. The establishment of more precise interest rate benchmarks will help simplify the effective and efficient pricing of financial products in the domestic market. Additionally, there is an urgency to pass the Amendments to the BSP Charter, including a host of related bills that will strengthen the scope and effectiveness of monetary policy.

*As the global economy continues to be uncertain, domestic policies should be enhanced to mitigate the adverse impact of these imbalances on the country's external position.* Efforts to improve the country's competitiveness, such as improvements in the quality of export products and diversification of markets (see Chapter 3: Competitive and Innovative Industry and Service Sectors) should be continued. To give protection to those who continue to be interested in working overseas, diversifying the deployment destination of overseas workers should be strengthened. This should be complemented with proper training and education in order to enable them to shift into higher-skilled types of work, while ensuring their mobility across specialization and country of destination.

### PERFORMANCE-INFORMED BUDGETING

The performance-informed budgeting (PIB) was adopted starting FY 2014 to "strengthen linkages between planning, budgeting and outcomes, simplify budget presentation and enhance transparency and accountability in the allocation of limited resources." This enhances performance orientation in the budget process. PIB places more emphasis on outputs and outcomes rather than the inputs. The PIB structure follows the Results Framework or the Logical Framework of every department and agency through the Organizational Performance Indicator Framework. This framework contains the agency's programs, activities and projects (PAPs) and corresponding Major Final Outputs. With the introduction of the PIB in 2014, there were more linkages between the funds allocated for government programs and the projected results and outcomes of these. The PIB is transitioning to its next phase, the Program Expenditure Classification in 2017.

Source: PIB Brochure available at <http://budgetngebayan.com/wp-content/uploads/PIB-Brochure.pdf> and PIB document available at <http://exploredoc.com/doc/4620176/performance-informed-budgeting>







# III. Competitive and Innovative Industry and Services Sectors

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*The performance of both industry and services (I&S) sectors remained modest. Innovation is necessary to increase their ability to compete in the domestic market while improving their presence in the global market.*

The growth in gross value added (GVA) in the I&S sectors slowed down compared with the same period in 2014. The services sector grew faster in 2015 compared to 2014 and almost reached the low-end target of 6.8 percent for the year. However, the industry sector failed to meet the plan target as growth slowed down to 6.0 percent during the year.

The industry sector slowed down with the continuing decline in manufacturing, which accounts for 69.0 percent of total industry GVA. Manufacturing GVA was pulled down by the slower growth posted by food manufactures and beverages, and declines in office, accounting and computing machinery, as well as wearing apparel. Adversely affected by weak global demand, the manufacturing sector was at the same time unable to take advantage of the strong domestic demand.

In terms of employment generation, the sectors will likely reach the low-end target of 887,000 for 2015. The I&S sectors generated additional 758,300 employment, some 23.7 percent (179,700) of which are in industry and 76.3 percent (578,700) in services<sup>7</sup>. The construction subsector accounted for most of the employment generated in the industry sector; while wholesale and retail trade, repair of motor vehicles and motorcycles, public administration and defense and other services subsectors accounted for employment growth in services.

The Philippines maintained its score of 4.4 in the Global Competitiveness Index, while its rank improved to 47th (out of 140 countries) from 52nd (out of 144 countries) in 2014. The country also ranked 4th among ASEAN (Association of Southeast Asian Nations) member states in the Innovation Index and 5th in the overall Global Competitiveness Index.

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<sup>7</sup> Philippine Statistics Authority: 2015 1st Semester Employment increment was derived using the average of April and July 2014 and April and July 2015 employment data. January 2014 and 2015 employment data were excluded due to non-comparability, the former excluding Region 8 while the latter only excluded Leyte.

## Assessment

The Philippine Development Plan (PDP) aims to make the industry and services sectors globally competitive and innovative by improving the business climate and increasing the sectors' productivity and innovative capacity. Strategies under the PDP are also intended to enhance consumer welfare and to expand market access.

***Business climate in the Philippines improved as application procedures for electricity connection was simplified, but a lot has to be done in other indicators concerning ease of doing business.*** The country's efforts in simplifying business application procedures for an electricity connection improved the country's ranking in the 2016 Doing Business Report<sup>8</sup> by two places, from rank 21 to rank 19. However, all other indicators such as "starting a business" and "getting construction permits" declined. This led to a decline in the Philippines' overall ranking by six places to rank 103 from its previous rank of 97 out of 189 economies.

***Labor productivity and spending for intellectual property products<sup>9</sup> registered modest increases in 2015.*** Labor productivity of the I&S sectors increased at an annual rate of 3.8 percent<sup>10</sup> during the period, below the plan target of 4.1 to 5.0 percent. The labor productivity increase was higher for services which registered at 4.2 percent compared to industry at 3.1 percent. Meanwhile, expenditures for knowledge-based assets and services such as research and development, computer software and databases grew by 14.0 percent and accounted for 2.9 percent of fixed investments during the nine-month period.

To safeguard consumer welfare, prices of food and other basic commodities were continuously monitored, while anti-profiteering measures were strictly enforced. Food inflation was only 2.6 percent in 2015, lower than the previous 7.2 percent experienced in 2014. Consumers' awareness of their rights also improved, which is one of the strategies in the PDP to empower consumers. Results of a survey<sup>11</sup> conducted show that the 75.0 percent target level of consumer awareness on their rights to safety, information, and choices was surpassed in 2015, garnering an average of 77.0 percent for the whole year.

The target in services exports will likely be met as almost 80.0 percent of the USD26 billion target had already been attained in the first nine months of 2015. Other business services<sup>12</sup> accounted for 58.5 percent of the total services export. However, merchandise exports declined by 5.8 percent in the first eleven months of the year compared to the same period in 2014, partly due to the economic slowdown in the country's top trading partners and weak external demand for a number of export commodities, such as clothing, minerals, and agro-based products. Merchandise exports to East and Southeast Asia also declined during the period.

***The target for total approved investments is not likely to be met in 2015.*** Total foreign and local

<sup>8</sup> Although steady reforms and streamlined processes have been implemented by the Philippines for each of the categories of the Report, a concern is raised on the yearly changes applied by the World Bank and International Finance Corporation on the methodology used in the Report. (National Competitiveness Council Bulletin/Announcements, 28 October 2015, [www.competitive.org.ph](http://www.competitive.org.ph))

<sup>9</sup> Intellectual property products included expenditures on research and development, mineral exploration, computer software and databases, and entertainment, literary or artistic original. At constant 2000 prices.

<sup>10</sup> Labor productivity was computed by dividing the Q1-Q3 gross value added of I&S by the average Jan-July employment of I&S excluding Leyte.

<sup>11</sup> Commissioned by the DTI-Office of Operational Planning

<sup>12</sup> Including research and development services, professional and management consulting services and technical, trade-related and other business services



investments, as approved by investment promotion agencies during the first semester of 2015, amounted to PHP186.4 billion. This is 48.9 percent lower than the PHP365.2 billion committed in 2014. Specifically, there was a decline in investments in real estate, manufacturing, and electricity, gas, steam, and air conditioning supply. Of the total approved investments for the semester, 68.9 percent came from Filipino investors with PHP128.4 billion worth of pledges.<sup>13</sup>

Accounting for the actual flow of foreign investments, net foreign direct investments (FDI) amounted to USD4.98 billion for the first ten months of 2015. This is 4.9 percent lower than the USD5.2 billion recorded in the same period in 2014,<sup>14</sup> due to the 51.5 percent decline in debt securities. While net FDI flows to the Philippines increased from 2012 to 2014, the net FDI inflows were lower compared to Singapore, Indonesia, Thailand, Malaysia and Vietnam.

***International tourist arrivals and tourism receipts in the first ten months of 2015 were higher than in 2014, but will still likely fall short of their respective full-year targets.*** A total of 4,395,812 international tourist arrivals were registered in the first ten months of 2015, higher by 11.1 percent compared with the 2014 performance. Tourism receipts amounted to PHP186.9 billion, 8.0 percent higher than in 2014. In terms of tourist arrivals in the Southeast Asian region, the Philippines ranked 6th after Malaysia, Thailand, Singapore, Indonesia and Vietnam. Meanwhile, the country almost reached its target of 56.1 million domestic travelers for 2016. There were 54.6 million local tourists in 2014.

## Challenges

Even amid uncertainties, market opportunities exist and the challenge for the industry and services sector is to be able to seize these.

***The I&S sectors need to tap new markets and expand the range of their offerings.*** Global demand from China, the Eurozone and other export markets like the United States and Japan has weakened, while domestic demand has proven robust. The challenge for the I&S sectors, therefore, is to be able to expand market networks and diversify product offerings to serve the domestic market, while maintaining presence in the global market.

***The sectors also need to take advantage of existing free trade agreements and be able to advance Philippine interests in agreements that are currently being negotiated (including the Regional Comprehensive Partnership Agreement) or to be negotiated in the future.*** The increase in Philippine engagements in these fora underscores the need to improve coordination and consultation among agencies as well as to formulate a common framework for negotiation, especially where policy decisions are made on participating in and negotiating bilateral, regional and multilateral arrangements. At the same time, the I&S sectors need to be prepared to make adjustments in light of the implementation of new free trade agreements that do not include the Philippines (e.g., the Trans-Pacific Partnership).

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<sup>13</sup> Philippine Statistics Authority

<sup>14</sup> Bangko Sentral ng Pilipinas

## Strategies

The I&S sectors have shown modest economic gains but there is still room for improvement in terms of competitiveness, innovation, infrastructure and regulatory environment.

***Increase both public and private investments in logistics and infrastructure.*** Public and private investments in logistics and infrastructure are crucial to increase the efficiency of markets. There is a need to construct, upgrade, rehabilitate and improve roads, bridges, sea ports and airports to connect and facilitate market transactions among the various economic sectors across the country and connect them to global markets.

Institutionalizing the regulatory framework for multimodal transport should be another priority for promoting social and economic exchanges between and among provinces or islands, given the country's archipelagic structure. A seamless multi-modal transport system will not only improve connectivity, but also redound to lower cost of doing business in the Southeast Asian region as well as globally. A multimodal transport agreement signed by the Philippines with ASEAN remains to be implemented due to the absence of a national accreditation body for multimodal transport operators. A single competent body will help multimodal operators reduce costs and delays by registering with only one agency instead of several.

Investments in power generation should continue to assure the availability and reliability of power supply for the sectors at a reasonable cost.

To ensure efficiency and coordination, convergence of infrastructure programs among government agencies will need to be sustained.

***Coordinate with the academe and employers to improve skills matching.*** The government shall facilitate the strengthening of industry-academe linkages through the promotion of on-the-job trainings. This will enhance the industry sector's capacity to absorb new entrants to the labor force and bring workers into higher-value adding sectors. Initiatives to address skills mismatch include: JobStart Philippines,<sup>15</sup> Talent Mapping Initiative<sup>16</sup>, Special Program for Employment of Students and Out-of-School Youth<sup>17</sup>, among others. Furthermore, the passage of the bill reforming the National Apprenticeship Program will facilitate school-to-work transition.

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<sup>15</sup> An initiative by the Department of Labor and Employment, LGUs, Asian Development Bank, and the Government of Canada which aims to facilitate the school-to-work transition of out-of-school youth who are currently seeking work actively.

<sup>16</sup> An initiative by the Department of Labor and Employment, Serbisyo Filipinas, Inc., Hirelabs Solutions, Success Partners, and other international partners which aims to enhance the labor market information system by assessing the skills and competencies of various stakeholders and creating a comprehensive work profile of the Philippines. The profile will be used to identify skills requirements of industries and project future staffing needs.

<sup>17</sup> A program that shall endeavor to provide employment to deserving students and out-of-school youths from poor families every summer and/or Christmas season as provided for under Republic Act No. 7323 and its implementing rules, to enable them to pursue their education.

***Continue to provide technical support to Micro, Small, and Medium Enterprises.*** These enterprises will continue to be supported through shared services facilities, SME Roving Academy, and improved access to finance. To ensure a level playing field even for new firms, the Competition Law will be implemented, beginning with the activation of the Philippine Competition Commission.

The passage of the Customs Modernization and Tariff Act should be fully supported, as this will lay the groundwork for faster and less costly trade.

***Accelerate reforms that will further reduce the cost of doing business.*** These reforms include: streamlining the procedures and documentation relating to trade and starting a business, lowering electricity and transportation costs, catching up on infrastructure backlogs, and fully utilizing the existing major ports. The implementation of the Foreign Cargo Co-loading Act is also expected to reduce shipping costs and help enhance competitiveness of Philippine exports. Efforts to amend specific laws cited in the Foreign Investment Negative List shall likewise be supported.

***Implement innovative marketing schemes to strengthen market presence of the country's products.*** Innovative marketing arrangements such as forging partnerships with international establishments (e.g., supermarkets, groceries) that can market the country's products should be explored and developed. The country must take advantage of the reconfiguration of the regional production networks brought about by the shifting production base.

***Promote conformity with product and services standards for exports.*** To support the expansion of market access and boost the competitiveness of exports, the components of the National Quality Infrastructure shall be further strengthened and harmonized. Increased access to testing, certification and accreditation facilities will facilitate local compliance with international quality requirements. Fostering partnerships with internationally-recognized accreditation bodies will align local accreditation with global practices.

***Maximize use of free trade or regional cooperation agreements.*** As more trade arrangements are being envisioned, and given the growing complexities of these agreements, a well-organized and coordinated mechanism that can provide policy research and analytical preparation support, as well as physical and financial resources, will need to be institutionalized. A mechanism similar to the United States Representative Office may be considered. Monitoring of the costs and benefits resulting from such engagements should also be undertaken to better refine engagements and extract maximum benefits in future partnerships.

Meanwhile, the country was able to raise the prominence of services when the APEC Leaders adopted the Services Cooperation Framework. It would better enable economies including the Philippines to address trade related services restrictions and review progress of agreed action plans to liberalize services trade.







## IV. Competitive and Sustainable Agriculture and Fisheries Sector

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*The agriculture and fisheries (A&F) sectors persist to be the biggest roadblocks in our goal of attaining a higher and more inclusive growth—both in terms of improving crop production and farmers’ incomes. There is an urgent need to rethink government interventions and overall development strategy for these sectors, especially with the impact of El Niño and weather-related disasters that hound the country.*

With the sectors’ continuing underperformance, even with improvements in a number of its sub-sectors and in some indicators, the government needs to implement a sound policy that further enhances crop diversification, strengthens agro-industrialization, and facilitates trade and competition. Investments need to be channeled to greater use of technology, research and development, and efficient logistics that will allow the sector to enhance production efficiency, increase productivity, and establish market linkages. The sector also needs to diversify crops and farmers’ sources of income to be able to adapt to climate change and to structural changes associated with trade liberalization.

In addition, the passage of a law that would continue the land acquisition and distribution of undistributed lands must be pursued. At the same time, there is a need to revisit restrictive agrarian reform policies on ownership and transfers, to facilitate the formation of well-functioning land markets that are conducive to agro-industrialization. Also, the institutional set-up for the provision of support services to farmers and fisherfolk including the agrarian reform beneficiaries must be enhanced.

### Assessment

***The growth and development of the A&F sectors have been slow.*** From 2011 to 2014, the A&F sectors generally fell short of the PDP targets, particularly in terms of gross value added (GVA), yield of major commodities, volume of industrial crops, and land distribution and subdivision of collective Certificates of Land Ownership Award (CLOA) under the Comprehensive Agrarian Reform Program (CARP). Based on latest available data on the sectors’ accomplishments for 2015, they may continue to underperform in many of the Philippine Development Plan (PDP) indicators.

***The A&F sectors were unable to achieve the GVA growth targets for 2015.*** From 2014 to 2015, the A&F GVA grew by only 0.3 percent<sup>18</sup>, which is below the PDP lower-end target of 3.3 percent. The negative performance of the crops (-1.9 percent) and fisheries (-1.8 percent) sub-sectors, which contributed a substantial share of 49.0 percent and 18.0 percent to the sector GVA respectively, pulled down the sectors' overall growth.

The crops sub-sector remains vulnerable to climate change and extreme weather events. The average annual damage due to typhoons from 2010 to 2014 for agriculture is estimated at PHP25.4 billion<sup>19</sup>. For 2015, partial estimates of crop production losses due to one typhoon alone, Typhoon Lando, reached 511,691 metric tons (MT) valued at PHP8.45 billion<sup>20</sup>. Losses of *palay* alone are about 471,198 MT<sup>21</sup> valued at PHP7.21 billion. Moreover, the ongoing El Niño has already resulted in crop production losses of 218,379 MT or about PHP3.3 billion<sup>22</sup>. *Palay* production in 2015 also declined by 4.3 percent compared to 2014. The worsening of El Niño dampened the sub-sector's full-year performance.

For the fisheries sub-sector, the contraction can be attributed to the decline of fish catch due to poorly managed waters for capture fisheries. For aquaculture, mortality rate was also high due to hot weather conditions and poor fishing practices.

Somehow making up for the poor performance of the crops and fisheries sub-sectors are the gains in livestock and poultry, which registered GVA growth rates of 3.8 percent and 5.7 percent, respectively. These sub-sectors exceeded the 2015 GVA upper-end targets as high local market demand was sustained, which drove production especially in hogs and chicken.

The yields of major commodities posted positive growth rates in the past five years, but remained below targets. The yield levels of most crops increased, leading to higher production volumes. From 2010 to 2014, average yields of *palay*, corn, sugarcane, mango, pineapple, and cassava registered positive growth but at rates slower than projected. In 2015, slightly weaker yield performance of most crops was observed due to the lower rainfall levels as El Niño heightened. Most of these commodities require huge increases in yield to attain their targets. The average yields of *palay* (3.9 mt/ha) and white corn (1.7 mt/ha), the commodities most affected by the intensification of El Niño, did not reach the 4.5 mt/ha and 2.0 mt/ha targets for 2015, respectively. Moreover, the average yields of sugarcane (53.6 mt/ha), banana (20.5 mt/ha), and pineapple (41.1 mt/ha) failed to hit their respective targets for 2015 (66.9 mt/ha, 23.9 mt/ha, and 44.4 mt/ha, respectively). Mango, however, almost reached the projected yield growth rate considering the continued high commodity price, the industry's use of good farm management practices, and the continued good weather with no incidents of strong typhoons especially during the flowering stage. For coconut, the target yield level (in copra terms) of 0.9 mt/ha for 2015 was attained as the sub-sector continues to recover from the scale insect infestation it experienced in 2014 especially in the Laguna-Batangas-Quezon areas.

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<sup>18</sup> Growth rate for A&F GVA excludes forestry.

<sup>19</sup> Data from the NDRRMC.

<sup>20</sup> Partial report of the DA as of 26 October 2015.

<sup>21</sup> Ibid.

<sup>22</sup> Reported as of 13 August 2015.

***Labor productivity in A&F surpassed the lower-end target for 2015.*** Labor productivity growth for full-year 2015 is recorded at 2.6 percent, which is higher compared to the 2015 PDP lower-end target of 2.0 percent. For the said period, A&F sector output slightly increased while employment dropped by 4.9 percent. The contraction in employment could be attributed to the lack of opportunities for other sources of income, both in the agriculture and agri-related activities and non-agriculture-related activities. Diversification into high-value crops and enhancing value-adding/agro-processing have not been pursued at a pace that could have helped create more employment opportunities in the sector. Significant improvement of labor productivity from its current low level in the sector will only happen if agriculture grows much faster or when broader economic growth occurs such that labor migration takes place from the agriculture to the higher-paying jobs in the industry and services sectors.

***The country's top agriculture exports remained competitive in the last five years; however, a significant drop in export earnings was observed in the first three quarters of 2015.*** The country's export potential remained high based on the average revealed comparative advantage (RCA)<sup>23</sup> index of selected commodities from 2010 to 2014. Coconut products remained the most competitive among top agriculture exports with coconut oil and desiccated coconut posting average RCAs of 251.6 and 228.9, respectively. Moreover, banana (129.0) and pineapple (35.6) maintained their high RCA. On the other hand, copra (7.15), tobacco (3.1) and centrifugal sugar (2.0) have RCAs that are lower compared to other agriculture exports.

The competitiveness of top agricultural exports should be maintained, if not further improved, by expanding their market share in the growing international trade. However, such expansion is not happening, as can be seen in the value of agricultural exports which declined by 25.2 percent in the first three quarters of 2015 as compared to the same period in 2014. It needs to substantially grow by 44.2 percent to be able to reach the 2015 PDP lower-end target growth of 9.5 percent. The gains in pineapple/pineapple products, seaweeds and carageenan, tobacco unmanufactured and dried mango were eroded by the slump in the export earnings of other top export commodities, including coconut oil (-5.9 percent), fresh bananas (-62.8 percent) and tuna (-29.0 percent).

