

SENATE ECONOMIC PLANNING OFFICE

**SUSTAINING THE MOMENTUM**  
**MAKING GROWTH WORK FOR THE POOR**

---

A Proposed Legislative Agenda for the 14<sup>th</sup> Congress



December 2007



## SENATE ECONOMIC PLANNING OFFICE

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The views, opinions and interpretations in this report do not necessarily reflect the views of the Senate of the Philippines as an institution or of its individual members.

## FOREWORD

This report provides an update of the *Five Pillars of Growth: An Economic and Social Development Framework*, released by the Senate Economic Planning Office (SEPO) in 2004. It presents a picture of the Philippine economy from 2004 to mid-2007 and reviews how government policies have responded to the challenges besetting the country. It also identifies policy gaps and recommends possible legislative actions that the Senate may consider in the 14<sup>th</sup> Congress.

The reforms undertaken by the government in the last three years, particularly in the fiscal and financial sectors, are starting to pay off. With the improvement in investor confidence, the country has been able to register higher-than-average economic growth rates and stronger balance of payments position. The stock market and the peso have been posting record-high levels while the inflation rate has been fairly stable.

However, the current growth momentum, though remarkable, should be no cause for chest-thumping. If at all, it should encourage policymakers to pursue more reforms to ensure that the remaining challenges and structural problems are addressed.

The list of recommendations for reforms herein is by no means exhaustive. The intent is to provide policy directions that can help initiate debate towards a pro-poor and reform-oriented legislative agenda which can shape the country's economic future for the next three years.

The unrelenting efforts of the SEPO staff, including those who have recently transferred to other agencies, in preparing this report are hereby duly acknowledged.



**RONALD R. GOLDING**  
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## Glossary of Terms

ADB	Asian Development Bank
AFP	Armed Forces of the Philippines
APJR	Action Plan for Judicial Reform
APT	Asset Privatization Trust
ARB	agrarian reform beneficiary
ARC	agrarian reform community
ARF	Agrarian Reform Fund
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
BEIS	Basic Education Information System
BESF	Budget of Expenditures and Sources of Financing
BESRA	Basic Education Sector Reform Agenda
BFAR	Bureau of Fisheries and Aquatic Resources
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
BOP	Balance of Payments
BOT	Build-Operate-Transfer
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon provinces
CAR	Cordillera Administrative Region
CIIP	Comprehensive and Integrated Infrastructure Program
CARP	Comprehensive Agrarian Reform Program
CMP	Community Mortgage Program
COA	Commission on Audit
COMELEC	Commission on Elections
CPI	Corruption Perception Index
CPSFP	Consolidated Public Sector Financial Position
CSC	Civil Service Commission
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DND	Department of National Defense
DOH	Department of Health
DOE	Department of Energy
DOF	Department of Finance
DOST	Department of Science and Technology
DOT	Department of Tourism
DPWH	Department of Public Works and Highways
EPIRA	Electric Power Industry Reform Act
ERC	Energy Regulatory Commission
FAO	Food and Agriculture Organization of the United Nations
FCDU	Foreign Currency Deposit Unit
FDI	Foreign Direct Investment
FIES	Family Income and Expenditure Survey
FLEMMS	Functional Literacy, Education and Mass Media Survey
FMB	Forest Management Bureau
FWT	Final Withholding Tax

GCI	Global Competitiveness Index
GIR	Gross International Reserve
GOCCs	Government-Owned and –Controlled Corporations
GVA	Gross Value Added
HMOs	Health Maintenance Organizations
HUDCC	Housing and Urban Development Coordinating Council
ICAC	Independent Commission Against Corruption
ICC	Investment Coordinating Committee
ICT	Information and Communications Technology
IFC	International Finance Corporation
IPCC	Intergovernmental Panel on Climate Change
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
KALAHI	Kapit-Bisig Laban sa Kahirapan
LAD	Land Acquisition and Distribution
LARA	Land Administration Reform Act
LGC	Local Government Code
LGUs	Local Government Units
MDGs	Millennium Development Goals
MGB	Mine and Geosciences Bureau
MMR	Maternal Mortality Rate
MTs	Metric Tons
MTPDP	Medium-Term Philippine Development Plan
NAPC	National Anti-Poverty Commission
NCR	National Capital Region
NEDA	National Economic and Development Authority
NFA	National Food Authority
NPAs	Non-performing Assets
NPLs	Non-performing Loans
NGO	Non-government Organization
NLRC	National Labor Relations Commission
NPC	National Power Corporation
NSCB	National Statistics Coordination Board
NSO	National Statistics Office
NTRC	National Tax Research Center
ODA	Official Development Assistance
PCFC	People’s Credit and Finance Corporation
PPA	Philippine Ports Authority
PERA	Personal Equity Retirement Account
PESO	Public Employees Service Office
POEA	Philippine Overseas Employment Administration
PPA	Philippine Ports Authority
PSALM	Power Sector Assets and Liabilities Management Corporation
RATS	Run After The Smugglers
RATE	Run After Tax Evaders
RIPS	Revenue Integrity Protection Services
REIT	Real Estate Investment Trust
RORB	return on rate base
RSBS	Retirement System and Benefits Service
SEPO	Senate Economic Planning Office



SME	Small and Medium Enterprises
SPV	Special Purpose Vehicle
SSL	Salary Standardization Law
TCC	Tariff and Customs Code
SRA	Social Reform Agenda
TIMMS	Trends in International Mathematics and Science Study
TRANSCO	National Transmission Corporation
UNCAC	United Nations Convention Against Corruption
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
VRA	Land Valuation Reform Act
WB	World Bank
WCY	World Competitiveness Yearbook
WEF	World Economic Forum
WESM	Wholesale Electricity Spot Market
WHSMMP	Women’s Health and Safe Motherhood Project
WHO	World Health Organization

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## 1.0 INTRODUCTION

- 1.1 The Philippine economy grew by over five percent for three consecutive years from 2004 to 2006, the first time since the 1970s. In 2007, it likely reached a much higher 7 percent growth. However, the pace of poverty reduction remained slow and income inequality remained high across the country, as manifested by the high levels of self-rated hunger and poverty in surveys conducted by the Social Weather Station and in the latest result of the Family Income and Expenditure Survey. In 2006, the Gini coefficient, a commonly used indicator to measure inequality, was still over 45 percent, higher than the Gini coefficient registered more than two decades ago, and still among the highest in Southeast Asia.
- 1.2 Unemployment even worsened from 7.5 percent in 2004 to 7.9 percent in 2006. It slightly improved from January to July of 2007 to 7.7 percent but this was attributed not to the increase in the jobs produced by the economy but to the decline in the number of labor market entrants. The quality of the jobs generated is also questioned as most of them are often temporary in nature. Moreover, an alarming number of the poor still don't have adequate access to basic infrastructure and social services. Clearly, the key challenge for policymakers today is how to make growth work for the poor.
- 1.3 Sustaining the growth momentum is critical given the country's penchant for short-lived recoveries. One of the key components in sustaining the growth is ensuring macroeconomic stability. Fiscal sustainability, in particular, must be ensured through enhanced revenue generation and expenditure management. In 2007, for example, revenue collection faltered as revenue generating agencies failed to meet their targets. Consequently, to achieve the programmed deficit for the year, the government spent below its planned expenditures, thereby compromising potential improvements, for instance, in human capital. Strengthening the banking system and developing the capital market are also crucial in maintaining macroeconomic stability as they play integral roles in generating the needed savings to finance and sustain investments in the country.
- 1.4 Moreover, there is an urgent need to address the country's poor ranking in global competitiveness surveys on account of poor infrastructure, regulatory capture, and deteriorating quality of education, the oft-cited reasons why the Philippines remains a laggard in terms of investment inflows.
- 1.5 Good governance provides the enabling environment for growth to take place, by guaranteeing a sound regulatory framework, predictability, transparency and accountability. As the country has been constantly plagued with issues of corruption, civil society and military upheavals, countless allegations of electoral fraud and human rights violations, efforts should be directed towards reforms that will establish stronger institutions and good governance. Likewise, protecting the environment ensures the efficient use of natural resources and secures it for the next generation.