***Given the greater liberalization of trade under the regimes of the World Trade Organization (WTO), ASEAN Economic Community (AEC) 2015 and other free trade agreements (FTAs), the country has yet to take full advantage of the opportunities offered by new and bigger markets.*** Greater and better access to these new markets, especially for commodities that have established comparative advantage, are still to be harnessed and strengthened.

Poor diversification indicates failure to harness market expansion brought about by trade liberalization and participation in FTAs. The Herfindahl index of diversification<sup>24</sup> for major crops in 2000 to 2014 had been constant at 0.27, indicating high concentration of area harvested with dominant crops namely rice, coconut and corn. The combined area harvested of high-value crops with greater prospects for market expansion such as banana, tropical fruits, sugarcane, rubber, coffee, pineapple, oil palm and tobacco is much smaller compared to the combined area harvested of the three dominant crops.

<sup>23</sup> RCA is the ratio of the share of a product in total Philippine exports to the share of the same product in total world exports.

<sup>24</sup> It is computed by getting the sum of the squares of the proportion of crop harvested area to the total crop harvested area.

Private sector investments, particularly those approved by the Board of Investments (BOI) for agriculture, forestry, and fishing already stood at about PHP8.1 billion from January to September 2015 but still requires an additional PHP0.8 billion to attain the 2015 PDP target. The current level of approved investments is already twice greater than what was approved in the previous year. Private sector participation, especially in relation to the development of efficient value chains, not only enhances investment to the sector but also engenders additional livelihood opportunities. Addressing inefficiencies in the logistics system and development of rural infrastructure would further encourage the private sector to invest in the A&F sectors.

***Incomplete asset reform hindered the transformation of farms to more progressive entities that take advantage of new technologies and production arrangements, including partnership with the private sector to expand their operations.*** Land acquisition and distribution (LAD) and subdivision of CLOA under the CARP have yet to be completed. As of December 2015, the Department of Agrarian Reform (DAR) already distributed a total of 4.75 million hectares or 87.0 percent of the total DAR-LAD scope.

The achievement of the PDP target for land distribution will be a major challenge considering that majority of the remaining LAD balance are under compulsory acquisition, which has been difficult to pursue due to landowners' resistance. The absence of a single government agency that maintains complete records of all landholdings, defective titles and survey plans, among other problems, further affected land distribution performance. Also, the DAR cannot continue the issuance of Notices of Coverage (NOCs) to landholdings under compulsory acquisition since the period for issuing such expired on June 30, 2014. Unless a new law is passed extending the period for issuance, only those who were already issued with NOCs or with pending cases or proceedings can proceed to their finality beyond June 30, 2014.

Moreover, the areas under CLOAs that were subdivided into individual titles totaled about 1.04 million hectares, which accounted to 64.0 percent of the scope. The tedious process of land ownership transfer, including the legal proceedings that have to be undertaken, adversely affected the subdivision of CLOA titles.

In contrast, the Department of Environment and Natural Resources (DENR) exceeded the PDP target for 2015 in terms of its land distribution mandate. As of December 2015, the DENR has already completed the distribution of the 2.5 million hectares committed under the CARP<sup>25</sup>.

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<sup>25</sup> Based on initial report from the DENR field offices, about 44,000 hectares were identified as untitled public agricultural alienable and disposable lands. This area will be funded under the DENR Regular Fund under the proposed Forward Estimates (CY 2017-2019) of the Land Management Bureau.



## Challenges

The emerging developments in the international arena afford the country both advantages and disadvantages. Key to these emerging developments include the implementation of the AEC by the end of 2015, the lifting of the quantitative restriction (QR) on rice in 2017, and the more aggressive pursuit of free trade agreements with neighboring countries and the developed world. A major advantage would be the possibility of lower prices of goods, particularly of food commodities, as cheaper products gain easier access to our domestic markets. The removal of the QR for rice, for example, can help lower the price of the staple food, which is currently between 40.0 and 50.0 percent higher than the world price. This will be good for the general public, consumers, and producers alike because rice producers are net consumers of the commodity for the most part of the year.

***Poor, disadvantaged small farmers and fisherfolk need to be supported.*** The influx of cheaper food commodities will definitely pose disadvantages to the less competitive producers, majority of whom are the small farmers and fisherfolk. The big challenge is in the identification and implementation of strategies that will improve their production efficiency, and diversify and add value to their products. It is also important to strengthen research and development to generate new and appropriate technologies that will increase yields and enhance resistance against natural hazards, especially those induced by climate change. The development of the agri-business sector to which small farmers will be effectively linked will be valuable. Thus, a stronger and more vibrant agri-business where there is greater participation by the private sector is greatly needed to accelerate the agriculture sector's growth.

***The completion of the agrarian reform program has to be fast-tracked.*** The slow pace of acquisition and distribution of private agricultural lands as well as the subdivision of CLOAs are exacerbated by a number of factors, including: a) non-availability of required documents due to burnt/missing titles; b) delays in the resolution of cases; and c) operational and technical issues in the conduct of land surveys. The absence of a law extending the period of issuance of NOCs for CARP-covered landholdings has caused the DAR to stop the LAD process for landholdings under compulsory acquisition without valid NOCs prior to June 30, 2014. Since the CARP and the process of fully transferring land ownership to farmers are only partially completed, the farmers are unable to get hold of their land titles which are needed to access credit and other services that modernize farm management and practices.

***The increasing vulnerability of the A&F sectors to climate change and other related risks and natural hazards has to be addressed more effectively.*** From January to October 2015, estimated damages based on National Disaster Risk Reduction Management Council (NDRRMC) is PHP21.3 billion, accounting for about 4.3 percent of total A&F GVA. These losses highlight the sector's vulnerability to climate-related risks and other natural disasters. They also indicate how gains in the sector can be overturned by the occurrence of extreme weather disturbances to the detriment of small farmers and fisherfolk. The increasing difficulty of reducing poverty in the agriculture sector is indeed amplified by the climate change phenomena (See also Chapter 9).

## Strategies

In order to address the constraints and to take advantage of opportunities from an expanding market that benefits from more rapid economic growth and trade liberalization, the A&F sectors must continue to strive to be competitive and sustainable. Towards these objectives, the following strategies need to be further pursued:

**1. *Promote area-based (in contrast to commodity-based) development.*** To support an area-based development strategy in the A&F sector, the government should:

- a. Enhance the provision of support services that further improve sectors' production efficiency and increase their productivity.
  - Increase investment in climate-resilient rural infrastructure and logistics facilities such as irrigation, farm-to-market roads, bridges, and post-harvest facilities (see also Chapters 9 and 10 for strategies in support to the A&F sector, including responses to disasters and climate change); and
  - Bolster investments in research especially those that generate appropriate technologies including climate-smart technologies and farm management practices. Moreover, it is also important to strengthen the extension support for greater adoption of these technologies.
- b. Promote diversification/intensification of production.
  - Encourage production of commodities with great potential for value-adding/processing;
  - Promote integrated farming systems – intercropping, livestock-crops, crops-livestock-aquaculture – to maximize the use of land;
  - Develop and promote farming models/schemes (e.g. block farming, etc.) that facilitate the consolidation of farmers' produce to increase profit; and
  - Develop efficient value chains and link small farmers and fisherfolk to these value chains.

**2. *Enhance market and trade of A&F products.***

- a. Formulate action plan for the tariffication of rice. This requires a legislative action to amend RA 8178 (Agricultural Tariffication Act);
- b. Enhance domestic product standards and facilitate compliance with international requirements. The following should also be fully implemented;
  - Philippine National Standards for agriculture and fisheries
  - Food Safety Act of 2013 (RA 10611) following the approval of its Implementing Rules and Regulations in February 2015
- c. Maintain disease-free status in foot and mouth disease, avian influenza, and peste de petits ruminants; and

- d. Develop and strengthen markets.
  - Provide timely and accessible market information.
  - Align production efforts to respond to changing diets/preferences domestically and internationally.
  - Intensify product promotions at the local and international levels to expand existing markets and gain new ones.

**3. *Fast-track the agrarian reform program.***

- a. Prioritize the resolution of cases involving landholdings to be covered and those being covered under LAD;
- b. Fast-track the subdivision of collective CLOAs;
- c. Pass the proposed law extending the issuance of NOCs; and
- d. Review existing CARP provisions that are deemed restrictive such as those related to land ownership ceiling, lease of land and transfer of titles.

**4. *Enhance the provision of agricultural insurance and credit to farmers and fisherfolk especially with the aid of the Registry System for Basic Sectors in Agriculture (RSBSA) and other farmer registries (National Farmers' Registry for coconut, fisheries and agrarian reform beneficiaries).***

- a. Address issues on the RSBSA, including its regular updating, especially if it will continue to serve as basis for selecting/targeting program beneficiaries;
- b. Continue the provision of 55.0 percent premium discount for subsistence farmers who are participating in the Philippine Crop Insurance Corporation regular rice and corn insurance programs;
- c. Strengthen existing linkages and partnerships with lending institutions, cooperatives, farmers' organizations and other stakeholders; and
- d. Establish new modes/schemes of credit/insurance service provision.

**5. *Create a policy environment that promotes greater private sector participation.***

- a. Allow private sector to participate in the importation and marketing of rice; and
- b. Encourage investments support to agriculture thru agri-business schemes such as contract growing and joint venture agreements.

**6. *Continue projects that incorporate strategies on the provision of rural infrastructure facilities, value-adding, and linking farmers to market.***







# V. Resilient and Inclusive Financial System

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*The domestic financial system remains sound and resilient supported by robust macroeconomic fundamentals and positive growth prospects. However, reforms need to be hastened to take full advantage of financial integration to the ASEAN (Association of Southeast Asian Nations). Also, while the financial sector's reach continues to improve with the continued increase in the number of access points in previously unserved areas, there remains an ample room to further enhance financial inclusion.*

## Assessment

The financial sector continues to remain on track in attaining its end-of-plan targets. The total resources of the financial system expanded by 8.0 percent at end of September 2015, although client reach broadened. This increase in resources also led to the growth of access points. As of end-June 2015, there were 65,394 access points, of which 41.0 percent are banks and automated teller machines and the rest are alternative access points such as pawnshops, money changers, foreign exchange dealers, remittance agents, and mobile banking agents.

These developments are consistent with the latest aggregate indicators as of the third quarter of 2015, where majority of which have exceeded their targets: (1) financial system's total assets increased by 14.1 percent from 12.5 percent in 2011-2013; (2) national saving rate (Gross National Saving to GDP ratio) improved to 31.0 percent from 30.1 percent in 2011-2013; and (3) microfinance loan portfolio sums up to 9.2 billion; while others remain on track; (4) number of access points per 10,000 adults is currently on target at 9.2 percent and set to increase to 10 percent in 2016. Nevertheless, intensive efforts are still needed to increase the number of deposit accounts per 1,000 population, as 493 out of 1,000 population is still far from 750 out of 1,000 population end-of-plan target.

***Financial inclusion remains on top of government priorities.*** The importance of financial inclusion cannot be overemphasized as it equates to every household and business having access to financial services that open up economic opportunities. (See full details in box article entitled "Beyond Making Ends Meet: The National Strategy for Financial Inclusion"). In this respect, the significant growth of microfinance non-government organizations in some regions with low banking presence has been notable.

As the ASEAN Economic Community (AEC) blueprint is set to attain a well-integrated regional financial system, the implementation of the ASEAN Financial Integration Framework underscores the need to establish appropriate domestic market institutions. Available data suggest that Intra-ASEAN trade accounts for only 24.1 percent of total ASEAN trade (i.e., exports and imports). Furthermore, while ASEAN's gross saving rate outpaces the rest of the world by more than 10 percentage points, subsequent data implied that a considerable portion of said saving is deployed outside the region. The creation of an integrated ASEAN financial market is meant to address these concerns. It will expand the share of intra-region trade through the presence of Qualified ASEAN Banks while using the same banks as windows for saving to be redistributed within the region and achieve ASEAN's stated objective of creating a single market and production base. However, such integration requires the establishment of appropriate and compatible financial market infrastructure across the region.

## Challenges

The domestic financial system should remain aware of the presence of risks that could challenge the status quo. Several risks, such as limited regulatory framework for Islamic finance, limited capacity to provide collateral among micro, small, and medium enterprises, and limited availability of agriculture insurance products due to limited investment funds should be addressed. If these are not managed well, fragilities of the financial markets may be exposed. In the case of the domestic economy, the key challenges relate mainly to bridging gaps in existing financial market infrastructure and encouraging greater economic inclusion.

The complexity of financial services highlights the need to establish an integrated financial market infrastructure. As the macro-financial requirements of constituents have evolved, financial technology is becoming more important. The recent Global Financial Crisis highlighted the stark difference in - and at times, the absence of - critical market infrastructure. As such, the global agenda called for establishing Financial Market Infrastructure (FMI) as part of minimum global best practice. The challenge for "less active" economies is that investing in Central Counterparties, Securities Settlement Systems, trading platforms or exchanges, as well as in Trade Repositories—the main components of the FMI agenda—requires a capital expenditure that may not be commensurate to the "less active trade volumes" evident in these markets. While there is no doubt that the underlying principle behind the FMI agenda is to be supported, many jurisdictions such as the Philippines find themselves in a difficult position with respect to compliance.

Availability of Identified Financial Market Infrastructure	
Key financial market infrastructure	Availability
1. OTC Derivative Exchange	None
2. Central Counterparty	Available for equity
3. Third party Clearing Bank	Not yet defined by regulation
4. Trade repository	None
5. Central Securities Depository	Available for equity and fixed income
6. Securities Settlement System	Available for equity and fixed income
7. Retail Payment Systems	Various; Privately owned and operated
8. Large Value Payment Systems	Cash leg through the central bank

On the other hand, to take full advantage of ASEAN financial integration, a financial market infrastructure must be in place in each jurisdiction and then linked and aligned with each other<sup>26</sup>. In fact, the AEC capital market development initiative focuses on laying down the important infrastructure for development of ASEAN capital markets.

***Access points remain highly concentrated in highly-urbanized areas.*** While the number and dispersion of access points have improved, these remain concentrated in highly populous and urbanized regions such as Metro Manila and CALABARZON. Access to finance leaves much room for improvement in regions such as MIMAROPA, Zamboanga Peninsula, Eastern Visayas, Cordillera Administrative Region, and Autonomous Region of Muslim Mindanao.

***The gross domestic savings of the Philippines still lags behind its ASEAN peers.*** The Philippine gross domestic savings (relative to GDP) is still low despite higher wages, profitability of the services, industry, and banking sectors, and increase in the government's revenues. It is imperative to build an enabling environment for long-term financial instruments to allow domestic savings to finance long-term investment and reinforce the resilience of the domestic financial system.

<sup>26</sup> The current linkage is the ASEAN Trading LINK—on equity exchanges of Thailand, Malaysia and Singapore. It provides investors easier and more seamless access into these markets from one single access point. It will be further supported with the implementation of the ASEAN Capital Market Infrastructure Blueprint, which will enhance connectivity of ASEAN capital markets through post trading linkages.

## Strategies

The government should pursue and implement appropriate strategies to address the abovementioned challenges.

***Authorities should remain vigilant against possible financial contagion and ready to carry out appropriate measures to ensure that the ASEAN Financial Integration Framework (AFIF) will be highly beneficial and will bring about sustainable positive impact.*** Regional integration will require enhanced cross-border surveillance capacities. This is not a straightforward exercise since “crisis-like” thresholds will differ from jurisdiction to jurisdiction. In addition, metrics that reflect the extent of interconnectedness do not themselves suggest the source of the problem. Rather, the issue with financial contagion is whether the exposed jurisdiction has measures in place to effectively manage the potential for systemic risk. This will certainly be a challenge even in a longstanding and defined regional aggrupation such as ASEAN since what may be “systemic” to some jurisdictions may just be normal for others.

***ASEAN needs to have a Crisis Management, Resolution, and Recovery (CMRR) framework that can identify early signals and introduce proactive intervention.*** This would be separate from existing support mechanisms such as the swap lines available within ASEAN. The Executives’ Meeting of East Asia Pacific Central Banks has such a CMRR framework but one specific to ASEAN still needs to be created.

***In order to ensure the readiness of domestic institutions, harmonization of domestic laws and regulations, establishment of the necessary capacities of the domestic market institutions, and linkage of market infrastructure should be pursued.*** Detailed discussion on the required financial market infrastructure and upgrading of the existing payment system into a Real Time Gross Settlement system should be pursued. Capital markets should have competitive and sustainable institutions in order to deliver social and financial returns, and allow expansion of investments in financial services. The harmonization of regulatory standards, such as those on disclosure requirements and on credit rating agencies, and full operation of the integrated credit information bureau should be in the pipeline. Moreover, efforts to improve the efficiency and transparency of the insurance market should be pursued.

***Legislation on Islamic Finance is needed to better organize the market, tap further opportunities, and respond to the needs of various stakeholders.*** While it has been over four decades since the creation of the first Islamic Bank, Islamic banking has not grown mostly due to legal constraints and the lack of a framework. The General Banking Law of 2000 defines Islamic banks as specifically pertaining to Al-Amanah Islamic Bank only and does not provide a framework for creating other Islamic banks. A suitable legal framework for Islamic banking in the Philippines, such as those in the proposed amendments to the Bangko Sentral ng Pilipinas (BSP) charter, should be considered. Also, further efforts are needed to increase the participation of the Muslim community in the local bourse and tap the global Islamic funds (estimated at over USD1.0 trillion), building on the initial Philippine Stock Exchange list of 58 Shariah-compliant companies.



***In order to promote financial inclusion, non-government organizations (NGOs), cooperatives, microfinance institutions, and local government units should be encouraged to expand in areas with few access points.*** The Philippines has been recognized as a leader in providing coverage to around 31.1 million Filipinos in 2014. With the recent enactment of Republic Act No. 10693 or “Microfinance NGOs Act”, for instance, the government will support qualified microfinance NGOs in promoting financially-inclusive policies and mechanisms by providing incentives. Efforts in drafting its Implementing Rules and Regulations and the establishment of the Microfinance NGO Regulatory Council are underway. There is still a need to maximize the potentials of microfinance and microinsurance markets by expanding the roadmap to financial literacy. It should create an environment with clear lines of accountability and coordination among stakeholders and encourages partnerships and direct consultation across government and other stakeholders.

Likewise, there appears to be a gap between the supply-demand dynamics in the microinsurance market given the low level of awareness among clients and the small coverage as attested in the National Baseline Survey on Financial Inclusion. It will also be important to spread the benefits of microinsurance to farmers, particularly to improve their protection against weather/disaster-related risks. To further promote financial inclusion, the government should continue to pursue financial literacy programs. In particular, these enable the families of overseas workers to supplement their income by broadening the use of remittances to include savings and investments. This can be done by expanding the partnerships in facilitating economic and financial literacy programs among government agencies, non-government organizations and private entities.

***In order to pursue countryside development, government financial institutions (GFIs) must be strengthened and made compliant with Basel III and other new regulatory requirements.*** It is important for GFIs to expand their services to provinces, cities and municipalities, and promote financial inclusion. They should also evaluate their current delivery channels and systems to make them competitive and attuned to growing and emerging needs of clients. They should continue to strengthen existing linkages and partnerships with various institutions including cooperatives, farmers’ organizations and various stakeholders in promoting countryside development. Moreover, expansion of their mainstream development credit programs, such as Sikat Saka credit program and Agricultural Guarantee Fund Pool should be pursued for enhanced and more efficient provision of agricultural credit to farmers and fisherfolk.

***To boost the development of micro, small and medium enterprises, there is a need to establish a movable collateral registry.*** The Movable Collateral Registry framework which encourages financial institutions to accept non-real property assets as security for lending has yet to be executed. Likewise, there needs to be an enabling regulatory environment that will encourage banks to design suitable financial products. Access to credit could also be improved through enhanced regulations on credit risk management.

***The financial sector legislative agenda needs to be pursued.*** Although significant milestones were made for some bills, there are remaining measures in the legislative agenda that are important, such as Amendments to the Securities Regulation Code, Amendments to the Real Estate Investment Trust Law, Bill on Pension Fund Regulation, and Chattel Mortgage Law Amendment. Legislation to promote economic and financial literacy, including through activities that can be adopted by local government units, government-owned and controlled corporations, and educational institutions, would be useful. The BSP Charter Amendment should also be pursued as it strengthens the regulatory framework over financial service providers. This will pave the way for institutionalization of sound governance, adequate risk management, and clear business models which will eliminate institutions offering bogus investment products and services.

*Table 3. Legislative agenda*

<b>Bills</b>	<b>Objective</b>	<b>Updates</b>
Draft Corporate Governance provisions of the Corporation Code of the Philippines	To introduce amendments to the Corporation Code of the Philippines to, among others, <i>“encourage new businesses, contribute to the ease of doing business, strengthen corporate governance, better protect the rights of stockholders, minimize/deter corporate abuses and fraud, strengthen anti-corruption measures, and fortify the regulatory authority of the Securities and Exchange Commission.”</i> <sup>27</sup>	Consolidated/Substituted in the Committee Report September 9, 2015 <sup>28</sup>
BSP Charter with respect to financial stability		Approved by the House on October 9, 2015; transmitted to the Senate
Payments System Act		Pending with the committee on Banks and Financial Intermediaries as of October 9, 2015
Financial Sector Tax Neutrality Bill	<i>“To promote an efficient and neutral taxation system that level the playing field for various bank deposit transactions and investment instruments issued by different institutions to encourage savings and develop the general capital market.”</i> <sup>29</sup>	Pending with the House Committee on Ways and Means since May 5, 2014 <sup>30</sup>
Amendments to the Investment Company Act and the Insurance Code		Pending with the committee on Banks and Financial Intermediaries
Collective Investment Schemes Law		Pending with the committee of economic affairs

<sup>27</sup> Explanatory Note, Senate Bill No. 2194 “An Act Amending Batas Pambansa Blg. 68 or the Corporation Code of the Philippines”

<sup>28</sup> Source: [https://www.senate.gov.ph/lis/bill\\_res.aspx?congress=16&q=SBN-2194](https://www.senate.gov.ph/lis/bill_res.aspx?congress=16&q=SBN-2194)

<sup>29</sup> Section 2, House Bill No. 4142 “An Act Amending Certain Provisions of the National Revenue Code of 1997, As Amended, and Presidential Decree No. 1185 otherwise known as the Fire Code of the Philippines, and for other purposes”

<sup>30</sup> Source: [http://www.congress.gov.ph/download/?d=billtext\\_results](http://www.congress.gov.ph/download/?d=billtext_results)

## AEC Financial Integration: Developing the Region's Potentials through Financial Inclusion

The AEC Blueprint pursues a consolidated and integrated economic base: free movement of goods, services, investment, skilled labor, and the freer flow of capital. To complement this, the ASEAN Central Bank Governors adopted the AFIF in 2011 to deliver a synergistic approach to the financial liberalization and integration framework under the AEC. This has a comprehensive coverage which includes banking, insurance and capital markets as well as the payment systems. It envisions a semi-integrated financial market by 2020 with key thrusts of a) eliminating boundaries to the intra-ASEAN provision of financial services by ASEAN financial institutions, b) building capacity and infrastructure to develop and integrate the ASEAN capital markets, (c) liberalizing the flow of capital across the ASEAN region, (d) integrate payments and settlements systems, and (e) reinforcing capacity building, regional financing arrangements, and regional surveillance.<sup>31</sup>

	Deposit accounts per 1,000 people		Borrowers from Commercial banks		Bank branches per 100,000 people		Automated Teller Machines per 100,000 people	
	2012	2013	2012	2013	2012	2013	2012	2013
Indonesia	na	na	337.8	377.2	9.5	10.4	35.07	42.4
Malaysia	na	na	388.8	403.3	11.1	11.3	52.94	55.5
Philippines	445.3	453.5	na	na	8.1	8.6	19.31	22.95
Singapore	2,180.60	2,263.90	1,076.20	1,149.10	9.8	10.2	58.12	58.96
Thailand	1,132.20	1,173.00	276.1	299.6	11.8	12.2	95.92	104.32

**ASEAN Financial integration brings benefits since it widens access to financial markets, expands financial services, and deepens financial transactions.** It spurs product innovation and the development of the financial sector as it provides a chance to bring together excellent examples of ASEAN organizations that are considered market leaders in developing inclusive and innovative financial products. It will help mobilize surplus savings more efficiently and channel them to productive investment opportunities. It also supports financial inclusion as it lowers the cost of transaction, e.g., transportation from one access point to another, and expands the reach of financial services to a wider community by pursuing the development of larger, deeper, and more liquid financial markets. Financial integration requires a certain degree of convergence in the development of financial markets, hence identified key financial market infrastructure should be connected to allow smooth transactions; central counterparties should be established to reduce liquidity flows while central depositories should be in place in behalf of investors with all trades reported to chosen repositories.

<sup>31</sup> <http://www.bsp.gov.ph/downloads/Publications/FAQs/ASEAN.pdf>

**Financial sector deepening is a key policy objective in the AEC blueprint. However, it must take place in parallel with the advancement of financial inclusion such that greater economic convergence between ASEAN Member States (AMS) will be based on inclusive growth and equitable development.** For the Philippines, achieving both the AEC and AFIF means that micro, small and medium enterprises can seamlessly tap the capital markets in any of the ten ASEAN jurisdictions. Domestic investors would also have diverse options on securities, with the added convenience of not having to open accounts in other ASEAN jurisdictions. Strategies for improvement of the domestic financial inclusion will need to consider the distinctive political economy to maximize the public policy space for enhanced financial inclusion. This would include shifting from an exclusive reliance on “international best practice” towards customized solutions that work with the distinctive political economies and political priorities.

**While tremendous gains await the AMS in the long run, there are obstacles that still need to be hurdled.** As integration occurs in the region, contagion will be among the emerging risks. Speculative actions will likely increase and hence, amplify the volatility of capital flows. Meanwhile, cross-border liberalization efforts in the services market, labor market, and bond market remain loose, in contrast with the prevailing restrictions on inward and outward flow of foreign direct investments. The limited presence of foreign banks in the ASEAN is also a concern. For the Philippines, banks and financial institutions are still small in terms of asset size and capital base to compete in the international financial markets. Similarly, the country’s insurance industry remains underdeveloped with a miniscule asset size.





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ALBERT ALONSO M	ALBERT ALONSO M	MANAGEMENT INFORMATION AND SYSTEMS	2012-03-01
ALBERT ALONSO M	ALBERT ALONSO M	MANAGEMENT INFORMATION AND SYSTEMS	2012-03-01
ALBERT ALONSO M	ALBERT ALONSO M	MANAGEMENT INFORMATION AND SYSTEMS	2012-03-01
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## VI. Social Development

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*Intensification of social development programs and services, aided by the increase in the respective budgets and priority escalation, yielded positive results—some even surpassed targets—but considerable challenges lay ahead.*

The government expanded the coverage of social development policies to ensure that Filipinos have better access to basic social services—particularly the poor, vulnerable or marginalized sectors—in four key areas: a) health and nutrition, b) education, training, and culture, c) social protection, and d) secure shelter. While some of the achievements have exceeded the targets, all the gains in social development need to be understood in the context of emerging threats, increasing risks, and unexpected calamities that required the government to step up in terms of the delivery of social services, particularly in disaster or calamity-struck areas.

Specifically, coverage expansion of health programs and interventions, through the National Health Insurance Program, increased the number of persons insured but its utilization remains low with only about 12.0 percent of PhilHealth members filing claims or reimbursements. Majority of the benefits to human development through the reform of the education sector will only be felt in the coming years, but improvement in the enrolment and graduation in higher education and technical vocational programs are already apparent. Moreover, adjustments and contingency plans to pave the way for the K to 12 Basic Education Program are identified and discussed. Social protection services expanded but programs can be more effective with improved implementation. Mechanisms to provide social protection to those in the informal sector need to be developed. Accomplishments for expanding access to secure housing has surpassed expectations but the capacity of the National Shelter Program to provide the extensive housing needs of the population is currently limited by an outdated approach. Addressing the problem of housing will need to consider other factors beyond land use and housing, such as transport, and environmental management, particularly in urban areas.

Moving forward, the social development policies need to be strategic and responsive. Strategic policies need to be forward-thinking, capable of preemptively addressing issues arising from the change in policy while remaining responsive, and capable of adjusting to unexpected exigencies. Consequently, systems of documentation and monitoring need to be improved to fill the data gaps, particularly for the more vulnerable sectors of society. This is to closely monitor and accurately evaluate the impact of policies and thus, would better inform strategic and evidence-based policymaking.

## Human capabilities improved through health services

For this administration, the government strived to ensure that the health and nutrition status of the population is improved by expanding the population's access to health programs and interventions. This is done through the Universal Health Care or Kalusugan Pangkalahatan with the following strategic thrusts: a) improvement of financial risk protection by expanding national health insurance coverage and benefits, b) achievement of health-related Millennium Development Goals (MDGs) by scaling up promotive health programs and improving health-seeking behavior, and c) ensuring quality of service by not only investing in facility infrastructure but also improving clinical management processes and regulating the quality of care provided.

### Assessment

To improve financial risk protection of the population especially the most vulnerable, the National Health Insurance Program (NHIP) was continually expanded. Coverage has improved from 2014 to 2015, with 92.0 percent of the population already able to access PhilHealth's benefit packages. It already exceeded the target of 90.0 percent population coverage by the end of 2015. Increased coverage can be attributed to the mandatory enrolment of senior citizens and increasing the number of covered indigents. Aside from coverage, PhilHealth also instituted reforms and innovations in its provider payment systems and benefits. Innovations include the Electronic Premium Remittance System that allows for easier remittance of premium payment. Another is the expansion of the Z-benefit packages to include other life-threatening diseases such as colon and rectal cancers. This has been possible through the program's increased budget from the collection of sin taxes that already reached PHP108.15 billion as of September 2015, exceeding government projections.

***Health programs to ensure the achievement of the targets defined by the Philippine Development Plan (PDP) and the MDGs or to maintain gains were strengthened this year through the Department of Health's (DOH) High Impact Five or Hi-5 Strategy.*** The strategy aims to produce the greatest improvements in health outcomes and the highest impact on the population within a short period of time. Critical interventions in five areas were identified including: reduction of maternal, infant and under-five mortality; reduction of the burden of HIV/AIDS; and establishment or strengthening of the Service Delivery Networks.

Strategies to achieve targets in nutrition and reproductive health were included in programs like the Early Childhood Care and Development Intervention Package for the First 1,000 Days and the full implementation of the Responsible Parenthood and Reproductive Health (RPRH) Law. The First 1,000 Days package is an integrated system of health, nutrition, early education, and social services aimed at reducing mortality and morbidity rates along with reduction in the prevalence of stunting and wasting among children aged 0-23 months old. Through the RPRH Law, national and regional implementation teams were also created to allow for the increase in the use of RH services and ensure that RPRH information is disseminated.

***To ensure access to quality health services, a total of 4,522 health facilities were constructed and upgraded through the Health Facilities Enhancement Program (HFEP) from 2010 to 2014.*** The construction of barangay health stations, rural health units and urban health centers, and hospitals and medical centers (local government unit [LGU] and DOH-retained) for 2015 is still ongoing. There were also 1,667 doctors, 15,407 midwives, and 93,174 nurses deployed in unserved and underserved communities in the country through various DOH programs (Doctors to the Barrios, Rural Health Midwives Placement Program, and Nurse Deployment Program).

These intensified approaches to the delivery of health services were made possible by the increases in the DOH budget. From 2014 to 2015, DOH budget increased by 3.9 percent from PHP83.72 billion to PHP86.97 billion. For 2015, the first two quarter disbursements had been slow (utilization rate was between 70.0 to 80.0 percent) but with the implementation of multi-year obligational authority and other procurement measures, the third quarter utilization rate already reached 92.0 percent raising it to 81.0 percent in the first three quarters of this year.

***The country achieved several of the targets for 2015 that were laid out both in the PDP and the MDGs.***

On access to safe water and sanitary facilities, data showed that as of 2014, the target proportion of the population with access to sanitary toilets has already been achieved (94.1 percent in 2014 with a target of greater than 92.0 percent for 2015). However, 1.5 million families still have no access to sanitary toilets. Although the target proportion of the population with access to safe water has yet to be achieved (87.0 percent), it has increased from 83.8 percent in 2013 to 85.5 percent in 2014. However, this means that 3.8 million families still has no access to safe water.

Targets on malaria mortality and morbidity rates have also been achieved but the figures in 2015 have slightly increased from 2014. Specifically, malaria mortality decreased from 0.01 per 100,000 population in 2013 to 0.008 per 100,000 population in 2014 but has slightly increased to 0.019 per 100,000 population by the end of 2015. This is still within the target of below 0.03 per 100,000 population. The same can be observed for the malaria morbidity rate which decreased from 2013 to 2014 (7.86 to 4.90 per 100,000 population) but also increased as of the third quarter of 2015 (5.80 per 100,000 population). Despite the increase, the target of 6.6 per 100,000 population was met. Meanwhile, HIV prevalence was posted at less than 1.0 percent for the general population but the number of cases continued to increase particularly among the most at risk population (MARP). Prevalence of underweight children also increased from 2013 to 2015, from 19.9 percent to 21.5 percent. This made achieving the 2016 target of 12.7 percent improbable.

Table 4 shows the proportion of births attended by skilled health workers and delivered in a health facility<sup>32</sup>. Figures revealed that both indicators have been increasing from 2011 to 2014. The target for facility-based delivery (80.0 percent in 2015) has been achieved, although a decrease was observed for births attended by skilled health workers. The country continues to lag in skilled health worker-assisted childbirth at 82.0 percent, which is below the 90.0 percent target for 2015.

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<sup>32</sup> Official data from surveys are not available this year, thus alternative sources were explored in this report. DOH program data is limited to only those accredited and licensed by the agency.



Table 4. DOH program data

Indicator	2011	2012*	2013	2014	2015 (Q1-Q3)	2015 target
Facility-based delivery (%)	63	70	77	80	85	80
Births attended by skilled health workers (%)	82	81	87	86	82	90

\*Program office (FHO-DPCB) started collecting data from private health facilities

As the period covered by the MDGs ended, the post-2015 agenda through the Sustainable Development Goals (SDGs) will influence the health priorities in the next few years. The Philippines pledged its support and commitment to the attainment of the SDGs, thus continuous implementation of the health and nutrition programs is assured.

## Challenges

The sector has identified several critical issues and challenges that need to be addressed. This is to ensure that the gains in the health outcomes are maintained and that lagging targets are met.

***There is a need to address emerging threats in the health sector, along with greater focus on other sectors with special needs.*** Disasters like flooding, earthquakes, and other emergency situations can disrupt the implementation of routine and normal programs. It also poses risk factors for disease outbreaks as the affected population can be displaced. The disruption in access to basic necessities, such as safe water and sanitation, and health care services can reverse the gains in health outcomes and create new threats. Another emerging threat is the double burden of malnutrition—the observed increase in the number of underweight children is coupled with an increasing number of overweight children. The increasing number of stunted children also remains as one of the problems posed by chronic malnutrition. With more youth engaging in unprotected premarital sex, an increase in the incidence of teenage pregnancies was observed. Data from the latest Young Adult Fertility Survey showed that the percentage of females aged 15-19 years old who have begun child bearing increased from 6.3 percent in 2002 to 13.6 percent in 2013. The use of contraception or protection from sexually transmitted infections also remains low, suggesting that there is a gap in providing the necessary information on reproductive health services among the age group.

Gaps in health facilities and services continue to exist. Although health facilities have been upgraded under the HFEP, there are still uncompleted projects and some delays were encountered in project implementation. For example, construction of several hospitals including the modernization of the Philippine Orthopedic Center has run into several procurement problems. Some geographically-isolated and depressed areas (GIDAs) remain to have an inadequate number of health workers to attend to their needs.

***There is a need to address challenges in NHIP implementation and insurance benefits also need to be reviewed and expanded.*** For 2015, only about 12.0 percent of PhilHealth members filed claims or reimbursement with the majority of the claims coming from indigent members. Other issues remain including: (a) gaps in coverage such as those not surveyed by the National Housing Targeting System for Poverty Reduction (NHTS-PR) or the LGUs, (b) enrolment of those in the informal and self-employed sectors, and (c) ensuring that access to basic benefit packages is uniform across all income groups. In addition, out-of-pocket costs are still high at 56.0 percent (PNHA, 2013) which may imply that the support value of NHIP is low and that the No Balance Billing policy has a minimal impact.

***There is a need to address both communicable and non-communicable diseases (NCDs) as public health concerns.*** The main causes of morbidity are communicable or infectious diseases such as acute respiratory infections and pneumonia but mortality causes are predominantly NCDs like diseases of the heart and cardiovascular system and malignant neoplasm. Other concerns include HIV and AIDS where HIV prevalence is still pegged at 1.0 percent of the population but with an alarming increase in the number of HIV/AIDS cases, especially among the MARPs. From January to December 2015, there were 7,829 new HIV Ab sero-positive individuals reported. This is 30.0 percent higher compared to the same period in 2014 (6,011). The number of individuals newly diagnosed with HIV per day increased to 22 in 2015 from 17 in 2014.

***There is a need to address the health and nutrition data gaps.*** The Philippine Statistical Authority (PSA), through their Philippine Statistical Development Program 2011-2017, recognized the need to resolve data quality issues such as coverage, timeliness, reliability, consistency, and coherence. For health sector data, it should be noted that dependence on foreign donors to fund health surveys, such as the National Demographic and Health Surveys (NDHS) and Family Health Surveys (FHS), also affects data quality. For example, the scheduled 2016 FHS was moved to 2017 to follow the statistical program of a donor agency. Administrative-based information systems have not become reliable and dependable as alternative sources of data on social development concerns.

## Strategies

***Ensure that necessary measures are implemented to address emerging health threats and cater to the needs of other sectors with special needs.*** Threats of disasters and emerging diseases can be mitigated by ensuring that health facilities along with the necessary health human resources are equipped to face such threats. Health facilities mapping may be able to identify areas most prone to disasters so that proper planning can be done and the necessary guidelines are prepared and instituted. Scaling up nutrition action is recommended to curtail the double burden of malnutrition. It should include nutrition services and sustainable nutrition-sensitive policies and programs to address the poor's inadequate access to nutritionally adequate food. Nutrition programs should also be expanded to address weight issues and obesity. Advocacy activities to promote good health and nutrition should also be undertaken. The Responsible Parenthood and Family Planning strategy of the Philippine Population Management Program needs to be strengthened to include a more aggressive and comprehensive promotion and conduct of adolescent sexual and reproductive health education initiatives.

**Address HFEP implementation issues.** For the HFEP to achieve its target and, ultimately, its goal of providing access to quality health services, it is imperative that delays and implementation problems be addressed. This can be done by identifying the bottlenecks, especially in the procurement process, and ensure that these processes are streamlined or simplified. To ensure that more health professionals are deployed, especially in GIDAs, incentives such as increased remuneration, access to capacity development, or facilities with the necessary equipment need to be provided.

**Intensify dissemination of the different NHIP benefits.** Even though coverage rates have been increasing and new packages are being offered through PhilHealth, utilization of the benefits remains very low. Advocacy and information dissemination of the benefits and the process of claiming these benefits may greatly improve the number of member reimbursements. As out-of-pocket expenses remain high, determining the appropriate interventions to further improve the population's financial risk protection is necessary. It is also imperative to ensure that out-patient department services are rolled out or provided for all the members.

**Improve coordination of health and nutrition programs at all levels.** Delivery of services may be intensified by improving the coordination among the different health program providers or implementers. DOH can strengthen the harmonization of policies and programs among its different bureaus and attached agencies. Coordination with other national government agencies with complementary health policies and programs and advocacy and partnership with the LGUs is also crucial in ensuring that health targets are met. Private sector participation in health also needs to be enhanced. This will also allow for the population to get the full effect of all interventions.

**Accelerate specific health programs to address communicable and NCDs.** Strengthening health system response through adequate financing as well as ensuring the accessibility of services including the necessary human resources, among others, need to be pursued. Prioritizing key behavioral interventions that are cost-effective and have direct impact on reducing NCDs is also recommended<sup>33</sup> (Villaverde, et. Al, 2012, p. 38) Reversing the trend of HIV in the country rests on increasing the coverage of existing HIV prevention, treatment, and support programs in order to prevent new infections. Increasing PHIC benefits for people living with HIVs and high-risk individuals would enable them to avail of HIV testing and treatment services.

**Harmonize and improve health and nutrition information systems.** As the country depends on donor agencies for the facilitation of surveys, funding for such is needed. Though there have already been initial efforts from the PSA with the 2013 NDHS being partially government funded, there is a need to have specific and consistent item in the budget for this. Also, other data sources need to be harmonized. The Food and Nutrition Research Institute through their Updating of National Nutrition Survey will have rider questions for several health indicators in 2016 in partnership with DOH and PSA. This type of partnership can be explored further or institutionalized to ensure that funding for health information is secured. Since administrative data are produced by different stakeholders - PSA through their vital statistics and DOH through their Field Health Services Information System -- it is necessary to identify how these data sources can be improved and linked to capture the population's real health status.