- 1.6 Lastly, health and education reforms are crucial in effectively providing the poor and disadvantaged groups opportunities to participate and benefit from economic development. Eventually, this contributes to the full development of the country's human capital which would in turn be a big factor in propelling sustained long-term growth.

## 2.0 ENSURING MACROECONOMIC SUSTAINABILITY

- 2.1 When the 13<sup>th</sup> Congress opened in July 2004, the Philippine economy was beleaguered by a flurry of challenges. On the domestic front, the budget deficit and public debt had escalated way above the comfortable levels, and were already undermining investor confidence. The precarious fiscal position was weighing heavily on the other sectors of the economy through the consequent lack of discretionary expenditure for infrastructure and social services whereas the poor investment performance was resulting in anemic employment generation. Real GDP growth was lackluster, averaging barely 4 percent from 2001 to 2003.
- 2.2 Given what seemed to have been a bad start, the past three years saw a mix of both favorable and disappointing developments in the economy. On the back of a major fiscal adjustment program, the Philippines managed to grow by 5.5 percent from 2004 to 2006, well above its historical average but still lagging behind its Asian neighbors' growth during the said period. Things turned for the better when in the first semester of 2007, GDP growth soared even higher to 7.3 percent, the fastest in nearly two decades.
- 2.3 Consumption spending, propelled by the strong inflows of OFW remittances and the benign inflation environment, remained as the key growth driver. Remittances from abroad sustained its double-digit growth in the first half of 2007 while inflation, notwithstanding the increase in oil prices, remained stable at 2.6 percent during the said period. Government consumption rose sharply as the government embarked on pump-priming activities ahead of the national elections.
- 2.4 On the production side, services remained the linchpin of the economy with a sectoral growth of 8.6 percent. Agriculture grew modestly by 4.0 percent while industry climbed by 7.6 percent aided by the hefty increase in public construction spending and the remarkable growth in mining and quarrying. Manufacturing, which used to be industry's leading source of growth, has slowed down mainly on account of the weakened demand for electronic products abroad. Export growth was robust at 6.6 percent though not as impressive as the 18.2 percent it has posted in the same period a year before, pulled down mainly by the slowdown in the global economy as well as the strong peso. The ample foreign exchange flows drove the balance of payments (BOP) to post a US\$1.4 billion surplus in the first quarter of the year, and the Gross International Reserves (GIR) to jump to an all-time high of US\$30.3 billion, enough to cover 5.6 months of imports.
- 2.5 An important factor attributed to the country's relatively higher growth in the recent years is the government's fiscal consolidation program, the core of which is the imposition of new fiscal measures such as the Sin Tax Law (RA 9334), the Reformed Value Added Tax Law or RVAT (RA 9337) and the Lateral Attrition Act (RA 9335). The passage of these measures is arguably one of the major achievements of the 13<sup>th</sup> Congress as it facilitated a significant reduction in the NG deficit to P64.8 billion or

around 1.1 percent of the GDP in 2006 and the increase in the tax effort from 12.5 percent in 2004 to 14.3 percent in 2006. In the first nine months of 2007, the deficit has further dropped to 40 billion, or less than one percent of the GDP.

**Table 1. Average Growth of Output: 1997-2006  
(in percent)**

INDICATOR	1997-2000	2001-2003	2004-2006	Sem I 2007
REAL GNP	3.7	3.9	6.0	7.3
REAL GDP	2.7	3.6	5.5	8.0
Agriculture, Fishery and Forestry	1.1	3.6	3.6	4.0
Industry	1.6	1.7	5.0	7.2
Manufacturing	2.0	3.5	5.4	3.9
Services	4.0	5.0	6.6	8.6
Personal consumption	3.2	4.3	5.4	6.0
Gov't consumption	3.6	-2.2	3.2	11.7
Capital formation	1.9	-3.4	1.9	7.5
Exports	3.4	2.7	10.1	7.0
Imports	15.8	15.4	3.6	-6.6

Source: NSCB

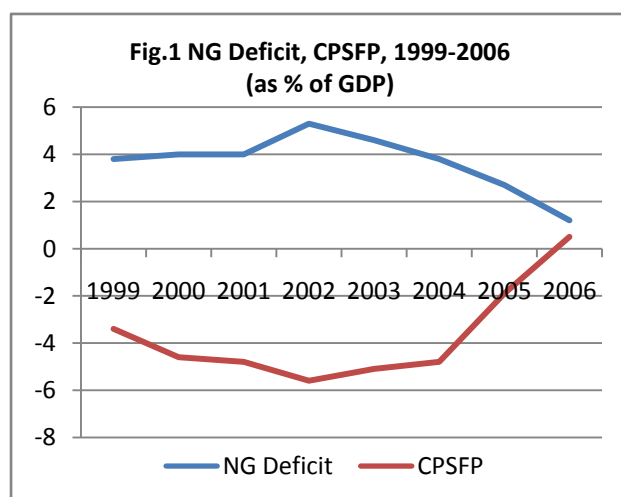
- 2.6 The improved performance of the monitored government-owned and -controlled corporations (GOCCs) and state pension funds (GSIS, SSS and PHIC) also buoyed up the fiscal position. After posting a deficit of P65 billion in 2003, GOCCs registered a P20 billion surplus in the first quarter of 2007, nearly three-fourths of which was contributed by the National Power Corporation (NPC). NPC, which in the past has been a major contributor in the public sector deficit, wiped out its massive losses, benefiting from the currency appreciation and the increase in generation tariffs. After being in the red for ten straight years, the consolidated public sector financial position (CPSFP) registered a surplus of P 24 billion or about 0.8 percent of GDP in the first half of 2007.

**Table 2. Actual Financing Deficit/Surplus of the  
14 Monitored Non-Financial GOCCs: 2003 to First Quarter 2007  
(in billion pesos)**

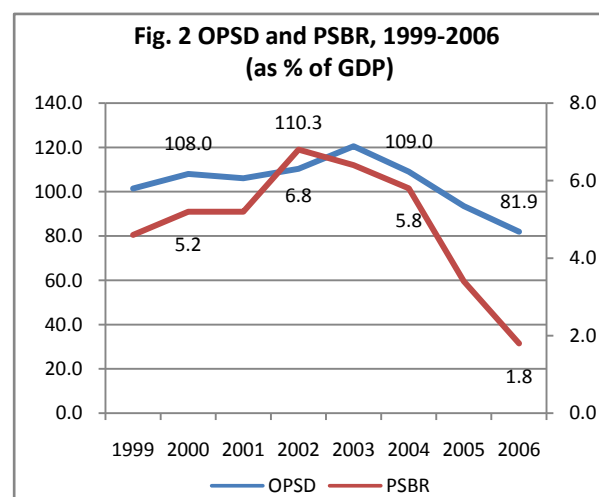
GOCC	2003	2004	2005	2006	2007 Q1
National Power Corporation	-47.6	-73.1	-14.6	6.9	14.5
Philippine National Oil Company	0.6	0.5	3.8	14.4	1.4
Metropolitan Waterworks & Sewerage System	-2.1	-2.5	4.5	-1.5	2.5
National Irrigation Administration	-9.7	-3.3	-3.3	-4.3	-1
National Development Company	0.3	0.2	-0.5	-0.2	-0.1
Light Rail Transit Authority	-0.6	-1.8	-5	-1.9	-0.4
Local Water Utilities Administration	-1.3	-1.7	-1.2	0.4	0.1
National Electrification Administration	-0.3	0.7	1.2	1.6	0.5
National Housing Authority	-0.3	-0.2	0	-0.9	-0.4
Philippine National Railways	-0.3	-0.4	-0.2	-0.2	0
Philippine Ports Authority	0.4	-0.8	0.2	-0.3	0.3
National Food Authority	-3.7	-1.8	-10	-16.4	2.5
Philippine Economic Zone Authority	0.4	0.2	-0.1	0.5	0.1
Home Guaranty Corporation	-1	-1.5	-0.1	0	-0.1
<b>TOTAL</b>	<b>-65.3</b>	<b>-85.4</b>	<b>-25.4</b>	<b>-2</b>	<b>19.9</b>