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<sup>33</sup> This can be through tobacco control, salt reduction, decrease use of harmful use of alcohol and promotion of health diet and physical activity.

## Human capabilities improved through education services

Investing in the Filipino people remains a top priority of the Administration to promote inclusive development. As such, the Department of Education (DepEd) received the highest budgetary allocation amounting to PHP367.1 billion from the national budget in 2015. Compared with the PHP309.5 billion in 2014, the 18.6 percent increase in the basic education budget will support the Government's thrust of improving access to quality education.

### Assessment

The continuous implementation of the K to 12 Basic Education Program and the passage of laws that promote greater access to education are among the major accomplishments in the education sector. The enactment of the Open Distance Learning Act, the Unified Student Financial Assistance System for Tertiary Education Act, and the Implementing Rules and Regulations of the Ladderized Education Act of 2014 will help further strengthen access to quality tertiary education<sup>34</sup> through the promotion of appropriate, effective, and efficient system of delivering quality education services.

Significant improvements were observed in basic education outcomes but still remain below PDP targets. In terms of learning efficiency, there was a significant improvement particularly at the elementary level while the secondary level posted a decline. Elementary completion rate (CR) increased from 78.48 percent in SY 2013-2014 to 82.65 percent in SY 2014-2015, while cohort survival rate (CSR) improved from 80.63 to 84.75 percent. At the secondary level, both CR and CSR decreased.

A declining prevalence of out-of-school children was also noted, from 4.46 percent in SY 2013-2014 to 2.93 percent in SY 2014-2015 for elementary, and from 7.11 percent to 6.11 percent for secondary during the same period. The improvements in efficiency ratios may be attributed to various programs implemented by DepEd to keep children in school such as the school-based feeding program, alternative delivery modes<sup>35</sup>, and the Pantawid Pamilyang Pilipino Program of the Department of Social Welfare and Development (DSWD).

Learner's participation in school posted a decline, thereby missing the PDP target. The net enrolment rate for both elementary and secondary levels decreased from 93.8 percent in 2013 to 92.57 percent in 2014, and from 64.9 percent to 79.98 percent, respectively. The government, through the DepEd, continuously provides interventions that cater to the educational needs of the learners, especially the hard-to-reach, through programs such as the Abot-Alam Program, Indigenous Peoples Education, and Special Education. Moreover, the decline observed may be due to the Enhanced Basic Education Information System which reflected more accurate figures and the improvements made in tracking learners through the use of Learning Information System.

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<sup>34</sup> According to RA 10687, "tertiary education" refers to the stage of education following the secondary cycle which subsumes post-secondary non-degree diploma, TVET (technical vocational education and training), and Higher Education programs.

<sup>35</sup> Philippine Education for All 2015 Review Report



The creation of new teaching positions or items and hiring of additional teachers resulted in improved teacher-pupil ratio in 2014. The teacher-pupil ratio is now 1:36 for elementary and 1:27 for secondary from 1:41 and 1:34, respectively, in 2013. Likewise, the construction of classrooms led to reduced classroom-student ratio at 1:34 for elementary and 1:48 for secondary.<sup>36</sup> Provision of educational inputs accompanied by teacher training are given attention to improve achievement rates.

Enhancements in the basic education curriculum are being done to ensure that learners will gain the knowledge and skills necessary for further education and employment. Further, the curriculum for Grades 11 and 12 is being developed in coordination with Technical Panels Technical Education and Skills Development Authority (TESDA) and Commission on Higher Education (CHED) to ensure its alignment with the training regulations and college readiness standards, respectively.

The enhanced implementation of scholarship and other student financial assistance programs for higher education and for technical vocational education and training (TVET) resulted in increased enrolment and graduates. Two notable TVET financial assistance programs that contributed to the improvement were the Training for Work Scholarship Program and Special Training for Employment Program.

While there is a slight increase in the country's performance in licensure examinations, this is still very low at 39.76 percent in 2014 and way below the Plan target. Provision of faculty development grants and implementation of the outcomes-based education are being done to improve higher education.

Meanwhile, certification rate in TVET increased from 88.5 percent in 2013 to 91.1 percent in 2014. TVET certification is provided to graduates who meet the required competency standards to ensure the productivity, quality and global competitiveness. Employment rate of TVET graduates is at 65.4 percent<sup>37</sup>.

## Challenges

***There is a need to improve the quality of education.*** Achievement outcomes which pertain to mastery of competencies of students remain low and below the target. Developing capacities of basic education teachers, particularly with regard to implementing the enhanced basic education curriculum, has to be done regularly to address the declining performance of students in achievement tests. Likewise, developing the competencies of higher education faculty is needed to improve passing rates in licensure exams.

***There is a need to implement the Senior High School Program under K to 12.*** By June 2016, 1.2 to 1.6 million students are expected to enroll in the Senior High School Program (SHS). Of these, 800,000 to 1.1 million are estimated to enroll in DepEd schools. Given this, the education sector needs to ensure that classrooms, laboratories, and equipment necessary for the implementation of Grades 11 and 12 are ready especially the SHSs that will offer TVET programs that require certain facilities and equipment. In line with this, a total of 68,320 teacher items are needed for 2016 of which 43,320 would be for SHS.

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<sup>36</sup> Ideal class size is 1:35 for elementary and 1:40 for secondary

<sup>37</sup> 2014 TVET Impact Evaluation Study

***There is a need to address the displacement of Higher Education Faculty.*** The implementation of SHS will significantly reduce the number of higher education enrollees from 2016 to 2018. Reduced enrolments will affect the employment of an estimated 13,000 teaching and 10,000 non-teaching personnel of higher education institutions (HEIs).

***There is a need to ensure the readiness of Higher and Technical Education Institutions to address developments brought about by ASEAN Integration.*** TESDA needs to ensure that the competency standards are aligned with international standards. To achieve this, there is a need to upgrade the qualifications and skills of trainers and assessors, as well as, the facilities of TVIs and assessment centers to ascertain that the needed competencies will be developed.

Likewise, HEIs need to review and update their course programs following international standards to make it more competitive. Further, there is a need to ensure that HEIs, especially state universities and colleges, are ready to accept international students and faculty.

***There is a need to implement the Philippine Qualifications Framework (PQF).*** The PQF, which specifies the competencies at each level of education, will allow the students to move across different levels of education. This would only be possible if pathways, equivalencies and system of credit transfer are developed to provide access to qualifications and assist the movement of learners. Further, given that the senior high school program will offer technical-vocational courses, TESDA may have to develop training regulations for qualifications under higher levels of technical education and skills development.

## Strategies

***Improve access and quality of education outcomes by providing education inputs to focus in areas with poor education performance, targeting the need of the hard-to-reach learners or the most vulnerable, and the provision of disaster-resilient facilities.*** Strengthening the implementation of the Alternative Learning System, indigenous peoples' education, and special education will enable hard-to-reach learners to have access to basic education.

Capacity-building for both basic and higher education teachers is crucial in improving education outcomes. The next two years, when there will be very few enrollees in HEIs, will be an opportunity for HEI faculty to take their graduate studies, do research, and conduct industry immersion through scholarship and faculty development grants. For TVET trainers, conducting a trainers' training on new and emerging technologies, as well as industry immersion will help upgrade their skills. Further, TESDA needs to calibrate the capability of its assessors in conducting assessment using international standards.

***Mitigate effects of K to 12 Program on HEI personnel through implementation of crafted measures to address displacement.*** These include: (a) giving priority to HEI faculty and non-teaching staff in the hiring of personnel for the senior high school, (b) provision of development grants and assistance for faculty such as scholarships for graduate studies, industry immersion, and research by CHED, and (c) provision of income support/augmentation for a maximum of six months, facilitate employment, and provide skills for livelihood by the Department of Labor and Employment (DOLE).

**Operationalize the PQF by reviewing and revising CHED's existing Policies, Standards, and Guidelines (PSGs) for a more seamless implementation of the framework.** Implementation of the PSGs as minimum standards will ensure quality education provided to the students.

**Enhance learner mobility by establishing equivalency and credit transfer systems.** The approval of the ASEAN Qualifications Reference Framework will make it seamless for students of different HEIs within the ASEAN member countries to participate in regional programs aimed at enhancing learners' knowledge and skills. With this, the development of the PQF is crucial in setting equivalency and credit transfer system that will allow learners to move from TVET to higher education or transfer among learning institutions within the ASEAN member countries.

## Vulnerabilities reduced through expanded social protection

The provision of social protection services generally expanded in 2015. In addition to the regular Conditional Cash Transfer (CCT) program, the beneficiaries of the Modified Conditional Cash Transfer (MCCT) exceeded the 2015 target by 148.59 percent. The implementation of the Social Pension Program also expanded to cover indigent senior citizens 65 years old and above, supported by a 91.8-percent increase in the 2015 budget for the program. To continue the gains in the sector, social protection may be further improved by enhancing the targeting system and strengthening convergence mechanisms at all levels of implementation to address the supply side issues, among others.

### Assessment

**Improved household coverage of the Pantawid Pamilyang Pilipino Program.** As of June 2015, Pantawid Pamilya had a total of 4,391,768 active household beneficiaries. Out of the total number of households, 4,173,391 (or 95.03 percent) are covered by the regular CCT program while 218,377 (or 4.97 percent) households are covered by the MCCT. A slight decrease in the number of regular CCT household beneficiaries was noted due to the delisting<sup>38</sup> of about 48,563 households while a significant increase (148.59 percent of the MCCT target) in the number of MCCT household beneficiaries was recorded because of the inclusion of families affected by disasters such as the Zamboanga Siege and Typhoon Yolanda. The total cash grant paid to eligible and compliant Pantawid Pamilya household beneficiaries covering January to June 2015 is PHP17.8 million wherein PHP7.9 million is for education grants and PHP9.8 million is for health grants.

**Provided livelihood assistance to 174,026 families through the Sustainable Livelihood Program (SLP).** From January to October 2015, the SLP served a total of 174,026 families with 162,687 of them Pantawid Pamilya beneficiaries. Public and private partners were tapped for either microenterprise development or employment facilitation. Since its implementation from January 2011 to October 2015, the program served a total of 851,505 families, of which 86.0 percent or 740,665 are Pantawid Pamilya beneficiaries.

<sup>38</sup> Delisted households are household removed from the program due to the following reasons: fraudulent acts, inclusion error, and waiver of their inclusion into the program.

***Provided additional PHP391.0 million in Emergency Shelter Assistance (ESA) to Typhoon Yolanda victims.*** The DSWD released an additional PHP391.0 million on the first half of 2015 for families whose houses were damaged by Typhoon Yolanda. As of May 2015, DSWD has already released a total of PHP2.5 billion ESA funds in the Western Visayas Region.

***Implemented Unconditional Cash Transfer (UCT) Program to disburse grant assistance to 5,801 families affected by super typhoon Yolanda.*** The DSWD, with the support of the United Nations Children's Fund, provided PHP153.0 million grant assistance to Pantawid Pamilya beneficiaries in Eastern Samar affected by super typhoon Yolanda. The UCT program benefitted 5,801 families who received an additional PHP4,400 per month from July to December 2014 on top of the regular cash grant provided by Pantawid Pamilya. The cash grants were given to the beneficiaries without any conditions. Municipalities in Eastern Samar covered by UCT were Guian, Hernani, Mercedes, Balangkayan, and Salcedo.

***Expanded the Senior Pension Program to benefit nearly 1.0 million indigent senior citizens.*** For 2015, the government allocated PHP5.962 billion to benefit 939,609 indigent senior citizens aged 65 and above nationwide including those in the Autonomous Region in Muslim Mindanao. This translated to a 91.8 percent increase in the 2015 budget for the program amounting to an additional PHP2.853 billion from last year's allocation of PHP3.108 billion.

***Increased health insurance coverage by 9.6 percent.*** As of June 2015, PhilHealth has 89.4 million beneficiaries, from 81.5 million last year. The 100.0 percent PhilHealth coverage of all Pantawid Pamilya beneficiaries or 45.4 million beneficiaries from poor families identified under the NHTS-PR and LGU Sponsored Programs has already been achieved since 2014.

***Improved targeting system for anti-poverty programs.*** This year, the second round of assessment of the NHTS-PR or Listahanan will be conducted to improve the targeting system for social protection. The Listahanan is an information management system that identifies who and where the poor are. The second round of assessment aims to assess 15.3 million poor households in 144 cities and 1,490 municipalities, taking off from the 2009 first round of assessment which included 8.4 million poor households. The second round of assessment is disaggregated into families in the household and will include persons with disabilities and/or functional difficulty. It will also use two proxy means test models [National Capital Region (NCR) and non-NCR] for proper differentiation.

## Challenges

***There is a need to address the effects of inflation on cash grant.*** The cash grant given to Pantawid Pamilya beneficiaries has not been adjusted to consider inflation since the start of the program in 2008. Thus the value they are receiving now has less worth compared to when the program was piloted. In 2008, the cash grant is about 20.0 percent of the poverty line for a family of five but now, it only amounts to a little over 15.0 percent.



***There is a need to address the limitation at the supply side.*** Given the increase in the number of beneficiaries of Pantawid Pamilya and the inaccessibility of schools and health facilities in some areas, some Pantawid Pamilya beneficiaries are unable to comply with the program's conditions. Moreover, access to schools and classrooms remains a challenge for children with disabilities. Coordination and convergence at the supply side can still be improved to meet the demands of the beneficiaries.

***There is a need to provide social security for the workers in the informal sectors (WIS).*** As observed in the existing social security policies, the issues and concerns of WIS are largely unaddressed in legislation (i.e. some WIS cannot pay their regular social security premium due to the seasonal nature of their work). The existing social security policies focus primarily on formal sector workers, as manifested in the consultations on Assessment-Based National Dialogue (ABND) matrix on income security for working age population. To handle the development of a social security program responsive and customized to the needs of the informal sector, the Social Security System created a Cooperatives and Informal Sector Department.

***There is a need for data on vulnerable groups.*** Government efforts in providing social protection to the vulnerable groups in society would be more efficient and effective with availability of appropriate data on vulnerable groups for proper targeting.

## Strategies

***Conduct program review of the Pantawid Pamilya.*** It is essential to review the overall performance of the program in terms of its impacts and administrative efficiency. The review must look into the amount of grants provided to Pantawid Pamilya beneficiaries to consider inflation and wage rate, among others.

***Continue to strengthen convergence.*** To address the supply side issues in the implementation of Pantawid Pamilya, it is necessary to continue strengthening the convergence efforts to provide sufficient and quality services to the beneficiaries. There is a need to conduct intensive advocacy campaigns at the local level on PhilHealth benefits to raise the number of beneficiaries availing of PhilHealth aside from increasing the number of PhilHealth-accredited facilities, teachers, schools, classrooms, and textbooks, among others. The government may need to devise alternative means in providing quality social services to beneficiaries in far and difficult to reach areas.

***Generate data generation on WIS regularly.*** Given the large number of WIS and their limited access to social protection services, there is a need to institutionalize the generation of data on WIS as a basis in coming up with the WIS profile and in developing social protection programs for the sector. An implementation plan must also be developed for effective facilitation of social protection services for WIS. The Social Development Committee-Subcommittee on Informal Sectors should also be reconvened to serve as a platform for regular engagement and better coordination of WIS concerns.

***Continue efforts to promote social protection.*** The Core Diagnostic Systems Assessment Instrument (CODI) will be conducted for a more comprehensive social protection and labor systems learning and collaboration among partners and stakeholders. This tool is used to identify the strengths and weaknesses of social protection and labor systems in the country, and to guide further improvements. The results on the ABND exercise currently being conducted since 2013 is a valuable input in the CODI.

The ABND, co-chaired by the National Economic and Development Authority and DOLE, is an effort to establish a social protection floor (SPF) in the Philippines. SPF is the minimum basic social protection provided by the society to its members against the economic and social distress caused by contingencies through their entire life cycle. SPF is either in form of financial assistance to compensate for the loss of income (including health care) or facilitation of access to social services and the fulfillment of basic needs. ABND aims to develop an assessment matrix with estimated cost highlighting present social protection context in the country and endorse recommendations for policy coordination and establishment of mechanisms.

## **Vulnerabilities reduced through expanded access to secure shelter**

The vulnerabilities of households can be significantly reduced if they reside in a shelter that is secure, i.e., safe, resilient, inclusive, and sustainable in human settlements. Initiated by Congress, the sector embarked on a yearlong National Housing and Urban Development Summit on May 27, 2015 with the end in view of forging a national consensus on the needed reforms in the areas of land and housing, housing finance, participatory governance, and urban development. The Summit envisions to revitalize the National Shelter Program (NSP) to address the enormous housing need essentially through making in-city resettlement a reality for informal settler families (ISFs) with the promotion of a high-density housing strategy.

### **Assessment**

The NSP delivered direct housing assistance to a total of 138,508 households in 2014 (94.7 percent accomplishment rate) and 87,499 households as of September 2015 (48.46 percent accomplishment rate). The NSP's direct housing assistance is comprised of resettlement, settlements upgrading, Community Mortgage Program, and Home Development Mutual Fund end-user financing, among others. Socialized housing accounts for 71.76 percent of the total NSP accomplishment in 2014 (99,402 units) and 70.12 percent (61,354 units) as of September 2015. The accomplishment is better than expected, but circumstances brought by recent calamities necessitated the intensified rehabilitation efforts in areas affected by recent calamities, which were not in the original target.

Table 5. NSP direct housing assistance (units in households): Targets and accomplishments, 2014-2015\*

Key performance indicators	2014		2015	
	Target	Accomplishment	Target	Accomplishment (As of Sept 2015)
Socialized housing	103,431	99,402	134,650	61,354
National Housing Authority (NHA) Housing production**	63,331	65,926	94,301	36,046
Social Housing Finance Corporation (SHFC) Community-Driven Shelter Assistance Program	20,400	18,556	24,254	11,569
Home Development Mutual Fund end-user financing	19,700	14,920	16,095	13,739
Low-cost housing	42,755	39,106	45,892	26,145
<b>TOTAL DIRECT HOUSING ASSISTANCE</b>	<b>146,186</b>	<b>138,508</b>	<b>180,542</b>	<b>87,499</b>

Source: HUDCC

Note: \*Does not include housing material assistance (HOMA)

\*\*Includes resettlement, local housing programs, AFP/PNP housing, etc.

Under the NSP, the government also allocated a six-year PHP50.0 billion housing program for the relocation of 104,219 ISFs<sup>39</sup> residing along danger areas in Metro Manila. This is to provide them with safer and improved living conditions, and avert further degradation of major waterways in the metropolis.

Table 6. Status of the PHP50.0 billion housing program for ISFs in Metro Manila, by type of resettlement (units in households)

PARTICULARS	In-city	Off-city	Total
NHA Housing Production	17,717	84,419	102,136
Completed	4,658	57,429	62,087
Ongoing	6,798	16,294	23,092
To be Started	6,261	10,696	16,957
SHFC High Density Housing	11,938	18,766	30,704
Completed	1,558	60	1,618
Ongoing	1,627	3,170	4,797
To be Started	8,753	15,536	24,289
<b>TOTAL</b>	<b>29,655</b>	<b>103,185</b>	<b>132,840</b>

Source: HUDCC

<sup>39</sup> The initial indicative target of the resettlement program is 104,219 ISFs, based on the survey conducted by the National Housing Authority, Department of Public Works and Highways, and Local Government Units. Upon subsequent assessment and validation, more than 119,000 ISFs were identified as qualified beneficiaries.

Overall, in-city resettlement targets 29,655 ISFs (22.32 percent) while off-city resettlement aims to cater to 103,185 ISFs (77.67 percent). As of August 2015, a total of 62,087 units have already been completed by the NHA, as well as 1,618 units by the SHFC through its High Density Housing Program. Construction of housing projects for 27,889 household beneficiaries is ongoing, while construction for the remaining 40,886 units will be started for the rest of the period.

## Challenges

### ***There is a need to deliver decent and affordable housing to the poor, underprivileged, and vulnerable.***

Expanding access to decent, affordable, and secure shelter has been difficult for the housing sector primarily due to limited availability of suitable and affordable land, particularly in urban areas. As of 2011, there is an estimated 1,502,336 ISFs nationwide, with an estimated 584,425 ISFs from Metro Manila. While the Philippine government prioritizes in-city resettlement, the acquisition of adequate, suitable and affordable land for socialized housing development delays the delivery of housing programs.

Adoption of alternative and innovative approaches on land acquisition (e.g., usufruct, long-term lease, landbanking) and housing solutions (e.g., high-density mass housing, vertical developments for socialized housing, public rental housing, expansion of housing microfinance initiatives) were identified strategies in the PDP Midterm Update and reiterated in the 2014 Socioeconomic Report. Although the recommended approaches are being explored by a few LGUs, these are limited and intensified promotion of such solutions are yet to be seen at the national level aside from the SHFC's High Density Housing Program.

***There is a need for an inclusive and sustainable urbanization framework.*** In the housing sector, there is a call for an inclusive and sustainable urbanization development framework given the implications of population growth, rapid urbanization, and rural-urban migration in the country in expanding access to secure shelter. The total housing need<sup>40</sup> of the country remains to be enormous at approximately 5,556,463 for the period 2011 to 2016 (including initial needs/backlog from previous years). Among the regions, the growth areas comprised of CALABARZON, Central Luzon, and National Capital Region account for almost a third of the projected housing need for 2011 to 2016. This projection is further exacerbated by natural and man-made disasters (e.g., Bohol Earthquake, Zamboanga Siege, Typhoon Pablo, Typhoon Yolanda, etc.) that affected the country during the same period. Hence, there is an inevitable call for a sustainable urbanization framework that is forward-looking and responsive to the challenges confronting Philippine cities and settlements (e.g., agglomeration economies, mobility/connectivity, congestion, resiliency to geohazard risks). Land use and settlements planning should also be geared toward ensuring safe, resilient and decent living conditions that is also accessible to basic services and economic opportunities. This requires integration of sectors such as transport, land use, housing, and environmental management, particularly in urban areas.

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<sup>40</sup> Households in unacceptable housing (i.e. rent-free without consent of owners, marginal housing, dilapidated/condemned, and the homeless)



***There is a need to address implementation issues in the PHP50.0 billion Housing Program for ISFs Living in Danger Areas in Metro Manila.*** While 47.95 percent of the total target units have been completed, 30.78 percent have yet to be started due to persisting issues on land acquisition, site development and building construction, and relocation. Problems in land acquisition include lack of suitable and affordable land, objection of LGUs to absorb ISFs residing outside their cities, delays in issuances of Bureau of Internal Revenue ruling on capital gains tax exemption, and difficulty for ISF communities to comply with necessary technical requirements. On the other hand, site development is hampered by delays in issuances of permits and other requirements by LGUs. Relocation also becomes a problem due to delays in full energization and water connection in off-city resettlement areas. Also, ISFs are seldom convinced to voluntarily relocate due to several issues such as a) lack of livelihood projects in off-city resettlement sites, b) slow payment of financial assistance to ISFs, c) titling for HDH, and d) affordability of units, among others.

***There is a need to address the fragmented institutional arrangements of the sector.*** Implementation of key strategies and reforms are also constrained by the fragmented institutional arrangement in the sector. Although housing is decentralized to LGUs, key shelter agencies have mandates for specific functions—NHA on housing production, the Housing and Land Use Regulatory Board on regulation, and the SHFC, National Home Mortgage Finance Corporation, and the Home Guaranty Corporation on housing finance. Each of these agencies is governed by a Board of Directors, although the programs of these agencies are being coordinated by Housing and Urban Development Coordinating Council (HUDCC). Delineation of responsibilities between the national and local government is also unclear.<sup>41</sup> In addition, there is a need to improve linkage of local shelter plans to regional and national plans for a more holistic settlements planning.

## Strategies

***Prioritize the updating of the National Urban Development and Housing Framework (NUDHF) and institutionalization of the NISUS.*** The NUDHF is the national policy framework for improving the performance and efficiency of the country's cities and urban centers which will enhance living conditions of people. Under this framework, the NISUS shall be institutionalized as a 10-year program to improve the lives of ISFs nationwide. The NISUS envisions and targets the provision of secure tenure to at least 1.0 million ISFs by 2025.

***Promote alternative and innovative solutions in addressing the housing need for the lower income classes and vulnerable sector.*** Solutions such as public rental housing, mixed-income or mixed-use housing development, and housing microfinance initiatives are reiterated to increase housing affordability and better cater to underserved housing beneficiaries more sustainably.

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<sup>41</sup> Ballesteros, Marife. (2002). *Rethinking Institutional Reforms in the Philippine Housing Sector. Discussion Paper Series No. 2002-16. Philippine Institute for Development Studies.*

Furthermore, promotion of high-density mass housing and vertical developments for socialized housing are also potentially viable solutions to address the housing need while considering constraints in land resources. Such solutions are advocated to encourage in-city development, emphasizing that such resettlement approach is more economical given the principle of maximum retention and minimum dislocation of beneficiaries who would not be displaced from access to opportunities (e.g., livelihood, schools, hospitals, etc.). To undertake this, HUDCC is lobbying for the amendment of RA 7279, a bill qualifying vertical development as eligible compliance with the balanced housing development requirement<sup>42</sup> and redefining socialized housing to include vertical development (i.e. medium-rise buildings, condominiums). The imposition of the full 20.0 percent project area or project cost compliance on condominium projects is also being pursued. The Housing Summit will produce a national inventory and mapping of areas occupied by ISFs as well as identify lands which are idle and suitable for socialized housing development for ISFs through in-city or near-city resettlement adopting a high-density housing solution and implemented through the people's planning scheme or approach.

***Adopt viable land acquisition approaches and fast-tracking the conduct of inventory of lands.*** In addition, the importance of adopting land acquisition approaches aside from land ownership (e.g., usufruct, long-term lease, land banking, among others), is also emphasized to address the perennial problem of identifying suitable land for socialized housing in urban areas while also addressing affordability. Along with this, fast-tracking the inventory of lands and cadastral surveys is crucial to hasten the process of identifying land areas for housing projects.

***Strengthen partnerships with stakeholders.*** As a cross-cutting strategy, the sector will continue strengthening its partnerships with stakeholders, especially LGUs, in curbing proliferation of informal settlers, and ensuring effective and efficient delivery of housing interventions. This is essential in ensuring linkage of local shelter plans with the National Resettlement Plan of the NHA, encouraging public and private partnerships for housing projects, and improving compliance of developers to balanced housing development. The housing sector, with NHA as lead, will also continue its consultation with ISFs to boost occupancy rates of socialized housing units already available for awarding to beneficiaries.

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<sup>42</sup> Under Section 18 of the Urban Development and Housing Act of 1992, developers of proposed residential subdivision projects are required to develop an area for socialized housing equivalent to at least twenty percent of the total subdivision area or total subdivision project area.







## VII. Good Governance

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*The path to inclusive growth has been cleared of major governance obstacles and there should be no turning back.*

Good governance, coupled with sound economic policies and strategies, is crucial for achieving and sustaining growth and making it inclusive. The Aquino administration has focused on governance reforms to remove obstacles that have kept the Philippine economy from growing and moving in the right direction. Initiatives were aimed at transforming institutions to encourage citizens to participate in the political process, to make public institutions deliver services more efficiently and effectively, and to sustain inclusive growth. Under the Philippine Development Plan (PDP), governance reforms are measured in terms of two subsector outcomes: a) increasing transparency, citizens' participation, performance management, and accountability measures, and b) strengthening rule of law.

Much has been achieved on good governance over the past two years. The country's commitment to the Open Government Initiative, which is part of its effort to increase transparency and promote citizens' participation, performance management, and accountability, has led to online availability of government data such as budgets, procurement plans, and local action plans. In terms of strengthening the rule of law, the government was able to increase the number of courts with continuous trial. The number of Philippine Mediation Center offices to promote alternative dispute resolution has also increased.

These accomplishments have resulted in a rise in the percentile ranking of the Philippines in the Worldwide Governance Indicators (WGI).<sup>43</sup> From 2010 to 2014, the country has shown marked improvements in all five dimensions (see table below).<sup>44</sup> Reforms and accomplishments continue to push the country to higher rankings in the WGI.

*Table 7. Philippines' Percentile Rank, Worldwide Governance Indicators, 2010-2014*

Indicators	2010	2012	2014
Voice and Accountability	48.3	46.9	52.7
Government Effectiveness	55.5	57.9	61.5
Regulatory Quality	45.0	51.7	51.9
Rule of Law	33.6	36.5	43.3
Control of Corruption	22.4	32.5	39.9

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<sup>43</sup> The WGI is a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI is a research project of the World Bank since 1996 and covers 211 countries.

<sup>44</sup> The WGI is an aggregate of six dimensions including the five abovementioned. The sixth dimension, Political Stability and Absence of Violence/Terrorism, is not measured in the PDP.



## Assessment

### Increasing transparency and citizens' participation

Most of the planned reforms to increase transparency and citizens' participation have been implemented but some initiatives need to catch up to meet targets.

***More information and data have been made publicly available.*** One of the significant efforts in promoting transparency is the introduction of the Open Budget Index (OBI). As early as third quarter of 2015, the OBI score has exceeded its target of 60, resulting in the country being ranked 21st best in the world, and 4th best in Asia despite severe public criticism on budget transparency. Another achievement is the Open Data Portal, a collaborative effort of the Department of Budget and Management, Department of Finance and Commission on Audit (COA), wherein 2,003 out of the targeted 2,000 data sets have been published for 2015. To complement this feat, all targeted National Government Agencies (NGAs), Government-owned and Controlled Corporations (GOCCs), and Local Government Units (LGUs) have been fully registered in the Philippine Government Electronic Procurement Systems. While so much has been accomplished to promote transparency, some initiatives still need to catch-up, such as compliance with the Full Disclosure Policy by the targeted provinces, cities, and municipalities (PCMs) as well as compliance with the Transparency Seal by NGAs and GOCCs.

***Greater opportunities for citizens to participate in governance were opened.*** Foremost among the OBI initiatives is the Bottom-Up Budgeting program that empowered citizens to contribute to the formulation and implementation of government programs by allowing for custom-built programs more responsive to local needs.

Other initiatives to promote citizen participation have significantly exceeded the target for 2015, such as cities with citizen satisfaction surveys, and cities and municipalities with local poverty reduction action plans. Citizen engagement is also on track in terms of the number of NGAs and GOCCs entering into Budget Partnership Agreements with civil society organizations.

### Improving performance management and accountability

***Incentives and measures to improve public service delivery are now working.*** As of third quarter of 2015,<sup>45</sup> 98.0 percent of high-density service offices that were the most complained about passed the Anti-Red Tape Act Report Card Survey, an increase from 95.0 percent in 2014. To enhance managerial capacities, 512 senior executives and middle managers were trained in the Public Management Development Program in 2015. The number of PCMs conferred with the Seal of Good Local Governance (SGLG) rose from 0 in 2014 to 254 in 2015.<sup>46</sup> The SGLG replaces the Seal of Good Housekeeping, which recognizes outstanding PCMs with good financial housekeeping, among others. There is also a continuous increase in the percentage of qualified PCMs provided with the Performance Challenge Fund subsidy (74.0 percent in 2015 and 73.0 percent in 2014). In general, incentive-based performance management systems are better at encouraging LGUs to rigorously accomplish their targets and improve public service delivery.

<sup>45</sup> All succeeding mentions of 2015 performance pertain to 3rd quarter achievements.

<sup>46</sup> SGLG was launched in 2014; Conferment of the seal is in 2015. 1,676 PCMs were already assessed for conferment, including the 84 PCMs in ARMM.

**More effort is needed to strengthen performance management and accountability measures in government.** In particular, the Strategic Performance Management System has to be made fully functional in government agencies. There is also a need to increase participation of government agencies in the design of performance-based incentive systems towards successful implementation.

Further, there are still shortcomings in the delivery of service, specifically those related to the infrastructure and services sectors, that have far-reaching impacts on the economy. For instance, reforms must be spearheaded to decisively address port congestion, which has resulted in business losses amounting to PHP70.0 billion in 2014.<sup>47</sup> Although port congestion has normalized according to the Philippine Ports Authority,<sup>48</sup> the business organizations had warned that if no new roads are built in the medium term, port congestion may persist.<sup>49</sup> It is further contended that this is a consequence of another infrastructure concern—road or traffic congestion. The traffic situation in the country is the 5th worst in the world, according to a study conducted by the online database Numbeo. Average one-way commuting and travelling time in the country is at least 46 minutes before people could reach their destination.<sup>50</sup> Despite ongoing improvements in the public transportation and building of roads, there is an urgent need particularly in the National Capital Region to increase limited access roads, especially skyways and rail. Since the annual new car growth is seen to spike to half a million by 2020,<sup>51</sup> long-term solutions to address this issue are imperative to ensure efficient delivery of services as well as to expedite business transactions.

Frontline services of public agencies likewise need to be improved. An example is the issuance of new license plate numbers. Full implementation of the license plates standardization program has been beset with internal and external problems, including procurement issues, the alleged deliberate delaying of the release of new plates by some government employees and car dealers, poor material of the license plate,<sup>52</sup> and technical errors in updating the database of the Land Transportation Office.<sup>53</sup> The direct costs, compliance costs, and opportunity costs to car owners are substantial.

## Strengthening the rule of law

Addressing fragmentation in the justice system has been a key initiative among the justice sector institutions. The Justice Sector Coordinating Council—composed of senior representatives from the Judiciary, Department of Justice, and Department of the Interior and Local Government and their relevant attached agencies—has become fully operational and is actively identifying further areas for policy and institutional coordination while collectively addressing priority issues and challenges.

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<sup>47</sup> Richmond S. Mercurio. (July 13, 2015). PCCI warns of continued port congestion. *The Philippine Star*. Retrieved <http://www.philstar.com/business/2015/07/13/1476181/pcci-warns-continued-port-congestion>

<sup>48</sup> Rappler. Port congestion 'completely over' – Malacañang. Retrieved from, <http://www.rappler.com/business/industries/208-infrastructure/89743-port-congestion-over-malacanang>

<sup>49</sup> Ibid.

<sup>50</sup> Helen Flores. (September 5, 2015). Philippines has 5th worst traffic in the world – study. *The Philippine Star*. Retrieved from, <http://www.philstar.com/headlines/2015/09/05/1496064/philippines-has-5th-worst-traffic-world-study>

<sup>51</sup> Richmond S. Mercurio. (January 4, 2016). 'Traffic can make Metro Manila uninhabitable in 4 years'. *The Philippine Star*. Retrieved from, <http://www.philstar.com/headlines/2016/01/04/1539050/traffic-can-make-metro-manila-uninhabitable-4-years>

<sup>52</sup> Tessa Distor. (June 20, 2015). LTO's new license plate problems surface online. *Manila Bulletin*. Retrieved from, <http://www.mb.com.ph/lto-new-license-plate-dilemmas-surface-online/>

<sup>53</sup> Robertzon Ramirez. (June 26, 2015). 'LTO employees delaying orders of license plates'. *The Philippine Star*. Retrieved from, <http://www.philstar.com/headlines/2015/06/26/1470038/lto-employees-delaying-orders-license-plates>

***To promote inclusive justice, resolution of cases was expedited; thus justly releasing inmates and decongesting jails.*** A jail decongestion program has been implemented through the Electronic Justice on Wheels, Judgment Day, and the newly-issued Supreme Court Guidelines on jail decongestion. To date, 2,511 indigent litigants<sup>54</sup> have been released for justifiable reasons, surpassing the 2014 target of 1,275. Although the 2015 data is not yet available, the Judiciary is confident it will exceed its target of 5,000.

***Measures to expedite administration of justice have been put in place.*** The government increased the number of Philippine Mediation Center offices promoting alternative dispute resolution from 120 in 2014 to 126 in 2015. Moreover, there are now 110 courts with rolled-out continuous trials from zero in 2012. Speedy administration of justice is also extended to Overseas Filipino Workers (OFWs). The Overseas Workers' Welfare Administration (OWWA) and the National Conciliation and Mediation Board have significantly reduced the processing time for resolution of OFW-related cases to an average of three days with the implementation of the Single-Entry Approach (SEnA) Program. Pursuant to the Department of Labor and Employment (DOLE) Department Order No. 107-10, s. 2010, the SEnA prescribes a 30-day mandatory period for the settlement of complaints filed by OFWs arising from employer-employee relations through conciliation. From January to July 2015, 2,049 cases were received, wherein 1,962 cases were disposed and 1,739 cases were settled.<sup>55</sup>

Improvements in the administration of justice are also evident in efforts to address the recently-exposed “*laglag bala*” scheme in the country’s airports. To swiftly resolve these cases, an inter-agency team was created to assist OFWs victimized by this scheme. Composed of DOLE, Philippine Overseas Employment Administration, OWWA, International Labor Affairs Bureau, Legal Service and Labor Communications Office, the team provides assistance in the form of legal advice, psycho-social counselling, free communication lines (particularly to immediate family, friends, recruitment agency, lawyer), food, and accommodation.

***Case backlogs have yet to be reduced significantly.*** Much needs to be done in addressing the absorptive capacities of the justice system in terms of reduction of case backlogs both for the Judiciary and the Executive branches. Moreover, upgrading the justice system via the Electronic Court System (e-Courts Project) has been slow, as targets for courts with rolled-out e-subpoena and e-courts systems have been unmet.

***Economic justice has been enhanced through intensified tax enforcement.*** There is a substantial increase in the number of cases filed under the Run After Tax Evaders and Run After The Smugglers programs. However, most of these cases are still pending in the courts.

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<sup>54</sup> Figures for number of detainees to be finalized.

<sup>55</sup> OWWA. (October 16, 2015). OWWA resolves OFW cases faster under SENA. Retrieved November 29, 2015 from, <http://www.owwa.gov.ph/?q=content/owwa-resolves-ofw-cases-faster-under-sena>

## Challenges

Despite these accomplishments on good governance and rule of law, there are major issues and developments that can affect this good performance in succeeding years. For one, the 2016 national and local elections will usher in a new administration and possibly a new governance regime that could either sustain or negate the reforms that are currently being implemented.

Second, conformance to international standards affects governance-related outcomes for the country. The regional economic integration envisioned under the ASEAN Economic Community (AEC) and the updating of ISO 9001 from 2008 to 2015 will require structural reforms in streamlining government systems and processes; rationalizing public sector institutions; and strengthening civil service so that local businesses can compete in the global market.

Challenges that the governance sector faces are related to the major developments aforementioned.

***The change in political landscape by 2016 may undermine some governance reforms that have not yet taken root.*** These include the SGLG launched in 2014, and the Bottom-Up Budgeting program in 2013. With the change in national agenda after the 2016 elections, these reforms may not get the requisite attention and resources, or worse, may be discontinued.

***Natural calamities can paralyze LGU capacities in delivering public services.*** Hence, mainstreaming must be done for climate change adaptation and disaster risk reduction and management in all governance reforms and initiatives.

***The government should be able to adapt to and embrace the evolution of advanced technology-based communication and business transactions and dealings.*** COA rules and regulations should be reviewed and possibly amended to allow the procurement of new information technology goods and services, instead of declaring these as redundant and a duplication of existing goods and services. Amendments or revisions of pertinent procurement laws, rules, and regulations may also be necessary.

***There is uncertainty regarding the country's readiness, in terms of legal/ administrative governance, to adopt ASEAN principles, standards, or policies.*** Among government agencies, there is currently no apparent lead coordinator that will harmonize efforts towards the country's conformance to ASEAN commitments. This lead agency should also conduct an information, education, and communication (IEC) campaign on the Philippines' commitments to ASEAN in general.

***On rule of law, it is foreseen that absorptive capacities and fragmentation of efforts among agencies in the justice system will remain a challenge.*** Unless the root causes of these problems are addressed and strategies are strengthened, targets for this sector may be difficult to meet.

***Issues surrounding the enactment of the Bangsamoro Basic Law (BBL) need to be resolved.*** In terms of priority legislative measures, there are escalating issues on the consequences of BBL enactment on governance and the rule of law, specifically in terms of new or modified governance structures, public institutions, institutional relationships, mechanisms, and in consideration of the environment and the use of its natural wealth.



## Strategies

Given the observations above, the following strategies need to be implemented to sustain the gains and ensure that development targets in the PDP 2011-2016 Midterm Update are met:

***Create a catch-up plan.*** To fulfill the end-of-plan targets, it is necessary to implement a catch-up plan for those strategic programs and initiatives that are delayed or lagging in implementation.

***Invest in technology and upgrading of public sector competencies.*** Scaling up and continuing programs require public investment on new technologies, such as automation of processes and upgrading of equipment to facilitate efficient and effective service delivery. Moreover, capacity building programs must be organized to enhance the aforementioned public sector competencies.

***Monitor and evaluate programs and projects.*** To ensure that progress is made toward achieving development outcomes, mechanisms must be put in place to implement the government's monitoring and evaluation (M&E) framework. M&E of programs and projects will allow for timely interventions and help showcase the early successes of some programs and generate public support for these.

***Document and communicate progress.*** Documentation and communication of the ongoing governance programs, projects, and activities can also bridge the gap for transitioning governments. A communication strategy that focuses on the long-term development agenda needs to be developed.