Source: DOF

2.7 More importantly, the turnaround in the fiscal position reduced the need for government borrowings and along with the strong peso, resulted in less unmanageable though still high, debt levels. As of June 2007, the national government debt stood at 68.2 percent of GDP from 91 percent in 2004 while the outstanding public sector debt has gone down to P4.9 trillion or to 81.9 percent of GDP from a high of 121 percent of GDP in 2003. Yields on Philippine debt papers fell to 3.719 percent in August 2007 (for 91-day T-bills), reflecting the low demand for deficit financing and the relative improvement in the country's creditworthiness.



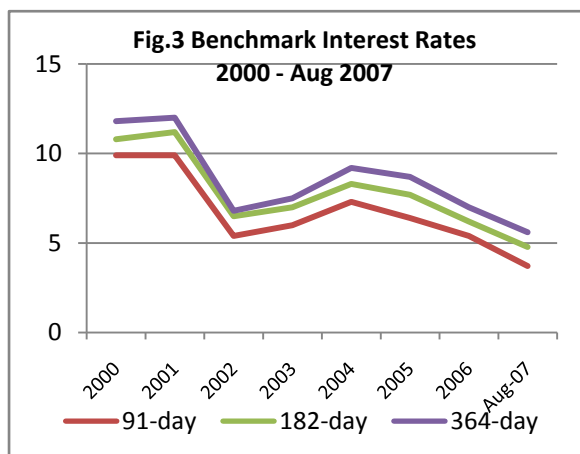
Source of basic data: DOF



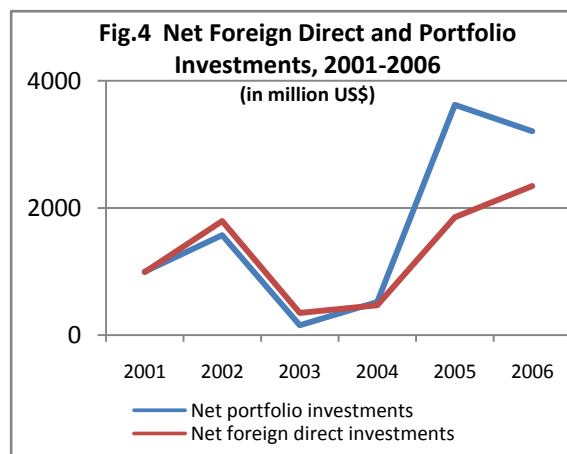
Source of basic data: DOF



2.8 The progress with the fiscal reforms and the stable monetary policy restored the credibility of the country within the international investor community. Foreign direct investment flows have started to pick up while foreign capital inflows surged with the Philippine stock market included among the top East Asian performers in 2006. From January to September this year, Philippine Stock Exchange (PSE) records show that value turnover reached P1.007 trillion or 177 percent higher than in the same period last year, a milestone performance in the 80-year history of the PSE.



Source of basic data: BSP



Source of basic data: BSP

2.9 Significant progress has also been made in strengthening the banking sector. With the full implementation of the Special Purpose Vehicle (SPV) Act in 2003, banks have successfully improved their asset quality, trimming down the ratios of their non-performing assets (NPAs) and non-performing loans (NPLs) from 13.2 percent and 14 percent in 2003 to 5.6 and 5.2 percent in July 2007, respectively. Also, after years of stagnation, bank lending has also started to pick up, spurred by the lower interest rates. The capital adequacy ratio of banks, meanwhile, continues to be high at 18.8 percent as of March 2007, way above the 10 percent statutory standard, and higher than in most Asian countries.

2.10 More work however needs to be done to sustain the gains of the fiscal consolidation and the efforts to improve the financial sector. Foremost of these is to step up tax and customs collection efficiency. The positive fiscal momentum appeared to have faltered in the first nine months of 2007 as total revenues fell short of the P837 billion programmed for the period with both the BIR and the BOC failing to meet their revenue collection targets by 45 billion and 12 billion, respectively. Tax effort slipped to 14.1 percent from 14.7 percent in the same period a year ago, a major setback in the government's plan to increase its tax effort to 15.6 percent by the end of 2007, and to its pre-Asian crisis ratio of 17 percent over the medium term.

2.11 Had it not been for the privatization receipts which amounted to P42.7 billion during the said period, revenues would be much lower. In 2008, the government will again rely on privatization receipts estimated at P29.6 billion to boost revenue collection. It must be noted though that privatization does not provide a stable, consistent source of revenues. Most credit ratings agencies, in fact, do not include privatization

receipts as a revenue item because they are non-recurring. The income stream ceases once the privatization is over. Also, it is not guaranteed when privatization will actually take place.

- 2.12 While prudent spending, in lieu of higher revenues, has been able to rein in the fiscal deficit in the past, it cannot be continuously relied on as a fiscal adjustment strategy in the coming years. The government has already been spending too little in critical investment areas such as education, health and infrastructure, and hence cannot afford any more expenditure cuts. Since 2001, national government expenditures as a share of the GDP has declined from 19.5 percent in 2001 to 17.4 percent in 2006. Among the sectors, social services was the hardest hit. The current budgets for education and health, which are about 2.5 percent and 0.3 percent of GDP, respectively, are way below international standards. The United Nations Educational, Scientific and Cultural Organization (UNESCO) recommends an education budget equivalent to 6 percent of GDP while the benchmark for health expenditure of World Health Organization (WHO) is 5 percent of GDP.

**Table 3. Sectoral Allocation of National Government Expenditures, by Obligation: 1998-2008**  
(as percent of GDP)

PARTICULARS	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Economic Services	4.9	4.7	5.0	4.3	3.8	3.8	3.2	3.2	3.7	3.7	3.9
Social Services	6.6	6.5	6.3	5.9	5.8	5.5	5.1	4.7	4.7	4.8	5.1
Education	4.0	3.7	3.5	3.2	3.2	3.0	2.8	2.4	2.4	2.5	2.5
Health	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Defense	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8
General Public Services	3.8	3.6	3.7	3.3	3.4	3.1	2.9	3.1	3.0	2.8	2.8
Net Lending	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.2
Debt Service	3.7	3.6	4.2	4.8	4.7	5.4	5.6	5.5	5.2	4.8	4.1
TOTAL	20.2	19.5	20.3	19.5	18.7	18.9	17.8	17.5	17.4	17.0	16.8

Source: BESF, various years

\*Projected

- 2.13 Studies have attributed the Philippines' chronic inability to collect sufficient revenues to various reasons: weak institutional capacity of tax authorities, complicated and unresponsive tax systems, excessive grant of incentives and exemptions, and corruption in revenue collections causing large tax evasions. Hence, the Senate should pass legislation that will address these issues.
- 2.14 Equally important is the continued monitoring of the debt situation. While the country's debt ratios have been declining in recent years, the public debt stock remains large, with the interest payments accounting for a significant share of the national budget. Tighter regulation on government borrowings and the awarding of government guarantees should be exercised. As of March 2007, the total contingent liabilities of the 14 monitored government-owned and -controlled corporations amounted to P418.4 billion with the National Power Corporation (NPC) accounting for P315.1 billion or 75 percent of the total guaranteed debt. In addition, the financial conditions of the GOCCs must be continuously kept in check. Fiscal managers should keep their eyes on the National Food Authority (NFA) which is now the GOCC with the biggest contribution to the public sector deficit. NFA's deficit has

steadily increased from P3.7 billion in 2003 to P16 billion in 2006 while its contingent liabilities now amount to P 44 billion.