***Develop a risk management business continuity framework.*** The development of a risk management and business continuity framework for agencies as well as improvements in government's competency and readiness should be mandatory, especially with regard to immediate response to external shocks or natural calamities. A holistic approach with strengthened inter-agency coordination is imperative.

***Communicate ASEAN integration to stakeholders.*** With the onset of the AEC, there is a need for a purposive IEC on ASEAN integration (e.g., orientation and dialogues among agencies and with other stakeholders) to achieve a shared and common understanding of the AEC and its governance implications.

***Build capacities for the operationalization of the Bangsamoro Basic Law.*** Government agencies should be able to facilitate the operationalization of the BBL once it is passed into law. The implications of the BBL on governance must also be determined for proactive management.

## SEAL OF GOOD LOCAL GOVERNANCE

From its pilot run in 2010, the Seal of Good Housekeeping (SGH) has promoted transparency and accountability in local government operations by assessing financial housekeeping through compliance with COA's accounting and auditing standards and the DILG's Full Disclosure Policy.

Last year, DILG scaled up the Seal of Good Housekeeping into the SGLG—a recognition of good performance of provincial, city, and municipal governments, not only on financial housekeeping, but also on other areas that directly benefit the people.

To formally roll out the program on a national level, Memorandum Circular No. 2014-39 was issued on March 14, 2014. Since then, DILG has been busy in orienting regional and sub-regional offices on the implementing guidelines.

Similar to the SGH, the SGLG is a continuing challenge for local governments to perform better, and ultimately, achieve a desirable condition where local governments: a) Sustain the practice of transparency and accountability in the use of public funds (Good Financial Housekeeping), b) Prepare for challenges posed by disasters (Disaster Preparedness), c) Demonstrate sensitivity to the needs of vulnerable and marginalized sectors of society (Social Protection), d) Encourage investment and employment (Business-friendliness & Competitiveness), e) Protect constituents from threats to life and security (Peace & Order), and f) Safeguard the integrity of the environment (Environmental Management). These six criteria are also the basis of conferment of the SGLG.

The operational platform of the SGLG is the Local Governance Performance Management System (LGPMS) while the Local Governance Performance Management Division of the Bureau of Local Government Supervision, and the Local Governance Monitoring and Evaluation Division in every DILG Regional Office take the lead in performance monitoring and assessment of LGUs in partnership with Civil Society Organizations and other national government agencies. The LGPMS Implementing Guidelines supplement Memorandum Circular No. 2014-39 on the detailed rules and procedures on data gathering, verification and certification, and on-line data entry.

Recipients of the Seal are eligible to access the Performance Challenge Fund, a support fund to finance local development initiatives in furtherance of national government goals and strategic thrusts.

For 2015, the budget allotted for the SGLG program is P.6.571 M, sourced from local funds. As of September 30, 2015, there were 1,676 provinces, cities, and municipalities assessed in 2014. Of this number, 41 provinces, 28 cities, and 185 municipalities have been conferred with SGLG. The next conferment of the Seal will be in 2016.

A major issue faced by the program is its sustainability. With the upcoming national elections, a change in national leadership will mean a change in priority thrusts and programs.







# VIII. Peace and Security

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*The government and its partners have been relentless in their pursuit of peace and resolute in asserting the country's sovereignty to establish safer and progressive communities.*

Efforts to attain lasting peace in Mindanao have been setback as a result of the stalled passage of the Bangsamoro Basic Law (BBL) in Congress. Despite this, the government has been relentless in its pursuit of peace through intensifying development and other peace-building initiatives in conflict-affected communities.

Initiatives to strengthen law enforcement must be sustained to reduce criminality. Continuous modernization of the armed forces is vital in asserting the country's claim and sovereignty, particularly over the West Philippine Sea.

## Assessment

### Pursuing peace

***A strong foundation for fulfilling Bangsamoro aspirations for self-determination continues to be built.***

The government, in its commitment to the peace agreement with the Moro Islamic Liberation Front (MILF), relentlessly pursued the passage of the BBL to secure a lasting peace in Mindanao. The BBL seeks to establish a new political framework that would embody the Bangsamoro aspirations for self-determination.

While the BBL is awaiting Congressional approval, the government has already set mechanisms to lay the groundwork and strengthen the foundation for the transition of the Autonomous Region in Muslim Mindanao (ARMM) to the Bangsamoro government. The first phase of the normalization process<sup>56</sup> has already started with the ceremonial decommissioning of some members of the MILF. The government, together with peace partners, has been working to ensure the convergence of the peace process with the Moro National Liberation Front (MNLF) and the MILF peace process into one single framework that is the BBL.

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<sup>56</sup> The process involves primarily the following: a) security - decommissioning of MILF forces and weapons, redeployment of the AFP from or within the conflict-affected areas, and disbandment of private armed groups; b) socioeconomic—undertaking of rehabilitation, reconstruction and development of Bangsamoro addressing the needs of combatants, internally displaced persons, and poverty-stricken communities; and c) transitional justice – addresses the legitimate grievances of the Bangsamoro people, correct historical injustices, and address human rights violations.



The Bangsamoro Development Plan (BDP) was also crafted even prior to the establishment of a new Bangsamoro government. The BDP is the blueprint for the long-term development of the Bangsamoro. (See boxed article on BDP).

***The implementation of agreements on other peace tables gained momentum.*** The completion of livelihood, community development projects, and disposition of arms and forces components under the 2011 Government of the Philippines-Cordillera Bodong Administration-Cordillera People's Liberation Army (GPH-CBA-CPLA) Closure Agreement increased confidence in achieving peace in the region. The Cordillera Forum for Peace and Development, Inc., which is the transformed CBA-CPLA has already been recognized as a regular member of the Regional Peace and Order Council. Furthermore, the Rebolusyonaryong Partidong Manggagawang Pilipinas/Revolutionary Proletarian Army/Alex Boncayao Brigade-Tabara Paduano Group started its transformation into a legal socio-economic foundation called Brotherhood for Social Progress or Kapatiran para sa Progresong Panlipunan.

Though there is an impasse in talks between the government and the Communist Party of the Philippines-New People's Army-National Democratic Front (CPP-NPA-NDF), the government continued to show interest in moving the peace talks forward with the Royal Norwegian Government (RNG) as Third Party Negotiator. The efforts of the RNG suffered setbacks, but despite these, the government remains open to support efforts towards a realistic, durable and doable peace process and a multi-sectoral consensus on the reduction of armed violence. This will enable the government to transition to a good and workable table in the next administration.

***The government ensured continued funding support for conflict-affected and conflict-vulnerable communities under the Payapa at Masaganang Pamayanan or PAMANA Program.*** PAMANA serves as the national government's convergence framework that supports programs to complement the peace process. The Program, which aims to reduce poverty and vulnerability of people in conflict-affected areas, was initially implemented by three agencies (Department of Social Welfare and Development [DSWD], Department of Agrarian Reform [DAR], and Department of Interior and Local Government [DILG]) in 2011, but currently, it is being carried out by 11 agencies<sup>57</sup>. As of September 2015, the PAMANA Program already covered 3,812 barangays from 184 barangays in 2011<sup>58</sup>. To support the settlement of land disputes, 17 Certificates of Ancestral Domain Title have been completed and issued to indigenous peoples under the Program. This is in recognition of the fact that internal armed conflicts are largely rooted in long-standing disputes over land and natural resources.

Through PAMANA and "Oplan Bayanihan", the Armed Forces of the Philippines' (AFP's) Internal Peace and Security Plan (IPSP)<sup>59</sup>, the government seeks to address the root causes of insurgency. As of the second quarter of 2015, 60 out of the target 76 provinces have been declared free from insurgency.

<sup>57</sup> The complete list of agencies currently involved in the PAMANA Program are DSWD, DAR, DILG, Department of Agriculture, Department of Environment and Natural Resources, Bureau of Fisheries and Aquatic Resources, Department of Energy, National Electrification Administration, National Irrigation Administration, National Commission on Indigenous Peoples, and ARMM.

<sup>58</sup> PAMANA includes delivery of community infrastructure and focused social services, improved governance through partnerships with and local institutions in building capacities for governance and enhancing transparency and mechanisms. It also empowers communities by strengthening their capacity to address issues of conflict and peace through activities that promote social cohesion. (Source: OPAPP, 2015. *Kababaihan at Kapayapaan*. A magazine published bi-annually by OPAPP)

<sup>59</sup> The IPSP is "a document which serves as the AFP's guide in the performance of its mandated functions of protecting the state and the people. The Plan highlights the importance of increased involvement of stakeholders, the national and local government agencies, non-government entities and the entire citizenry in addressing peace and security concerns. It gives equal emphasis to combat and non-combat dimensions of military operations. On the other hand, the IPSP departs from the old parameters and explores non-combat parameters of success in addressing the country's peace and security problem." (Source: Armed Forces of the Philippines Internal Peace and Security Plan, 2010)

## Curbing criminality

***Programs to strengthen law enforcement have been producing positive results.*** Crime volume was reduced by more than half from its 2014 figure of 1.16 million to about 510,000 in the third quarter of 2015. Crime solution efficiency rate also significantly improved from 37.0 percent as of third quarter of 2014 to 51.0 percent in the same period of 2015, even surpassing the end-of-plan target of around 38.0 percent. This improvement is largely attributed to the “Oplan Lambat-Sibat” of the Philippine National Police (PNP), which is a deliberate, programmatic, and sustained police operation paired with scientific crime reporting, which uses both wide dragnet<sup>60</sup>, and intel-targeted operations to catch small-time criminals and repeat offenders. The country has also achieved a one police-to-one pistol ratio and further improved the police-to-population ratio of 1:550 in 2015, almost at par with the standard ratio of 1:500. The National Justice Information System also improved case management and inter-agency coordination/data sharing towards better law enforcement and criminal justice.

## Thwarting threats to national sovereignty

***The Philippines had some initial success towards resolving its maritime dispute with China through the rule of law.*** Following efforts to assert its claims and sovereignty, the country gained favorable decision from the Permanent Court of Arbitration, which assumed jurisdiction on the case filed by the Philippines in connection with its maritime dispute with China. This decision is expected to push the case forward toward a resolution of the West Philippine Sea issue.

## Challenges

***The stalling of the BBL passage and impasse on the peace talks may further imperil lives and worsen poverty in affected areas.*** Amid continued progress and significant milestones achieved in the Bangsamoro peace process, the Mamasapano incident in January 2015 slowed down the passage of the BBL in both Houses of Congress. A substitute bill was introduced in the Senate, while plenary deliberations are stalled in the Lower House.

Meanwhile, the threat of violence from armed rebels or private armed groups continues to imperil not only the consistency and direction of the peace process but also disrupts the normalcy of life in the communities and worsens the poverty situation. Since January 2015, close to 220,000 people have been displaced in Mindanao due to conflict and violence.<sup>61</sup> The use of force to sow fear and derail the peace process makes communities more vulnerable and unable to progress towards lasting peace and development.

The continued impasse on the peace talks with the CPP-NPA-NDF still remains a challenge for the government, especially with the inability of both parties to come to a political settlement.

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<sup>60</sup> A police operation purposely to seal off the probable exit points of fleeing suspects from the crime scene to prevent their escape (Source: PNP Revised Criminal Investigation Manual, 2011)

<sup>61</sup> Source: Internal Displacement Monitoring Centre

***The defense of the country's territorial integrity and sovereignty in the West Philippine Sea remains a great challenge.*** Though a decision has initially favored the Philippines in its case filed in the Permanent Court of Arbitration, the continued expansion and assertion of China's claim in the entire West Philippine Sea pose a great risk to the country's sovereignty over the area. It has restricted the country's exercise of its sovereign rights and jurisdiction over its territory and its resources. "China's massive reclamation activities are causing irreversible and widespread damage to the biodiversity and ecological balance of the West Philippine Sea... The destruction of 300 acres of coral reef systems resulting from the reclamations is estimated to lead to economic losses to coastal states valued at USD100 million annually."<sup>62</sup>

***The full implementation of the Armed Forces of the Philippines (AFP) Modernization Program needs more budgetary support.*** Even with the allotted budget under the revised AFP Modernization law, the Philippines still needs a bigger budget allocation in order to achieve at least a credible military defense posture to combat possible external security threats.

***Severe personnel deficiencies weaken efforts of law enforcement agencies to administer justice.*** Such deficiencies have increased backlogs in criminal and prosecution investigation cases. Budgetary support is needed to expedite the recruitment of additional investigators, prosecutors and immigration officers.

***The change in administration poses uncertainties.*** Since the peace process involves negotiations between parties, the new administration may form new peace panels and adopt new approaches in reaching peace agreements.

## Strategies

For the remaining plan period, the following programs and policies must be pursued to achieve the targets for peace and security sector.

### Securing the gains of the peace process

***Fast track the passage of the Bangsamoro Basic Law.*** Pushing for an inclusive political participation through continuing and sustaining engagements with the key stakeholders of the peace process is critical to fast track the passage of the proposed BBL within this administration. This would ensure sustaining the gains that have been achieved for peace in Mindanao.

***Pursue political settlement with insurgents.*** There is a need to implement a Strategic Framework for Negotiations, including a strategic communications plan to draw public support for the process, in order for the government to push its agenda towards a political settlement with the CPP-NPA-NDF.

***Ensure continuity of PAMANA.*** A stronger policy may be put in place to ensure the continuity of the implementation of PAMANA beyond the term of the current administration. The program has been proven to be an effective tool in carrying out peace and development efforts on the ground.

<sup>62</sup> Source: DFA Statement on China's reclamation activities and the impact on the region's marine environment. <[www.gov.ph/2015/04/13/dfa-statement-on-chinas-reclamation-activities-and-the-impact-on-the-regions-marine-environment](http://www.gov.ph/2015/04/13/dfa-statement-on-chinas-reclamation-activities-and-the-impact-on-the-regions-marine-environment)> (Released on April 13, 2015)

## Building safer communities and asserting the country's sovereignty

***Continue and strengthen law enforcement initiatives.*** Current initiatives and efforts on law enforcement that are proven effective in curbing criminality such as PNP's "Oplan Lambat Sibat" and the continued recruitment of police personnel, along with the rationalization of the legal and institutional framework on law enforcement/criminal justice should be sustained.

To address backlogs in investigations and cases, the recruitment of investigators, prosecutors, and immigration officers (including Presidential appointments) and provision of additional core and support staff complement may be expedited to cope with increasing case load.

The government has to push for the enhancement of cooperation and coordination and clarify related operational procedures and roles between the AFP and the PNP in Internal Security Operations. This is through the implementation of the Revised Joint Implementing Rules and Regulations to Executive Order (EO) 546 s. 2006 in relation to EO 110 s. 1999, which "directs the PNP to take active support to the AFP for the suppression of insurgency and other serious threats to national security."

***Increase the country's defense capabilities.*** Given the heightened risks posed to the country's sovereignty and territorial integrity, there is a need to fully implement the revised AFP Modernization Program to boost territorial and maritime defense capabilities. This should be complemented by a modest but "comprehensive border protection program" focused on upgrading the surveillance, deterrence, and border patrol capabilities of the country's air force, navy, and coast guard.



## THE BANGSAMORO DEVELOPMENT PLAN

The Bangsamoro Development Plan was crafted to serve as “a valuable tool for development that will provide strategic directions for the delivery and upgrade of basic services to the communities” even prior to the establishment of a new Bangsamoro government. The plan is the blueprint for the development of the Bangsamoro into a just, peaceful, and prosperous society. It aims to provide a short and medium-term vision and strategy for the recovery and development of the Bangsamoro based on the unique needs of the region, anchored on the importance of building a peaceful and prosperous society emerging from long years of conflict.

Pursuant to Item XI of the Annex on Revenue Generation and Wealth Sharing of the Framework Agreement on Bangsamoro, the Bangsamoro Development Agency spearheaded the formulation of the plan, with assistance from various development partners. The BDP provided a venue to show a continued commitment and partnership not only from MILF and the government but also from other stakeholders in its quest to establish a sustainable peace agreement for Bangsamoro.

### ***Development Strategies***

The BDP must approach the challenge of transforming the institutions of the state and restoring confidence amongst citizens through the following priority socio-economic interventions which must be tailored to the local environment and targeted at those areas most prone to social exclusion, poverty and violence:

- Investments for social justice by increasing access to basic services and employment and livelihood opportunities targeting those most in need;
- Support to economic growth and production particularly in small-scale enterprise farming and fishing; and
- Support to areas vulnerable to conflict and environmental shocks by building a socially cohesive resilient community and providing for early recovery and humanitarian support.

### ***Socioeconomic and Human Capital and Household Welfare Targets***

These targeted interventions seek to build a “just economy” that will lay the groundwork for the Bangsamoro to move to a higher growth path similar to that observed in Mindanao and the rest of the country in recent years. The plan targets an average annual growth rate of 6 percent to 8 percent in 2017 to 2022, which would help significantly in lifting communities out of poverty. Sustained economic growth could reduce poverty incidence to 40 percent to 42 percent in 2022 from 55.8 percent in 2012, which translates to 300,000 people rising from poverty.

At present, the most important development constraint of the region is the level of its human resources and human capital, resulting from, among others, the extraordinarily low levels of education and health and other human-development indicators. The wide delivery of basic social services is of utmost importance to improve people’s capabilities and household welfare.

Source: *Bangsamoro Development Plan*.







# IX. Sustainable and climate-resilient environment and natural resources

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*Considering that the natural environment provides a source of livelihood for resource-dependent households in coastal and upland areas, the need to protect it and its ecosystem services is paramount especially in the context of a changing climate and escalating risks of disasters.*

The environment and natural resources sector plays a critical role in achieving inclusive growth. It affords a source of livelihood for the poor and resource-dependent households, especially those in the coastal and upland areas. Additionally, it provides the essential inputs and ecosystem services needed by the production sectors that create employment opportunities. The sector, nonetheless, bears both the positive and negative effects of the activities undertaken to enhance and sustain economic growth. In particular, it is continuously challenged by climate risks and disasters, amplifying the association between poverty and environmental degradation. The need to protect the sector to ensure the continued flow of its ecosystem services is paramount. Continuous capacity-building, provision of adequate resources, technological improvements, and intensified public awareness campaigns need to be undertaken to sustain the implementation of government initiatives and enhance the performance and resiliency of the sector.

## Assessment

***Technological improvements, capacity-building, better governance, and additional financing helped communities to adapt to climate-related risks and extreme weather events.*** The increasing amount of damage to property (agriculture and infrastructure) shows the vulnerability of the country to climate-related risks and disasters. The amount of damage brought about by climate-induced disasters has increased from 2011-2014 averaging to PHP54.0 billion per year or a 177.8 percent increase in nominal terms (127.2 percent in constant 2000 prices) from the 2004-2010 baseline values. From January to September 2015, approximately PHP1.9 billion worth of damage to property has been recorded due to natural events particularly El Niño, intertropical convergence zones, destructive winds, and tropical cyclones (NDRRMC 2015). Recognizing these constraints, the government has continued to develop and implement measures to reduce the risks and build human adaptive capacities.

In recent years significant improvements in technology, education and capacity-building and financing helped communities to adapt to climate risks and disasters. More accurate and robust science and technology-based weather and climate change information have been produced through improved forecasting, mapping and modeling supported by advanced hardware and software facilities and remote sensing techniques. For instance, the ongoing Nationwide Operational Assessment of Hazards Program distributed hydro-meteorological devices (e.g., automatic rain gauges and water level monitoring stations) in hard-hit areas, produced three-dimensional flood inundation and hazard maps (DREAM-

LiDAR Project) of flood-prone, major river systems and watersheds, and developed Local Doppler Radar Systems for remotely sensing dynamic parameters such as wave, wind field, and surface current velocity. Moreover, higher resolution geohazard maps (1:10,000) with detailed and accurate information are expected to be completed by December 2015. Lastly, capacity development was provided to 17 provinces, 84 cities and 526 municipalities on the development of Local Climate Change Action Plans.

The implementation of climate change expenditure tagging was also used to prioritize climate change programs, projects, and activities (PAPs) in the budgeting process of all government agencies by systematically tagging budget proposals and approved expenditures (i.e. Joint Memorandum Circulars 2013-01<sup>63</sup> and 2015-01<sup>64</sup>). For 2015, a total of PHP128.6 billion or 5.0 percent of the PHP2.6 trillion budget has been tagged for climate-related expenditure of the national government. Efforts on tagging climate change appropriations and expenditures at the local level are also underway.

To further assist the local government units (LGUs) in building their resilience to climate change, the People Survival Fund (PSF) was allocated with PHP1.0 billion budget in 2015 to support programs, projects and activities of LGUs and local communities on building resiliency. Subsequent allocations for PSF will be contingent on the demand and the ability of the beneficiaries to develop strategic project proposals.

***Effective forest, marine, and land management translated into improved provision of ecosystem goods and services and enhanced biodiversity.*** Sustainable management of natural resources has improved with 13 out of 17 target indicators for 2015 being met. The area of open and denuded forest lands was reduced from 8.3 million hectares to 7.7 million hectares, with total area of 233,254 hectares reforested for 2015 (77.8 percent of the 2015 target). In addition, 2.5 million hectares of terrestrial protected areas have been effectively managed, and 36,806 hectares of degraded land hotspots (11.5 percent higher than the 2015 target) are with developed sustainable land management (SLM) practices. Additionally, 80.0 percent of Bagacay mines were rehabilitated. The increase in the forest land area, improvement in land quality and effective management of protected areas contributed to improvement of habitats and provision of additional ecosystem goods and services.

The above accomplishments are attributed to the implementation of natural resource management (NRM) programs such as the National Greening Program (NGP), Threatened Species Conservation Program, and SLM programs. Moreover, strict enforcement of environmental laws and policies such as Executive Order No. 23 on Moratorium on Logging in Natural Forest, National Integrated Protected Area System Act, Wildlife Resources Conservation and Protection Act, and adoption of other governance modality in establishing conservation areas have contributed to improved NRM. In fact, the extinction of threatened species of wild flora and fauna was prevented and the population of the three Philippine biologically significant species<sup>65</sup> increased.

Areas of effectively-managed critical habitats in both terrestrial (land) and marine ecosystems have also exceeded the 2015 target by 5.5 percent due to implementation of wildlife/nature tourism activities and management plans, integration of ecotourism strategies into local plans, and enhanced multi-stakeholder support.

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<sup>63</sup> *Guidelines in Tagging/Tracking Government Expenditures for Climate Change in the Philippines*

<sup>64</sup> *Revised Guidelines for Climate Change Expenditure Tagging amending Joint Memorandum Circular No. 2013-01*

<sup>65</sup> *Philippine Eagle, Tamaraw and Philippine Cockatoo*



The 2015 target for marine protected area of 1.4 million hectares (0.62 percent of the country's coastal waters) has been achieved. However, the area of rehabilitated coral reefs was only 45,027 hectares (26.4 percent of the target) due to underestimation of rehabilitation cost<sup>66</sup>. Monitoring the target is also limited by the lack of information on the extent and status of coral reefs.

The issuance of land titles and residential patents may help uplift the socioeconomic status of resource-dependent communities. However, in 2015 the issuance of residential patents in public agricultural, alienable and disposable lands was below its target. The total number of residential patents issued until 2015 was only 2.38 million against the 2.42 million target beneficiaries (1.7 percent below the target). This gap is due to failure of LGUs to update their respective Comprehensive Land Use Plans and zoning ordinances for residential areas. Moreover, the formulation of Ancestral Domains Sustainable Development and Protection Plans (ADSDPPs) is behind the target due to conflicting land use priorities of LGUs and indigenous peoples' communities.

Moreover, the passage of the Amended Fisheries Code<sup>67</sup> in February 2015 can facilitate the enhancement of coastal and marine resources management. The strengthened regulation and enforcement of laws against illegal, unreported and unregulated fishing and implementation of sustainable fish catch will contribute to halting overfishing and destruction of the coral reefs and marine species.

The government needs to ensure that all these efforts will be sustained in the future to ensure maintenance of ecological integrity.

***Significant improvements in environmental quality have been achieved but progress has been slow.*** The air quality in Metro Manila remains below the total suspended particulate (TSP)<sup>68</sup> standard and is 14.0 percent below the 2014 target. This can be attributed to the heavy traffic congestion (mobile sources) caused by several factors including increased number of motor vehicles<sup>69</sup>, inefficient services of public or rail transportation, and ineffective traffic control management in the country's capital region. These factors also lead to reduced travel speed and increase in travel time. On the other hand, the TSP levels in other major urban centers such as Naga, Mandaue, and Iriga greatly improved due to continuous implementation of major programs of the government, such as: a) designation of airsheds, b) *Bantay-Tsimineya Program*, c) *Bantay-Tambutso Program*, d) improved fuel quality program, e) public awareness building, and f) enforcement of air quality related standards, regulations and policies.

Most of the priority rivers outside the Greater Manila Area exhibited significant improvements in water quality levels in 2014. The water quality of the Ylang-Ylang and Iloilo rivers passed the standard for class C waters<sup>70</sup>. Other rivers such as Luyang, Sapangdaku, and Cagayan de Oro have been able to maintain their water quality within the standard. Although below the standard, slight improvements were also recorded in Meycauayan, Marilao, Calapan and Balili rivers. These improvements can be attributed to the major PAPs undertaken by the government, such as clean-up activities, designation and operationalization of the Water Quality Management Areas, Adopt-an-Estero/Water Body Program, Industrial EcoWatch Program, Beach Watch Program and continuous effluent monitoring of firms.

<sup>66</sup> Rehabilitation of coral reefs costs approximately PHP435,000 to 5 million per hectare versus the actual allocation of PHP1,310/ha which can only fund strengthening the policing/patrolling activities.

<sup>67</sup> RA 10654: An Act to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing

<sup>68</sup> TSP standard is less than 90µg/Ncm, which is an annual air quality guideline value.

<sup>69</sup> The total number of motor vehicles has significantly increased from 2.1 million in 2013 to about 2.5 million in 2015

<sup>70</sup> Class C is intended for fishery, recreation and supply for manufacturing processes after treatment with the biochemical oxygen demand of less than or equal to 7 mg/L.

However, data also revealed that the water quality of Bocaue, Paranaque, Pasig, Marikina, and San Juan rivers remain below standard. This is due to the increase in pollution load from the point and non-point sources—human settlements, commercial, industrial, and agricultural areas—because of the lack of wastewater and sewage treatment facilities. For the second and third quarters of 2015, the average biochemical oxygen demand (BOD) level of Laguna Lake exceeded the average annual BOD level at 8 mg/L. This decline in water quality of the lake has been attributed to the back flow of Pasig River due to saltwater intrusion.

In terms of improvement in solid waste disposal, diversion rate<sup>71</sup> is increasing but still short of targets for 2014 and 2015. Inadequate budget allocation for the establishment of Materials Recovery Facilities in LGUs may be the reason.

## Challenges

To further improve the performance of the sector, funding is needed for sustainable management of natural resources and improvement of environmental quality, particularly in: a) strengthening the implementation and enforcement of environmental laws, i.e. the Amended Fisheries Code and Ecological Solid Waste Management (SWM) Act; b) acquisition of monitoring equipment for air and water quality; and c) establishment of SWM facilities in each LGU.

Moreover, governance and capacity of both national and local government officers as well as local communities have to be improved in order to ensure stronger enforcement of laws and regulations and effectively implement environmental protection activities. For instance, it is critical to enhance the capacity of local communities in: a) financial management as partners of the government in the implementation of NGP activities, b) formulation and implementation of ADSDPPs and NRM plans, and c) preparation of proposals for climate resiliency to access the PSF funds. Strong partnership and coordination between national and local government units should be enhanced to harmonize policies and programs and avoid their conflicting implementation.

The expected impact of El Niño can affect important ecosystem functions. In forestry, the phenomenon can cause forest fires and decrease the survival chances of the seedlings planted under the NGP for this year and early 2016. It may also accelerate topsoil erosion which affects soil fertility. Meanwhile in marine ecosystems, the occurrence of coral bleaching, red tide, and slow growth and low survival rate of economically-important marine and freshwater species may be experienced.

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<sup>71</sup> Waste diversion refers to activities which reduce or eliminate the amount of potentially recyclable material or solid wastes diverted out from the waste disposal stream and therefore not put into landfills.

## Strategies

***Strengthen disaster risk management governance and climate change response.*** The adoption of the Sendai Framework for Disaster Risk Reduction (SFDRR) 2015-2030 during the 3rd United Nations World Conference in Sendai, Japan in March 2015 paved the way for a more responsive and long-term disaster-resiliency global agenda. The SFDRR is expected to improve disaster risk governance including preparedness to “Build-Back-Better” and to effectively engage in international cooperation and global partnership. These major developments, which are enriched by the country’s experience with frequent typhoons, are critical in building the country’s disaster-resiliency. The development and institutionalization of a rehabilitation and recovery framework based on the lessons from typhoon Yolanda (Haiyan) signifies the government’s earnest desire to transform the survivors’ misfortunes into prospects for better living conditions.

The country’s submission of the Intended Nationally Determined Contributions (INDC) in October 2015 likewise marked the initiation of a more serious mitigation agenda until 2030. The intention to reduce greenhouse gas emissions from energy, transport, industry, waste, and forestry by 70.0 percent from 2000 baseline conditions will enable the country to contribute to the universal agreement to keep global warming way below 2.0°C.

The implementation of the People’s Survival Fund and the preparation of operational plan of the SFDRR and INDC should be done properly. In particular, the government needs to develop the following: a) a list of eligible projects for PSF assistance based on the submission of LGUs and local communities or organizations, b) a complete Disaster Statistics Framework for SFDRR, and c) INDC roadmap with a monitoring, reporting and verification system of actual emission and funding support.

***Provide substantial financing for natural resource management programs.*** Recognizing the contribution of NGP in enhancing biodiversity, the following recommendations from the impact study of the Philippine Institute for Development Studies<sup>72</sup> should be done: a) close monitoring of planting and maintenance activities, b) identification and inclusion of highly vulnerable areas in the site mapping and planning as well as site-species matching, and c) allocating funds for community organizing and capacity building of people’s organizations.

To fully realize the benefit from the Amended Fisheries Code, the government should provide: a) substantial financing to implement monitoring and policing of illegal fishing practices, b) training to enhance technical capacity to improve enforcement and apprehension activities against illegal and destructive fishing practices, c) enhanced IEC activities on the salient provisions of the amended Fisheries Code especially for the fisherfolk and commercial fishing industry to understand their rights and obligations as well as penalties in case of non-compliance, and d) alternative livelihood sources for affected fisherfolk to mitigate possible losses in income and revenues.

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<sup>72</sup> *Impact Assessment of the National Greening Program of the DENR (2015)*

The country's accession to *Nagoya Protocol on Access to Genetic Resource and the Fair and Equitable Sharing of Benefits Arising from their Utilization* by December 2015 will also contribute to the sustainable use and management of natural resources. This Protocol is a key development to address *biopiracy* in the country and will help ensure that benefits or revenues from biological or genetic materials are equitably shared with local and indigenous communities resulting in economic benefits that may contribute to poverty reduction.

***Strengthen the enforcement of environmental quality-related policies.*** To ensure and sustain a cleaner environment, enforcement of the Clean Air Act, Clean Water Act and Ecological Solid Waste Management Act should be improved. Specifically, air quality monitoring system needs to be upgraded through the establishment of Motor Vehicle Inspection System<sup>73</sup> and calibration of existing and installation of additional monitoring equipment. Moreover, public-private partnerships should be pursued to promote use of cleaner production technologies especially to halt and control solid waste and water pollution.

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<sup>73</sup> The system will serve as the national network of Motor Vehicle Inspection Centers using automated inspection methods linked to the information system of the Land Transportation Office.





# X. Accelerating Infrastructure Development

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*The government continued to aggressively invest in infrastructure to support rapid and sustained economic growth and equalize development opportunities. While some projects were completed and existing infrastructure gaps were narrowed, more remains to be done to eliminate the infrastructure backlog.*

## Accomplishments and Challenges

The infrastructure budget increased to 4.0 percent of the Gross Domestic Product (GDP) and more private sector investments have been mobilized. However, inadequate supply and quality of infrastructure services remain as constraining factors to doing business in the Philippines according to the World Economic Forum Global Competitiveness Report 2015-2016.

***While the government has increased its expenditure on infrastructure provision since FY 2011, the infrastructure spending target for FY 2015 set forth in the Philippine Development Plan (PDP) 2011-2016 Midterm Update has yet to be attained.*** The shortfall in the infrastructure spending may be associated with the delays in the implementation of some projects due to, among others:

- Lack of forward planning which affects the absorptive capacities of implementing agencies and the private sector, e.g., contractors;
- Right-of-way issues (e.g., presence of obstructions involving electric power lines and posts, telecommunication lines and posts, natural gas pipelines, water distribution lines and other utilities; determination of just compensation);
- Presence of Informal Settler Families (ISFs) (i.e., relocation entails investments in housing and livelihood that need budgetary support);
- Difficulty in securing social acceptability for projects (e.g., coal-fired power plants, large multi-purpose dams, sanitary landfills); and
- Bureaucratic processes and delays in securing numerous permits from relevant government agencies (e.g., local government units [LGUs], Regional Development Councils [RDCs], Department of Environment and Natural Resources [DENR], etc.).



Table 8. Infrastructure Expenditure as Percent of the Gross Domestic Product (GDP)

	2011	2012	2013	2014	As of Q3 2015
GDP (in PHP billion) <sup>74</sup>	9,703.33	10,561.09	11,542.29	12,642.74	9,528.1
Infrastructure Expenditure (in PHP billion) <sup>75</sup>	175.37	215.73	306.89	346.24	243.0 <sup>76</sup>
<b>% to GDP, Actual</b>	<b>1.81</b>	<b>2.04</b>	<b>2.66</b>	<b>2.74</b>	<b>2.55</b>
<b>% to GDP, PDP Target</b>		<b>2.20</b>	<b>2.50</b>	<b>3.50</b>	<b>4.00</b>

To meet the 4.0 percent and 5.0 percent infrastructure spending targets for 2015 and 2016 in the PDP, respectively, the government needs to accelerate its spending and ensure that implementation bottlenecks are addressed.

**Several policy measures aimed at improving business climate for infrastructure development were pursued but their impacts have yet to be realized.** Fair competition and a level playing field for participants, an independent and credible regulatory regime, a clear government policy direction, and established and well-coordinated infrastructure plans and programs are some of the key elements to promoting investments in infrastructure.

Along this line, the Competition Act was adopted in July 2015 to create a level playing field for business, and the Cabotage Law was amended to allow foreign-owned vessels into domestic routes to promote competition and reduce shipping costs.

In the energy sector, Department of Energy (DOE) issued department circulars on retail competition and open access (RCOA), and competitive selection process for power supply agreements to avoid unfair competition and collusion among electricity stakeholders when securing electricity supply.

The DOE also issued Circular Nos. DC2015-06-0010<sup>77</sup> and DC2015-06-0008<sup>78</sup> to promote transparent and fair competition in the energy sector aligned with the Electric Power Industry Reform Act. The Department moreover issued Circular No. DC2015-07-0014<sup>79</sup> to provide incentives to investors in Renewable Energy (RE) technologies. However, the Renewable Portfolio Standards that will determine the actual RE capacity to be generated by generation companies has not yet been approved.

<sup>74</sup> Power Supply Agreements, Gross National Income and Gross Domestic Product by Expenditure Shares

<sup>75</sup> Department of Budget and Management, Budget of Expenditures and Sources of Financing, Infrastructure Outlays Actual Expenditures

<sup>76</sup> Department of Budget and Management, National Government Disbursement Performance

<sup>77</sup> "Providing policies to facilitate the full implementation of the Retail Competition and Open Access in the Philippine Electric Power Industry"

<sup>78</sup> "Mandating All Distribution Utilities to Undergo Competitive Selection Process in Securing Power Supply Agreements"

<sup>79</sup> "Prescribing The Policy For Maintaining the Share of RE Resources in the Country's Installed Capacity through the Wholistic Implementation of Pertinent Provisions of the Republic Act No. 9513 or the RE Act On Feed-In-Tariff System, Priority And Must Dispatch, among others", 26 June 2015.

To maintain and foster fair competition in the telecommunications industry, and promote and protect the rights of broadband service customers/subscribers/users, the National Telecommunications Commission issued Memorandum Circular No. 07-08-2015 providing the rules on the measurement of fixed broadband/internet access service. The Memorandum Circular specifically sets the minimum broadband speed in the country at 256 kilobits per second (kbps)<sup>80</sup>. However, the government has yet to issue/impose heavier sanctions and penalties for non-compliance with the mandatory quality of service standards to further compel broadband service providers to strictly adhere to the rules provided in the Memorandum Circular (e.g., revocation or cancellation of registration, increase penalty fees)<sup>81</sup>.

Efforts to increase investments continue to be challenged by the pending action on the following:

- Amendments to the Build-Operate-Transfer Law to further boost the country's attractiveness for infrastructure investments;
- Creation of single lead agency in the water resources sector to address institutional fragmentation;
- Creation of an independent economic regulator to determine and set fair and reasonable tariffs for water supply and sanitation (WSS) services; and
- Amendment to the charters of various transport agencies to address conflicts in their regulatory and operation/operator functions.

***While physical and digital connectivity increased moderately, efficiency of infrastructure services especially in urban areas remains a challenge.*** To further improve the connectivity and efficiency of urban centers and regional growth hubs, new alternative transport routes were opened, and additional infrastructure in ports were made available. The Bicol Commuter (Naga-Legazpi) Railway Line, the Muntinlupa-Cavite Expressway (Daang-Hari-SLEX Link Road), Southern Tagalog Arterial Road Stage II Phase II, and contactless Automatic Fare Collection System, were completed in 2015. Port improvements resulted in a total of 54 meters of berth in Ilocos Norte, 4,142.83 square meters of back-up area in Sorsogon, Batanes and Romblon, and three roll on-roll off ramps in Leyte, Surigao del Sur and Zamboanga Sibugay. Operation of the Pasig Ferry System currently serves an average of 329 passengers per day.

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<sup>80</sup> Broadband, as defined by the International Telecommunication Union, refers to a data connection speed of at least 256 kbps.

<sup>81</sup> National Telecommunications Commission currently imposes a fine of up to PHP200.00 per day, which is based on the Public Service Act of 1936, if service providers do not meet quality standards.



However, inefficiencies and quality levels of service in the transport system remain problematic as evidenced by the following:

- Reduced travel speed in major corridors in Metro Manila, especially EDSA<sup>82</sup>;
- Road congestion leading to inefficiencies in the utilization of Manila ports<sup>83</sup>;
- Under-utilization of Subic and Batangas ports<sup>84</sup>;
- Long queues and overcrowding in MRT3 and LRT1<sup>85</sup>;
- Cancellation/interruption of urban mass transport operations due to frequent mechanical breakdown and untoward incidents/accidents; and
- Airside congestion at the NAIA.

On Internet speed, the Philippines also made some gains from its 2014 average speed of 2.52 megabits per second (Mbps) and average peak connection speed of 22.26 Mbps. In the second quarter of 2015, the country experienced average Internet connection speed of 3.1 Mbps and average peak connection speed of 25.6 Mbps with year-over-year growths of 23.0 percent and 15.0 percent, respectively<sup>86</sup>. Notwithstanding, the reported average speed is still below the global average of 5.1 Mbps.

There is a need for a frequency spectrum management plan<sup>87</sup> to support the full implementation of several lined up major information and communication technology (ICT) programs and projects, among others, free wireless-fidelity (Wi-Fi) project, television white space initiative and the full migration of the country from analog to digital broadcasting<sup>88</sup>. The expedient formulation and the transparent implementation of the said plan should accelerate the deployment of government ICT initiatives including the use of the free/unlicensed spectrum such as the industrial, scientific and medical radio band, thus, rendering the intended benefits attainable in the short-term.

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<sup>82</sup> Epifanio delos Santos Avenue, formerly called Highway 54.

<sup>83</sup> The road congestion leading to Manila ports was due to the presence of informal settlers, public utility vehicles parked along the access road to the port, impounding area for stalled vehicles and other structures which are not supposed to be at the entrance to the port.

<sup>84</sup> Subic and Batangas ports were underutilized because the final destination of cargo is Manila and such, stakeholders choose Manila as the destination point to save on expenses. In addition, the cargo handling equipment in Batangas is limited (e.g., handling only a vessel at a time) and cargo vessels that call on the port will have to wait for the availability of the berthing area to unload cargo/containers.

<sup>85</sup> The metropolitan rail systems, specifically Manila Metro Rail System 3 and Light Rail Transit 1.

<sup>86</sup> Second Quarter State of the Internet Report, Akamai Intelligent Platform™. Akamai's analysis of connection speed trends is based on the massive amount of data it generates from the immense amount of traffic that it handles through its over 100,000 servers deployed across more than 1,000 networks in 75 countries as a leading provider of secure, outsourced e-business infrastructure services and software. Source: <https://www.akamai.com/>

<sup>87</sup> The formulation of the frequency spectrum management plan will involve, among others, review of the allocation and assignment of current radio spectrum bands, a determination of the optimal allocation and assignment method, and a reallocation of the spectrum to its most efficient allocation and assignment, to the extent that is practicable and possible.