- 2.15 Advances made in strengthening the financial sector should also be sustained. The banking system's regulatory framework must be further strengthened in accordance with international standards for greater transparency and accountability. To complement the banking system in financial intermediation, the domestic capital market should be further developed and deepened. As of 2006, the insurance sector contributes a meager 0.9 percent to the GDP while the country's pension funds are limited to mandatory schemes such as the GSIS and the SSS. The mutual fund industry, even as it has been growing significantly over the last three years, has minimal contribution to the over-all capital market's growth. Encouraging the development of more savings instruments will spur the development of the capital market.

## Direction for Reforms

### A. Maintaining Fiscal Sustainability

- 2.16 **Rationalize fiscal incentives.** Studies point out that more than 20 years after the passage of current legislative underpinnings for investment promotion and fiscal incentives, the country's investment performance leaves much to be desired. Philippine investment-to-GDP ratio has fallen over time and was at its lowest in 2006 indicating that investments, whether local or foreign, depend on more fundamental factors such as low cost of production, large market size, and access to natural resources rather than on fiscal incentives. Estimates by the DOF show that the provision of fiscal incentives guaranteed under various laws cost the government a total of P282.8 billion in 2004. The challenge for policymakers is to design a fiscal incentive system that is competitive with the country's ASEAN neighbors and one that is supportive of fiscal reforms. Identifying redundant investments – those that would have been made even without incentives in place – is an important step in designing the system. In addition, there is a need to re-examine the tax privileges of economic zones/freeports to avoid instances of leakage and abuses.
- 2.17 **Reform taxes in the financial sector.** Despite being classified as passive income, there is a huge disparity in the tax treatment of savings instruments. For instance, under the National Internal Revenue Code, interest income from any currency bank deposit or any monetary benefit from deposit substitutes and from trust funds is subject to 20 percent final withholding tax (FWT). Income from Foreign Currency Deposit Units (FCDUs), in contrast, is subject to 7.5 percent FWT, while yields from long term deposits for 4 years to less than 5 years is subject to a 5 percent FWT whereas those for more than 5 years is tax exempt. Tax arbitrage exists where there is lack of uniformity in the tax treatment of similar financial instruments and as such, violates the neutrality characteristic of a good tax system. To remove this distortion, a shift to a uniform final withholding tax on interest income should be adopted.

- 2.18 ***Amend the Tariff and Customs Code.*** There is a need to plug the loopholes in the Tariff and Customs Code (TCC) to curb smuggling. Technical smuggling has resulted in substantial revenue loss for the country. According to the DOF, the government is losing P60 to P65 billion from technical smuggling alone. Key amendments to the TCC should include the establishment of institutional mechanisms that will easily detect smuggling. This includes requiring an advance transmission of inward foreign manifests, and their publication, to allow the Bureau of Customs (BOC) and the industry association to examine the correctness of the valuation of the imported articles, and stiffer penalties, both fine and imprisonment, for outright and technical smuggling.
- 2.19 ***Reform the government-owned and -controlled corporations (GOCCs).*** The SEPO conducted a study on selected GOCCs where the GOCCs' mandate and functions, products, operational highlights, and financial position, i.e., balance sheets and income statement for the years 1999 to 2004 were studied and analyzed. The study found that some GOCCs have constituted a heavy drain on the government's finances, through subsidies and other budgetary allocations while others sustained heavy foreign exchange losses. Their dismal performance through the years can be attributed to four reasons: no cost recovery in the provision of product and service, reliance on debt, poor collection efficiency and expenditure management. Given these observations, a review of GOCCs' mandate, functions, and financial and operational viability is warranted and should be undertaken to address chronic problems encountered by GOCCs.
- 2.20 ***Adopt a Simplified Net Income Tax Scheme for professionals and self-employed.*** At present, business income earners/professionals have a wide latitude of discretion in claiming deductions which lead to opportunities for abuses and leakages. Since there is no limit to the deductions, self-employed individuals, especially high income professionals and businessmen, have an incentive to lower their tax liability through fraudulent claims of deductions. Simplifying the income tax scheme by restructuring the income tax rates and tax brackets would encourage professionals and self-employed people to pay taxes as it will do away with the present multiple tax rate schedule which is difficult to understand and tends to lead to non-compliance.
- 2.21 ***Adopt a single valuation base for all taxes on real property and a uniform valuation standard.*** There are at least twenty-three (23) national government agencies undertaking real property valuation, each using its own system and methodology for its own purpose. The Local Government Units (LGUs) likewise prepare, legislate, and implement their own schedules of market values (SMVs) on which the assessment of real property tax is based. Real property tax is imposed by local governments on land, building, machinery and property improvements at a rate of 2.0 percent in Metro Manila and 1.0 percent elsewhere. In addition, the same property is given different values depending on the nature and purpose for valuation, confounding the property owners and the public, and making valuation susceptible to political influence. As a result, only 42 percent of the real property tax collectibles is being collected at the national level National Tax Research Center (NTRC, 2006), indicating

that LGUs have not sufficiently maximized their revenue-raising potentials and are still heavily dependent on the internal revenue allotment from the national budget. Adopting a single valuation base for all taxes on real property and uniform valuation standard will eliminate the existence of multiple land valuation and will lead to higher RPT collection.

- 2.22 **Review the Implementation of the Lateral Attrition Law.** The Lateral Attrition Act of 2005 is a reward and penalty system for employees and officials of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC). It links compensation and promotion more closely to the achievement of revenue collection targets, and fast-tracks dismissal from service of those who fail to meet their revenue collection targets. It also supplements the existing, ongoing lifestyle check of revenue collection officials. According to the BOC however, the rewards for the district ports that exceeded their revenue targets last year are yet to be given. A review of the Lateral Attrition law is necessary to ensure that the intent of the law to reward/penalize collection personnel is being properly implemented.

## **B. Strengthening the Financial Sector**

- 2.23 **Amend the Central Bank Act.** The authority of the Bangko Sentral ng Pilipinas (BSP) over problem banks, in general, is limited to the grant of emergency advances in case of illiquidity, or closure in case of insolvency. Prompt corrective actions cannot be implemented due to the absence of clear and strong legal basis, resulting in unwarranted losses of hard-earned money of the depositors and even losses of public funds. Amendments to the Central Bank Act should therefore include provisions which refer to BSP's discharge of its supervisory and regulatory powers over banks and quasi-banks, strengthening the payment system, imposing stricter penal and administrative sanctions on erring banks, as well as the indemnification of BSP personnel for cost and expenses incurred by them in connection with any civil, administrative or criminal action, suit or proceedings.
- 2.24 **Establish a Credit Information System.** Recent findings show that increasing competition between microfinance institutions (MFIs) has resulted in higher borrower over-indebtedness, reduced loan repayment incentives, and growing arrears for MFIs. This weakening performance of MFIs is mainly a result of the increased level of information asymmetry. Due to the lack of a centralized database, the information accumulated is usually incomplete and as a result, the financial institution is exposed to higher risks. A credit information system may serve to reduce information asymmetry in credit markets as it acts as broker of information, thereby increasing the level of transparency in the market. Some have raised the possible scenario of lenders being hesitant to share client information for fear of more competition. However, a credit information system is viewed as a "natural monopoly" that reaps increasing returns to scale. That is, when a number of lenders share information, this creates an incentive for other lenders to share their information as well. Studies of credit bureaus in developing countries show that the introduction of such a system in credit markets has resulted in improved pool of borrowers, reduced default rates, lower interest rates, and increased access to credit

in general, particularly to micro, small and medium-scale enterprises, as borrowers are less burdened with the collateral requirements and longer waiting time for the approval of their loans.

- 2.25 ***Enact a law on personal equity retirement account (PERA).*** A law on personal equity retirement account must be enacted to provide an alternative financial instrument and augment non-bank savings. Caution however is warranted in the enactment of such a law. Taking into account the experiences of other countries that have introduced a voluntary, tax-favored individual retirement account, it appears that two prerequisites are vital in its successful administration. First, these countries made sure that their mandatory pension system/s is/are adequate. Second, these countries made sure that their tax administration system was efficient enough to administer such voluntary individual retirement accounts. In the case of the Philippines, these two requirements are not too evident. Although the Philippines has a set of mandatory pension programs (both private and public sector), there exist political risks (particularly in the public sector pension program) in investing program funds at below-market rates, which in turn results in meager returns on program contribution.
- 2.26 ***Update the Investment Company Act.*** The role of an efficient capital market in the development process cannot be stressed enough. As such, there is an urgent need to revise the regulatory framework to accommodate rapid changes occurring in the capital market and overall financial sector landscape. Studies have recommended the establishment of a comprehensive regulatory framework that seeks to eliminate existing differences in regulatory treatment among collective investment schemes such as common trust funds, mutual funds, and pre-need plans. Reforms should also include prudential guidelines in portfolio management, full disclosure of information by companies, declaration of unlawful activities, reinforced supervisory functions of the SEC, prohibition of activities that lead to conflict of interests, and regulation of industry associations. These reforms will highlight the critical role of investment companies in the capital formation process and at the same time prevent abuses and protect the interest of the public who are investors in such companies.
- 2.27 ***Enact a Pre-Need Code of the Philippines.*** To prevent a repeat of pre-need companies defaulting on their obligations to clients or plan holders, there is a need to regulate the establishment of pre-need companies and ensure their operation is sound, efficient and stable in order to achieve the optimum advantages from them in the mobilization of savings. The enactment of a Pre-Need Code will address this by placing pre-need companies under the regulation of the Insurance Commission with the end view of promoting the soundness, stability and sustainable growth of the pre-need industry.
- 2.28 ***Enact a Real Estate Investment Trust Act.*** Real Estate Investment Trust (REIT) is a stock corporation formed for the sole purpose of investing in income-producing real estate assets. For ordinary Filipinos who are of modest financial standing and do not possess the necessary real estate investment know-how and experience, the REIT can be a means to invest in real estate while generating profits at a rate similar to those who invest larger amounts of money. Other Asian economies have already

successfully implemented legislation to allow for the successful operation of REITs. As of August 2006, the total market capitalization of REIT in Asia is estimated to be worth \$50 billion.

### 3.0 CREATING A BETTER BUSINESS ENVIRONMENT

3.1 While the Philippines has made significant headway in improving its fiscal situation, it was not as successful in terms of promoting a business climate that encourages investment and generates jobs. As indicated by the various indices of international competitiveness, the country has even worsened in recent years. For instance, the Philippines was ranked 45th out of 55 economies in the *2007 World Competitiveness Yearbook*, slipping by 3 notches compared to the previous year. In the recently released *Doing Business 2008* of the World Bank, the Philippines' ranking got even lower from 130 to 133. In the Global Competitiveness Index (GCI)<sup>1</sup> released by the World Economic Forum (WEF), the Philippines is ranked 71<sup>st</sup> out of 125 countries in 2006, trailing behind most of its East Asian neighbors.

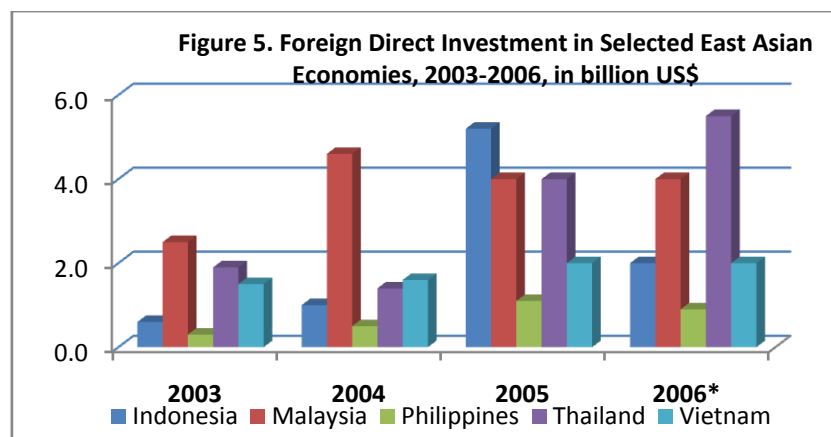
**Table 4. Ranking of Selected Asian Economies in Competitiveness Surveys**

Country	Global Competitiveness Index 2006		World Competitiveness Yearbook 2007		Doing Business Survey 2008	
	2005	2006	2006	2007	2006	2007
<b>Number of countries</b>	<b>125</b>	<b>125</b>	61	55	<b>178</b>	<b>178</b>
Philippines	73	71	42	45	130	133
Singapore	5	5	3	2	1	1
Malaysia	25	26	29	23	21	24
Thailand	33	35	29	33	17	15
Indonesia	69	50	52	54	133	123
Vietnam	74	77	-	-	94	91

3.2 The poor showing of the Philippines in these competitiveness surveys is reflected in the level of investments coming into the country. Though foreign direct investment (FDI) flows into the Philippines have started to pick up in recent years, they still remain pale compared to the rest of the East Asian countries (Table 4). On the average, the Philippines corners about one percent of FDI going to the region, and trails behind Singapore, Malaysia, Thailand, Indonesia, and Vietnam.

<sup>1</sup> The GCI which is based on hard data and the results of the Executive Opinion Survey assesses nine factors driving productivity and competitiveness: institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation.





Source: World Bank-Global Development Finance 2007

\*estimate

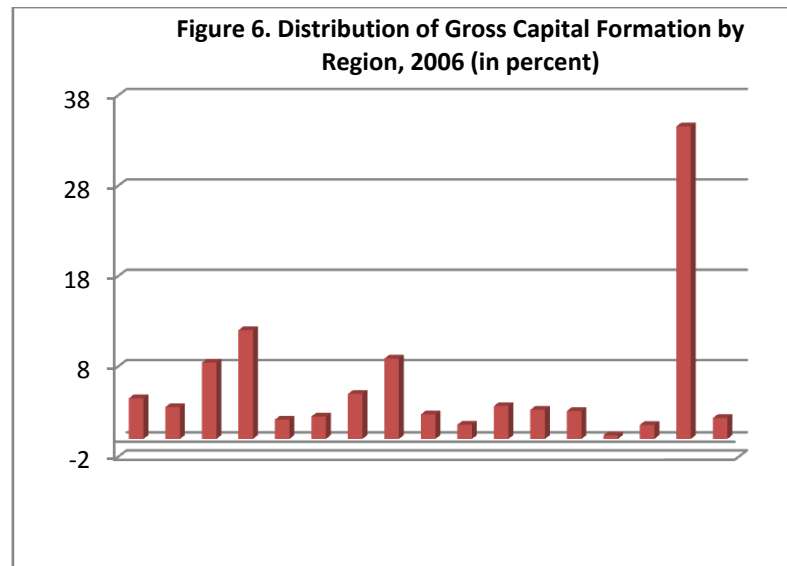
3.3 The growth of domestic investments has also been weak. In the last 3 years, gross capital formation grew by an average of less than 3%, way below that of the GDP growth. Accumulation of fixed capital barely grew with purchases of durable equipment posting negative growth. In the first half of 2007, domestic investments did increase, on account of the government embarking on public construction projects ahead of the May 2007 elections. Private construction spending has also picked up though not as fast as that of public construction.