<sup>88</sup> Through the implementation of the National Telecommunications Commission Memorandum Circular No. 05-11-2013 entitled "Standard for Digital Terrestrial Television Broadcasting Service" and National Telecommunications Commission Memorandum Circular No. 07-12-2014 entitled "Rules and Regulations for Digital Terrestrial Television Broadcast Service".

Effective competition in the telecommunications industry has to be increased to address, among others, high cost of ICT services/rates, slow internet/broadband speed, and inadequate provision for ICT infrastructure.

***Irrigation service to support agricultural production increased but the target to irrigate a cumulative 70.91 percent or 2.14 million hectares of the total potential area for irrigation of 3.02 million hectares by 2015 is unlikely to be met.*** As of third quarter of 2015, the National Irrigation Administration which accounts for 81.27 percent (cumulative 1.74 million hectares) of the 2015 target has already accomplished 99.0 percent (cumulative 1.72 million hectares).

However, sustainability of service remains an issue. LGUs lack the necessary technical capacity to undertake the construction and operations and maintenance (O&M) of communal irrigation systems (CISs)<sup>89</sup> and the current level of irrigation service fee is not enough to cover the cost of O&M, which greatly contributes to the rapid deterioration of irrigation facilities.

With regard to the construction of farm-to-market roads (FMRs), the Department of Public Works and Highways (DPWH) reported that as of September 2015, there are 1,376 active projects for FMRs amounting to about PHP6.16 billion of which 323 have been completed, 700 are ongoing and 353 have yet to be started. While the implementation of FMR projects is guided by the FMR Network Plan, it entails coordination between the Department of Agriculture and Department of Agrarian Reform for the funding, DPWH for the construction, and the concerned LGUs for the O&M.

***Improvements in increasing supply of electricity and water service levels were observed, but insufficient to meet projected demand, especially with the threat of El Niño.***

Despite the additional installed capacities of 366 megawatts (MW) for Luzon grid, 118 MW for the Visayas grid and 26.8 MW for Mindanao as of June 2015, energy security measured in terms of meeting power demand<sup>90</sup> and required reserve at the occurrence of highest reported demand for electricity is at 93.0 percent, 91.0 percent, and 87.0 percent for Luzon, Visayas and Mindanao, respectively.

*Table 9. Energy Security as of June 2015*

Grid	Power Demand (MW)			Available Capacity (MW)	Occurrence of Highest Demand
	Peak Demand	Required Reserve	Total Requirement		
Luzon	8,928	1,651	10,579	9,795	May 21, 2015
Visayas	1,617	265	1,882	1,714	May 21, 2015
Mindanao	1,435	267	1,702	1,485	June 8, 2015

<sup>89</sup> Per the Local Government Code of 1991, the construction and management of CISs has been devolved to LGUs.

<sup>90</sup> Ratio of available capacity to the sum of system peak demand and required reserve.

On water security, demand in water-critical areas such as Metro Manila and other metropolitan areas outside of Metro Manila have generally been met. The coverage of 24/7 water supply services increased from 74.0 percent to 84.0 percent in water district areas from 2013 to 2015, while average non-revenue water remained almost constant. In Metro Manila, 24/7 water supply services reached 99.82 percent coverage in the first quarter of 2015, but was reduced to 77.68 percent in third quarter due to the El Niño episode. In terms of level III water supply services<sup>91</sup>, coverage increased from 88.0 percent in 2014 to 88.54 percent in 2015, while for water district areas, level III coverage remained constant. Non-revenue water for Metro Manila decreased from 24.0 percent in 2014 to 22.0 percent as of third quarter of 2015.

The El Niño episode threatens to reduce whatever gains that have been achieved in terms of power and water security. It affects the electricity output of hydropower plants, which may lead to power shortage if reserve supply is insufficient, especially for the Mindanao grid which sources about 50.0 percent of its total demand from hydropower plants. Moreover, the system peak demand increases due to the upsurge in use of cooling appliances to ease the impact of the abnormal heat on the population, adding pressure to the power supply and compounding the problem of decline in available hydropower capacity.

In terms of water supply, El Niño was especially an issue in Metro Manila because it sources almost all of its water requirements from the Angat reservoir, which is also the source of irrigation water for the farmlands in Bulacan. The National Water Resources Board, as the water resource regulator, has reduced the water allocation from the Angat reservoir with an amount agreed to by stakeholders starting May until November 2015 to prolong water availability and reduce the risk of water shortage during the summer months of 2016. Requirements for irrigation, municipal water supply, and hydropower are sufficient until December 2015. Moreover, year-end water level was at 213.71 meters vis-à-vis the normal high water level of 212 meters.

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<sup>91</sup> Individual household connection water system which includes a piped distribution network and at least a faucet for every household.

**Access to basic infrastructure services has improved but significant gaps remain.** The performance of the sector in terms of basic infrastructure provision is summarized below:

*Table 10. Performance in Basic Infrastructure Services*

Indicators	Target	Accomplishment
Waterless poor areas	Decreased to 1,884 in 2015 from 2,287 in 2010	Waterless poor areas decreased to 1,479 as of 2015
Number of ISFs living along danger areas in Metro Manila provided with housing units from FY 2011-2015	257,488 (2016) (budget-based targeting)	185,877 or 72.19% (as of November 2015); with the provision of 28,837 housing units for ISFs living along danger areas in Metro Manila in 2015
Number of ISFs living along danger areas outside of Metro Manila (MM) provided with housing units from FY 2011-2015	65,880 (2016) (budget-based targeting)	77,884 or 118.22% (as of November 2015); with the provision of 13,871 housing units for ISFs living along danger areas outside of Metro Manila in 2015
Number of classrooms for the K to 12 Basic Education Program for 2015	18,883 additional classrooms	7,051 or 37.34% (as of May 2015)
Household electrification level	82.67% (2015)	88.83% (as of September 2015); with the provision of electricity to an additional <u>2.16</u> million households in 2015
Sitio energization level	100% (2015)	<u>98.49% as of 2015</u> ; with the provision of electricity to an additional <u>10,361</u> sitios in 2015

Remaining gaps in the provision of basic infrastructure services have to be addressed particularly in the water supply, health, education and housing sectors. The timely completion of deliverables in basic infrastructure has been hampered by, among others:

- Inadequate financial resources for housing, electrification, water supply, classrooms;
- Beneficiaries' inability or low capacity to pay for electricity, water supply and ICT services;
- Low technical capacity of Electric Cooperatives and small water utilities;
- Unavailability of land for socialized housing;
- Institutional bottlenecks such as poor planning (water supply and health) and LGU requirements for household electricity connections.

**E-government projects have been initiated to streamline government procedures and promote good governance.** The e-Government Master Plan (EGMP) 2013-2016 was formulated to introduce innovations within government work processes, enhance administrative productivity, and allow increased citizen participation. The EGMP will provide the necessary infrastructure, software, and other support systems needed for e-governance to improve public access to government online services. The Cebu fiber optic loop of the Integrated Government Philippines (iGovPhil) Project was completed in 2014 and is currently connecting 12 government agencies while 80.0 percent of the fiber optic cable has been laid out in Metro Manila. Two data centers, namely National Government Data Centers 1 and 2 are fully operational and accepting agencies that are interested for co-location service. All projects/services created under the iGovPhil Project are expected to be operational by the end of 2015.



Greater transparency and open access to government information was made possible with the use of ICT. In January 2014, the government launched the Open Data Philippines, a program to make government data more accessible to the public by supplying data in open and machine-readable formats. The program is anchored on data.gov.ph, a public domain website which serves as the central repository for all government datasets. Pursuant to the objectives of the program, all government agencies are required to submit an Agency Data Inventory (ADI)<sup>92</sup> which serves as a catalogue of all government data held by an agency. As of August 2015, 12 agencies have already submitted their ADIs, which are now made available to the public.

However, some available e-government services have not been mainstreamed, thus, potential benefits of enhancing good governance are not fully realized by stakeholders.

***Initiatives to rationalize and optimize resources and investments in infrastructure have been undertaken but results have yet to be realized.*** The National Economic and Development Authority (NEDA) introduced the concept of Value Engineering/Value Analysis (VE/VA) in project preparation for adoption by implementing agencies. VE/VA has been included in the conduct of feasibility studies (F/S) under the NEDA-administered F/S Fund. However, VE/VA is yet to be fully adopted by implementing agencies in project development.

The NEDA Board-Committee on Infrastructure (InfraCom) has likewise approved the reinstitution of the Three-Year Rolling Infrastructure Program (TRIP) as a measure to tighten the linkage between planning and budgeting. The TRIP aims to identify strategic investment areas that will be prioritized for budgeting and is expected to be operationalized in early 2016.

The InfraCom recently approved the Unified Financing Framework (UFF), which aims to optimize the use of National Government resources in increasing access to and improving WSS services. However, the UFF has yet to be approved as a policy and may necessitate the issuance of an Executive Order.

***Infrastructure services aimed at promoting safety and security are underway but a lot of work remains to be done.***

The following projects were implemented to improve maritime safety:

- Maritime Safety Capability Improvement Project or Delivery of ten 40-meter Multi-Role Response Vessel (MRRV);
- Coastal Communication Projects;
- Support to the National Coast Watch System (NCWS)<sup>93</sup>; and
- Construction of Lighthouses.

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<sup>92</sup> Through Joint Memorandum Circular No. 2015-01 providing the guidelines for the implementation of the Open Government Data.

<sup>93</sup> NCWS is the central inter-agency mechanism for a coordinated and coherent approach on national maritime issues and maritime security operation towards enhancing governance in the country's maritime domain.

However, the current floating and air assets of the Philippine Coast Guard (PCG) are still insufficient to provide adequate patrol and response capabilities across the PCG Area of Responsibility. The lack of spare parts to maintain its fleet, particularly for acquired MRRVs, has contributed to said inadequacy.

The Implementing Rules and Regulations of RA 10175 or the Cybercrime Prevention Act of 2012 were signed in August 2015. The Act aims to prevent and combat all forms of misuse, abuse and illegal access of computer and communications systems, networks, and databases, and the confidentiality, integrity, and availability of data stored therein.

***Infrastructure and policy measures to support environmental protection and conservation were implemented/initiated, but accomplishments still inadequate.***

As of October 2015, 12,607 barangays or 30.0 percent of the 42,028 barangays are being served with materials recovery facilities (MRFs), exceeding the 2015 target of 10,567 barangays or 25.14 percent. In terms of solid waste management (SWM) coverage, an additional 11.11 percent or 4,670 barangays were served as against the target of 9.08 percent. While targets in SWM have been achieved, majority of barangays remain unserved by SWM/MRF facilities.

As mandated by the Clean Water Act of 2004, the DPWH spearheaded the National Sewerage and Septage Management Program (NSSMP). However, despite the 40.0 percent National Government subsidy under the NSSMP for WSS service providers to establish sewerage services in the 17 highly urbanized cities, there are still no sewerage programs implemented to date. Given the high capital costs of sewerage, DPWH proposed increasing the NG subsidy. Further, the implementation of NSSMP has been hindered by the following: a) difficulty of LGUs to enact local ordinance, b) technical capability of LGU to prepare F/S and detailed design preparation, and c) difficulty in setting up the LGU counterpart.

Air pollutants/emissions may be reduced through the pursuit of renewable energy that will displace the use of fossil fuels and energy conservation/efficiency measures in the power, industry and transport sectors. Several programs under the Alternative Fuels Program include the Auto-LPG program, the Natural Gas Vehicle Program for Public Transport, and the E-trike project.

While there were improvements in SWM services, and policies that may contribute to improving air quality have been put in place, significant efforts (especially in wastewater management) are still needed to address the environmental concerns arising from rapid urbanization and population growth.

## **Strategies**

Prioritizing development in the infrastructure sector to enhance competitiveness and to deliver tangible benefits to improve welfare and raise the living standards of the citizenry cannot be overemphasized. However, empowering people through improving access to physical infrastructure must be accompanied by policy and regulatory reforms to ensure that gains in the sector are sustained and resilient. Thus, the country needs to adopt effective policies and strategies to make infrastructure services more available, affordable and efficient.

**A. Enhance competitiveness and increasing productivity in the industry, services and agriculture sectors.**

*Improve connectivity and efficiency among urban centers and regional growth hubs.*

1. Fast-track the implementation of projects under the Roadmap for Transport Infrastructure Development for Metro Manila and its Surrounding Areas (Regions III and IV-A) and the High Standard Highway Masterplan that increase mobility of people, goods and services (e.g., North – South Railway Project Phase I: Commuter Line from Malolos to Tutuban, Plaridel Bypass Project Phase II, Metro Manila Skyway Stage 3, NAIA Expressway Project Phase II, Central Luzon Link Expressway Phase I, Tarlac-Pangasinan-La Union Expressway, NLEX Segment 10: McArthur Highway to C3, Metro Manila Interchange Construction Phase VI, Calamba-Laguna Expressway, NLEX-SLEX Connector Road Project and Laguna Lakeshore Expressway-Dike Project, and North-South Railway Project Phase II: Commuter and South Line)
2. To increase the level of service/operational efficiency:
  - a. Optimize the utilization of Batangas and Subic Ports so they could respond to the demands of a high-growth economy;
  - b. Rationalize road-based transport services through, among others, the conduct of detailed demand studies to determine the most appropriate modality/technology to be implemented (i.e., Bus Rapid Transit vis-à-vis PUVs);
  - c. Fast-track the completion of various infrastructure projects that will supplement existing capacity such as, MRT 3 Capacity Expansion, rehabilitation projects for Philippine National Railway and LRT Lines 1 and 2, Mactan-Cebu International Airport New Passenger Terminal Building Project, Busuanga Airport Development Project, Bicol International (Daraga) Airport Project - Increase in the Passenger Terminal Building Area, Laguindingan, Davao and New Bohol (Panglao) Airport Development and Operation/Maintenance Project, and Iloilo and Bacolod Airport Operations, Maintenance and Development Project;
  - d. Improve Airline Time Slotting Management in coordination with Civil Aviation Board, Civil Aviation Authority of the Philippines and local carriers;
  - e. Improve the quality of National Roads thru Long Term Performance Based Maintenance Contracts; and
  - f. Develop a program and allocate sufficient funds for the upgrading and maintenance of access roads especially those which are not classified as National Roads.
3. Fast-track implementation of the Free Wi-Fi Project and the Television White Space Initiative to provide Internet connectivity in selected public places across the Philippines.
4. Formulate frequency spectrum management plan/framework that will guide the process of reallocating frequencies for specific purposes (e.g., broadcasting, telecommunications).

5. Fast-track the completion of the Digital Terrestrial Television Broadcast Plan which intends to address the policy, regulatory and technical issues as well as fiscal considerations, industry and customer support interventions, and other measures necessary for the country's digital migration.
6. Formulate the successor EGMP for the period of 2017 to 2022 with all government agencies under the three branches of the government mandated to fully implement the plan.

*Support agricultural production.*

1. Fast-track the implementation of irrigation projects (e.g., Casecnan Multipurpose Irrigation and Power Project-Irrigation Component Phase II, Umayam River Irrigation Project, and Malinao Dam Improvement Project).
2. Pursue the following initiatives:
  - a. Formulate an Irrigation Master Plan with an appropriate financing framework to guide the systematic identification and implementation of priority areas to be irrigated (with geographic dimension);
  - b. Develop a volume-based pricing mechanism or wholesaling of water at the headgates to the Irrigators' Associations to ensure efficient use of water;
  - c. Promote the adoption of effective farming practices to enhance rice production through proper water management techniques;
  - d. Prioritize rehabilitation/restoration activities which are less-costly and short-gestating;
  - e. Provide adequate budget for O&M, increase collection efficiency of irrigation service fees and strengthen irrigators' associations to prevent early deterioration of irrigation systems; and
  - f. Capacitate LGUs in CISs in construction, rehabilitation and management.
3. Optimize fund allocation for FMRs by applying geo-tagging and other similar techniques in planning, programming and monitoring FMRs.

*Pursue energy and water security.*

1. Accelerate and streamline approval process for RE service contracts and power projects.
2. Support the establishment of the legal and regulatory frameworks for the natural gas industry.
3. Pursue a legislation recognizing energy projects as "projects of national significance."
4. Fast-track the implementation of the Batangas-Manila Natural Gas Pipeline Phase 1 and the New Centennial Water Source Project–Kaliwa Dam
5. Undertake VE/VA study for ensuring water security in Metro Manila and other water-critical areas to identify supply-side and demand-side strategies within the context of integrated water resources management (IWRM), including eco-efficient approaches.



*Improving business climate through institutional policy reforms and legislation.*

- a. Establish an independent economic/financial regulator for the WSS sector;
- b. Eliminate conflicting roles of transport agencies having both regulatory and operation/operator functions;
- c. Amend the Implementing Rules and Regulations of the Water Code;
- d. Review the Water Code for possible amendments;
- e. Amend law on right-of-way or site acquisition for government projects;
- f. Amend laws that govern the regulation of the ICT industry;
- g. Expedite the approval of the renewable portfolio standards rules;
- h. Limit cross-ownership between retail electricity supplier and generation companies or distribution utilities to foster transparency and promote fair competition through the RCOA; and
- i. Amend the Build-Operate-Transport Law.

**B. Enhance the adequacy and accessibility of basic infrastructure services, and reduce infrastructure gaps in far-flung areas.**

*Improve access to and adequacy of basic infrastructure services and addressing infrastructure gaps in far-flung areas.*

1. Fast-track implementation of projects to bridge the gaps in basic water supply, education, housing and health infrastructure. Implement the programs and projects under the Household Electrification and Development Plan 2013-2017.
2. Facilitate identification of idle government lands for socialized housing.
3. Ensure the appropriateness, implementability and sustainability of projects involving new or experimental technologies for missionary purposes.

### **C. Improve governance.**

*Promote good governance through ICTs.*

Promote the use of available, practical and cost-effective ICTs as powerful means to better engage citizens and integrate and mainstream ICTs into local and national programs and policies.

*Improve coordination and planning, and streamline government processes.*

1. Update existing sector masterplans/studies to ensure that the recommendations provided therein are still applicable and appropriate considering the dynamism in the sector.
2. Establish a lead agency in the water resources sector to ensure the coordinated execution of plans, programs and strategies/policies consistent with the IWRM framework.

*Optimize resources and investments in infrastructure.*

1. Institutionalize VE/VA as a requirement in project development. To this end, build the capacities of implementing agencies on VE/VA.
2. Fast-track the operationalization of the TRIP to guide investment priorities for the next budgeting process.
3. Adopt the UFF to rationalize financing in the WSS sector.

### **D. Create and sustain a safer and more secured environment**

*Provide safety and security measures.*

1. Support the creation of an independent body that investigates transport accidents and provides transport safety recommendations.
2. Promote and adopt Global Navigation Satellite System technologies such as Global Positioning System in achieving seamless and green intermodal transportation to enhance safety, security and sustainability, improve supply chain connectivity, and enhance capabilities for preparedness to natural disasters and emergency response.
3. Ensure proper and adequate maintenance of fleets (e.g., MRRVs, rolling stocks, helicopters, fire trucks).

## **E. Improve environmental quality.**

### *Strengthen resilience to climate change and disasters.*

1. Develop and formulate the appropriate indicators/standards for disaster resilience and corresponding baseline and targets based on available data (such as resilience to flood disasters).
2. Implement river basin master plans and adopt new technologies/approaches for effective flood management.
3. Provide adequate flood management and drainage facilities in flood disaster-prone areas by:
  - a. Implementing projects under the existing flood management master plan for Metro Manila and surrounding areas;
  - b. Fast-tracking implementation of projects outside Metro Manila (e.g., Flood Risk Management Projects for Cagayan, Imus, Tagoloan and Cagayan de Oro Rivers);
  - c. Allocating sufficient funds for construction, rehabilitation and maintenance; and
  - d. Clearly delineating responsibilities of national and local governments on flood management.
4. Formulate and promulgate standards for natural disaster resilience of various infrastructure facilities. Adopt eco-efficient water infrastructure designs to address excess water during the wet season and scarce water during the dry season.
5. Address the continuous degradation of watersheds which aggravates flooding during rainy season and causes rapid soil erosion reducing the efficiency of irrigation systems.

### *Improve wastewater and solid waste management.*

1. Develop a menu of technology options for wastewater management and SWM available to highly urbanized cities depending on their needs and capacities.
2. Allocate funds and strengthen capacities for local wastewater management project preparation and implementation.

### *Improve air quality*

1. Enhance energy audit of industries particularly those with energy-intensive production facilities.
2. Pursue legislation on energy efficiency and conservation. Intensify awareness campaign on energy efficiency and conservation.
3. Fast-track implementation of RE committed projects.
4. Implement mandated biofuels blending (biodiesel: 5 percent of total volume sales; bioethanol: 10 percent of total volume sales) as scheduled.









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