**Table 5. Gross Capital Formation and Gross Domestic Product Growth Rates: 2004-2006**

Type of expenditure	2004	2005	2006	1st sem 2007
Gross Capital Formation	12.7	-6.0	2.1	7.5
A. Fixed Capital	5.1	-3.9	0.6	9.3
1. Construction	6.2	-0.9	2.8	18.7
Public	-10.2	-18.7	27.1	32.1
Private	4.9	-1.0	-3.7	8.8
2. Durable Equipment	4.4	-7.1	-1.4	2.0

Source: NSCB

3.4 Aside from the sluggish growth of gross capital formation, investment remains highly concentrated in NCR and surrounding regions such as Central Luzon and CALABARZON. These three regions alone account for more than half of total domestic investments in the country. This uneven development has resulted to the wide disparity in income between regions.



Source: NSCB

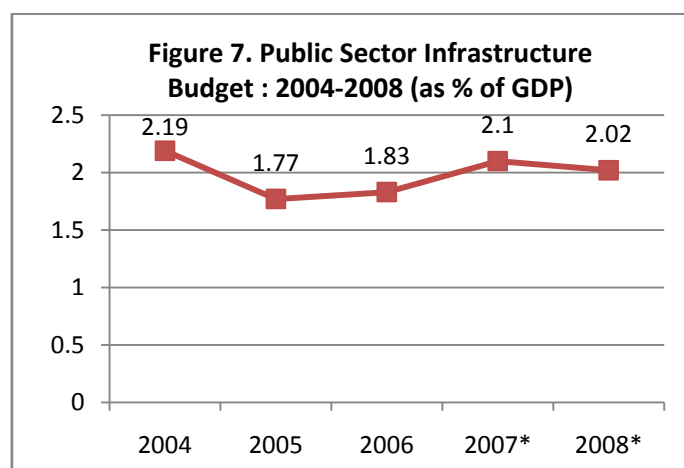
- 3.5 Various studies and competitiveness surveys attribute the lackluster performance of the Philippines in investment to several factors: poor and low investment in infrastructure, high input costs such as electricity, high cost of doing business, and poor governance.
- 3.6 **Poor infrastructure.** The link between investments in infrastructure, economic growth and poverty reduction is already well established in the literature. The presence of good infrastructure especially in transport, power and telecommunications makes a country more attractive to investors and tourists alike while reducing production costs and increasing industrial productivity. The provisions of irrigation systems, post-harvest facilities and farm-to-market roads have been shown to increase incomes and productivity in the rural sector. Moreover, improving infrastructure has been shown to have an impact on non-income poverty in the rural areas; for instance, through the reduction of travel time and better access to education and health services brought about by the provision of better roads as well as more study time and better medical services through the provision of electric power in the rural sector.
- 3.7 The level and quality of infrastructure, in the Philippines, however, leaves much to be desired. The country ranked very low particularly in basic infrastructure which includes the country's roads, air and water transport systems, as well as the energy infrastructure. The problem appears to be more severe in the rural areas where majority of the country's poor reside.

**Table 6. Infrastructure Competitiveness Rankings of Selected Asian Countries, 2007**

PARTICULARS	China	India	Indonesia	Malaysia	RP	Thailand	Singapore
Infrastructure	28	50	54	26	51	48	3
Basic Infrastructure	8	36	50	25	55	35	1
Energy	33	53	52	15	49	35	6
Water	31	47	54	19	52	36	1
Air Transport	2	15	16	20	34	22	23
Roads	3	49	44	51	54	2	5
Technological Infrastructure	27	37	55	18	31	48	2

Source: 2007 World Competitiveness Yearbook, IMD International

3.8 The poor state of the country’s infrastructure can be partly blamed on government underspending in this area. Budget constraints have limited public sector infrastructure expenditure to a yearly average of 1.9 percent of GDP during the period 2004-2006, and while it is projected to increase in 2007 and 2008, it still falls below the average of 5 to 6 percent for East Asian nations. The World Bank estimates that countries such as the Philippines need to spend a minimum of 5 percent of GDP on infrastructure to meet their needs over the next 10 years.



\*forecast

Source: BESF, 2005

3.9 **High electricity cost.** Another oft-cited factor which erodes the Philippines’ competitiveness is the prohibitive cost of electricity in the country.

3.10 The Philippines has already taken a number of important steps aimed at improving the electric power sector. The Electric Power Industry Reform Act (EPIRA), which was passed in 2001, is aimed at helping ensure the quality and reliability of electricity in the country and bring about reasonable power rates for consumers. One of the major accomplishments of EPIRA was the containment of the losses incurred by the National Power Corporation (NPC). In addition to this, the government was also able to complete the privatization of 8 of NPC’s hydroelectric plants, negotiate Transition Supply Contracts between NPC and various distribution utilities and launch the Wholesale Electricity Spot Market (WESM).

3.11 Nevertheless, the Philippine power sector continues to face a number of difficult issues today. Electricity tariffs in the country remain among the highest in Asia partly due to its continued dependence on imported fuel for its power plants and the failure to introduce competition in the sector. While the country has started to reduce its dependence on these sources, efforts to increase use of indigenous natural gas and introducing alternative energy sources such as wind power and biomass are yet to be vigorously pursued.

**Table 7. Comparative Electricity Tariffs, (US cents/Kwh)**

Country	Residential		Industrial		Date
	Low	High	Low	High	
Malaysia	5.9	8.5	3.9	6.4	2006
Hong Kong	11.1	13.9	8.1	9.1	2006
Korea	6.1	19.9	5.1	6.7	2006
Singapore		13.3	6.6	11.8	2006
Cambodia	8.4	15.6	11.5	14.4	2005
Thailand	4.8	8.0	3.2	9.7	2006
Indonesia	1.5	4.1	1.5	3.6	2005
Vietnam	2.7	7.7	2.7	13.1	2005
Lao PDR		2.7		2.5	2005
Myanmar		7.3		7.3	2005
Japan	12.9	18.0	10.2	11.2	2006
China	6.0	6.1	6.6	8.7	2006
Philippines		17.4	12.8	16.7	March 2006

Source: DOE

3.12 The Department of Energy's (DOE's) latest power supply and demand projections also forecast the possibility of a power shortage. In 2008, the Visayas grid will be already short of the required capacity while power shortages are likely to happen in Mindanao in 2009 and Luzon in 2011 if no new capacity is added. However, even with the improved fiscal position, the high cost of building new plants makes it very difficult for the country to fund the necessary expansion of the country's power infrastructure, thus making it imperative for the government to encourage greater private sector participation in the power industry.

**Table 8. Philippines' Supply and Demand Profile, by Grid: 2006-2014 (MW)**

Luzon Supply-Demand Profile (2006-2014)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Dependable Capacity</b>	10,576	10,576	10,576	10,584	10,514	9,846	9,846	9,846	9,846
<b>Required Capacity</b>	8,302	8,614	8,949	9,319	9,721	10,150	10,607	11,093	11,596
<b>Peak Demand</b>	6,728	6,981	7,252	7,552	7,878	8,225	8,596	8,990	9,397

Visayas Supply-Demand Profile (2006-2014)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Dependable Capacity</b>	1,536	1,541	1,590	1,590	1,810	1,760	1,760	1,760	1,760
<b>Required Capacity</b>	1,424	1,498	1,591	1,683	1,787	1,895	2,014	2,143	2,283
<b>Peak Demand</b>	1,154	1,214	1,289	1,364	1,448	1,536	1,632	1,737	1,850

Mindanao Supply-Demand Profile (2006-2014)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Dependable Capacity</b>	1,455	1,670	1,730	1,730	1,730	1,730	1,730	1,730	1,730
<b>Required Capacity</b>	1,565	1,649	1,742	1,845	1,960	2,087	2,228	2,382	2,556
<b>Peak Demand</b>	1,293	1,363	1,440	1,525	1,620	1,725	1,841	1,969	2,112

Source: DOE

Note: *Dependable capacity* refers to the maximum capacity the collective power plants in a grid can sustain over a specified period with allowances for planned and forced outages, seasonal limitations, and other conditions. *Required capacity* represents the amount of generating capacity required to meet the peak demand plus the required reserve margin (23.4 percent for Luzon and Visayas and 21 percent) mandated by the Energy Regulatory Commission (ERC). *Peak demand* is calculated from the aggregated projected energy sales of all distribution utilities and other energy users.

3.13 Concerns had also been raised recently over possible price-fixing by the Power Sector Assets and Liabilities Management Corporation (PSALM), which controls about 40 percent of the power plants participating in the WESM. The subsequent investigations conducted by the Energy Regulatory Commission (ERC) found no evidence against PSALM for anti-competitive behavior and market power abuse. The rising rate of the WESM seems to indicate a lack of competition in the Spot Market. Reducing the government's share in the Spot Market by accelerating the privatization of government-owned power plants should help reduce the risk of anti-competitive behavior in the future.

3.14 **High cost of doing business.** In its latest business climate report *Doing Business 2008*,<sup>2</sup> the World Bank-International Finance Corporation (WB-IFC) tagged the Philippines as a slow reformer after its ranking worsened from 126<sup>th</sup> to 133<sup>rd</sup> out of 178 countries in 2007. Other Southeast Asian economies like Thailand (15<sup>th</sup>) and Malaysia (24<sup>th</sup>) fared well while Vietnam and Bangladesh managed to get higher ranking than the Philippines.

3.15 A big improvement was registered by Indonesia which used to trail the Philippines when it rose to 123<sup>rd</sup> in 2007 from last year's 135<sup>th</sup> place. Only Cambodia (145<sup>th</sup>) and Laos (164<sup>th</sup>) fared worse than the Philippines.

<sup>2</sup> *Doing Business* is an annual report which compares business regulations across countries.

3.16 The Philippines registered its worst performance in the area of closing a business where it ranked 147. On the average, it takes 5.7 years for investors and around 38% of income per capita to close a business in the Philippines, the highest among ASEAN economies.

3.17 Investors in the Philippines would also have to go through more procedures to start a business, process licenses, register property, and pay taxes. It also takes longer time dealing with licenses and enforcing contracts. The Philippines ranks low in ease of employing workers and in the protection of investors' rights (e.g. disclosure, directors' liability). In addition, the Philippines has higher cost of firing redundant workers, registering property, exporting and importing.

**Table 9. Doing Business 2008, ASEAN Countries**

INDICATOR	Country (2007 Ranking)							Philippines		
	CAM	IND	LAO	MAL	SIN	THA	VIE	2007	2006	Change in rank
<b>OVERALL RANKING</b>	<b>145</b>	<b>123</b>	<b>164</b>	<b>24</b>	<b>1</b>	<b>15</b>	<b>91</b>	<b>133</b>	<b>113</b>	<b>-20</b>
<b>Starting a business</b>	162	168	78	74	9	36	97	144	135	-9
<i>procedures (number of steps)</i>	10	12	8	9	5	8	11	15	11	-4
<i>time (number of days)</i>	86	105	103	24	5	33	50	58	48	-10
<i>cost (% of GNI per capita)</i>	190.3	80	16.5	18.1	0.8	5.6	20	26.8	24.4	-2.4
<i>minimum capital (% of GNI per capita)</i>	50.8	38.4	0	0	0	0	0	6.9	9.5	2.6
<b>Dealing with licenses</b>	144	99	111	105	5	12	63	77	75	-2
<i>procedures (number of steps)</i>	23	19	24	25	11	11	13	21	23	2
<i>time (number of days)</i>	709	196	172	285	102	156	194	177	197	20
<i>cost (% of income/capita)</i>	74.3	286.8	202.4	10	22.9	10.7	374	75.9	121	45.1
<b>Employing workers</b>	133	153	82	43	1	49	84	122	122	0
<i>difficulty of hiring index (0-100)</i>	44	72	11	0	0	33	0	56	56	0
<i>rigidity of hours index (0-100)</i>	60	0	40	0	0	20	40	20	40	20
<i>difficulty of firing index (0-100)</i>	30	60	60	30	0	0	40	30	40	10
<i>rigidity of employment index (0-100)</i>	45	44	37	10	0	18	27	35	45	10
<i>nonwage labor costs (% of salary)</i>	0	10	5	15	13	6	17	7	9	2
<i>firing costs (weeks of salary)</i>	39	108	19	75	4	54	87	91	90	-1
<b>Paying taxes</b>	21	110	114	56	2	89	128	126	129	3
<i>payments (number of steps)</i>	27	51	34	35	5	35	32	47	47	0
<i>time (hours)</i>	137	266	672	166	49	264	1050	195	195	0
<i>total tax rate (% of profit)</i>	22.6	37.3	35.5	36	23.2	37.7	41.1	52.8	46.4	-6.4
<b>Enforcing contracts</b>	134	141	111	63	4	26	40	113	113	0
<i>number of procedures</i>	44	39	42	30	22	35	34	37	35	-2
<i>duration (number of days)</i>	401	570	443	600	120	479	295	842	360	-482
<i>cost (% of claim)</i>	102.7	122.7	31.6	27.5	17.8	14.3	31	26	50.7	24.7
<b>Closing a business</b>	178	136	178	54	2	44	121	147	147	0

<i>time (number of years)</i>	no practice	5.5	no practice	2.3	0.8	2.7	5	5.7	6	0.3
<i>cost (% income per capita)</i>	no practice	18	no practice	15	1	36	15	38	38	0
<i>recovery rate (cents on dollars)</i>	0	12.6	0	38.3	91.3	41.8	18	4.2	4.1	-0.1
<b>Registering Property</b>	98	121	149	67	13	20	38	86	81	-5
<b>Getting Credit</b>	177	68	170	3	7	36	48	97	94	-3
<b>Protecting Investors</b>	64	51	176	4	2	33	165	141	141	0
<b>Trading Across Borders</b>	139	41	178	21	1	50	63	57	52	-5

Source: World Bank

## Direction for Reforms

### A. Improving Infrastructure

3.18 **Ensure the prioritization of spending on infrastructure through the annual General Appropriations Law.** The failure to pass the annual government budget in 2004 and 2006 is said to have contributed to poor infrastructure spending in the said years. Ensuring the passage of an annual budget allows the legislature to have a say on the prioritization of infrastructure projects based on sound cost-benefit analysis and impact on economic development. Needless to say, the oversight function of the legislation is warranted particularly for those big-ticket government projects.

3.19 **Amend certain provisions of the Build-Operate-Transfer (BOT) Law.** The private sector, primarily through BOT law, has been a key partner of the government in providing infrastructure projects particularly in energy and telecommunications. However, the BOT law which is the primary mechanism for private sector participation in infrastructure projects has several constraints which resulted in a number of controversies. Among them are the vagueness over unsolicited bids, government guarantees, and unclear roles of the implementing agency and the Investment Coordination Committee (ICC) in the awarding of contracts (World Bank, 2005). There is therefore a need to review and, if possible, amend certain provisions in the BOT Law or its Implementing Rules and Regulations (IRR) pertaining to the abovementioned issues. Medalla (2004) has pointed out that the problem lies not in the proliferation of unsolicited BOT projects but rather in the inadequate rules governing the challenges for these unsolicited bids. Hodges (2003) recommends putting out to bid all unsolicited proposals with no advantage to the original proponent and adequately compensating the original proponent for legitimate project development costs if the challenge is successful.

3.20 **Promote benchmarking of comparatively similar infrastructure projects.** The use of benchmarking as a practical tool for improving performance in the implementation of infrastructure projects should be considered and the legislature could institutionalize this practice through the mandate of law. Benchmark indicators are derived by learning from best practices and understanding the processes by which they are achieved. Examining benchmark figures, for instance in terms of

infrastructure costs, could be used to evaluate the appropriate level of government spending for particular projects. In the absence of a database of cost benchmarks for infrastructure projects, it is worthwhile to look at private sector practices for similar projects as these are generally considered to be more efficient and less prone to corruption. For instance, experiences of the Filipino-Chinese Chamber of Commerce in school building construction projects indicate a benchmark of P200,000 per classroom. Examination of Department of Education (DepEd) budgets, on the other hand, indicates that it costs the government on the average P436,734 per classroom - more than double the benchmark level.

3.21 ***Promote competition policy in sectors and industries crucial to Philippine competitiveness agenda such as air transport and water transport.***

3.21.1 ***Negotiate new air service agreements.*** Liberalization and deregulation in the Philippine domestic air transport industry resulted in lower airfare, improvement in the quality of service, and efficiency in the industry in general (Austria, 2002). However, the international air transport industry remains highly concentrated due to old restrictive practices and policies pursued by the government. Policy makers should find ways on how to promote greater competition in the international air transport industry which is crucial in stimulating more foreign investments, boosting trade, and attracting more tourists, without sacrificing the growth of the domestic airline industry.

3.21.2 ***Amend the PPA Charter.*** Studies show that around 40 percent of predicted maritime transport costs for coastal countries such as the Philippines can be attributed to inefficient port infrastructure. This inefficiency arises from poor physical infrastructure, industry structure and regulation (Limao and Venables, 2000 as cited by Llanto, et al., 2005). Currently, the Philippine Ports Authority (PPA) has a dual and conflicting role as a port regulator and operator. The regulatory functions of the PPA should be transferred to an independent authority to promote efficiency and quality of port service and reduce the likelihood of regulatory capture. The government must also continue its deregulation efforts as there still exists a cartel-like arrangement in domestic shipping industry (Austria, 2003).

**B. Lowering Power Costs**

3.22 ***Amend the EPIRA.*** Amendments to the Electric Power Industry Reform Act (EPIRA) should be able to clarify unclear and conflicting provisions in the law, improve



competition in the power industry and provide added protection to power consumers. In particular, amendments being proposed include the following:

- 3.22.1 Detailed guidelines for the application of the Return-on-Rate-Base (RORB) rate-setting methodology. This would ensure the protection of consumer interests by promoting more transparency in the rate-setting process while at the same time allowing investors to recover their investments.
  - 3.22.2 Further tightening restrictions on cross-ownership among the various sectors of the industry. This will reduce the possibility of collusion among industry players.
  - 3.22.3 Lowering from 70% to 50% the privatization level for NPC generating assets in order to accelerate the implementation of open access and retail competition. Other amendments to be considered are the provision of fiscal autonomy to the ERC, exemption of self-generating facilities from paying the Universal Charge, and reducing the limit of bilateral supply contracts of distribution utilities.
- 3.23 ***Pass a Renewable Energy Bill.*** There is need for a law to encourage the development and utilization of new sources of energy for power generation to reduce the cost of power as well as reduce emissions of greenhouse gases. The provision of a package of fiscal and non-fiscal incentives to developers of renewable energy and the imposition of a minimum purchase requirement for all electricity suppliers will help promote the development and utilization of alternative energy sources such as wind, solar, biomass and ocean energy in the country.

### C. Lowering the Cost of Doing Business

- 3.24 ***Review of regulations and laws concerning doing business.*** The Doing Business Survey conducted by World Bank and International Finance Corporation provides objective indicators of business regulations and their enforcement across economies and it can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth. Many countries have used the survey to learn from global best practices, prioritize reform, and streamline their business regulations. The review of regulations and laws concerning bottlenecks in ease of doing business, particularly in enforcing contracts and expeditious closing of a business, could result in amendments to existing laws or entirely new legislation.

## 4.0 ESTABLISHING GOOD GOVERNANCE FOR SUSTAINED GROWTH

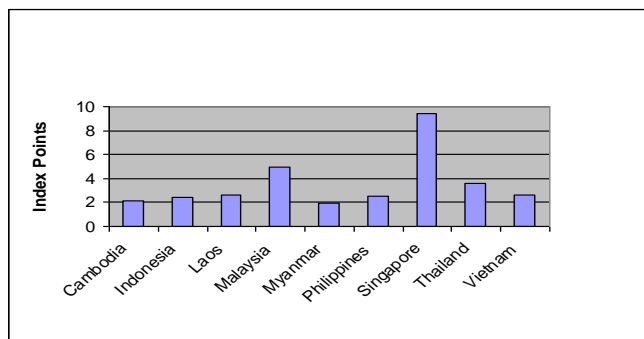
- 4.1 The past three years were marked by distinctive governance problems that continue to weaken investor confidence in the country. Issues that threaten political stability in the country such as allegations pertaining to electoral fraud, armed conflict particularly in Southern Mindanao, threats of terrorism including pockets of abductions of civilian and military persons have marred the public image of the country internationally.
- 4.2 Meanwhile, the presidential imprimatur of turning a bicameral legislature to a unicameral one through amendments to the 1987 Constitution was disapproved by key stakeholders including the Catholic Church and opposition leaders. The Supreme Court also struck down a petition for a people's initiative to amend the charter. The House of Representatives failed to change the constitution via a constituent assembly as multi-sectoral groups vowed to crush this last-ditch attempt by administration allies. It must be noted that this proposal was not only unveiled in the 2004 State of the Nation Address but was also part of the 2004 to 2010 Medium-Term Philippine Development Plan.
- 4.3 Military adventurism continues to hound the country. In February 2006, the attempt by disgruntled officers to launch what seemed to be a plan to overthrow the government was foiled. A series of actions sparked off from Malacañang that were deemed violative of human rights such as the Calibrated Pre-emptive Response which allowed police to break up rallies without permits, the raid on a newspaper office carried out under Presidential Proclamation 1017, and Executive Order No. 464 which prohibited government officials from attending legislative hearings. In all this, the Supreme Court stood out in the public eye as the bulwark of democracy as it struck down the legality of directives espoused by the Executive Branch.
- 4.4 Moreover, extra-judicial killings and disappearances of some people critical of the present administration aggravated the peace and order problems in the country and gravely tarnished its image in the international community. The reports of the envoys sent by the European Union and the United Nations expressing alarm at the spate of extra-judicial killings further lowered the integrity of the government to the extent of its inability to resolve these issues. According to the group Karapatan, the number of extra-judicial killings has reached 839 as of June 2007.<sup>3</sup>
- 4.5 In addition, endemic problems such as corruption and bureaucratic inefficiencies remain. The country's corruption record has been alarming as indicated by results of recent international surveys conducted among businessmen. For instance, the Philippines, along with Myanmar, Indonesia and Vietnam, ranks low in the 2006 Corruption Perception Index (CPI) compared to its ASEAN neighbors (Figure 8).

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<sup>3</sup> *Philippine Daily Inquirer* Online Edition. [http://globalnation.inquirer.net/news/news/view\\_article.php?article\\_id=57034](http://globalnation.inquirer.net/news/news/view_article.php?article_id=57034)

- 4.6 According to a report by Transparency International,<sup>4</sup> corruption may discourage foreign investors because it is often associated with a lack of secure property rights as well as bureaucratic red tape and mismanagement.

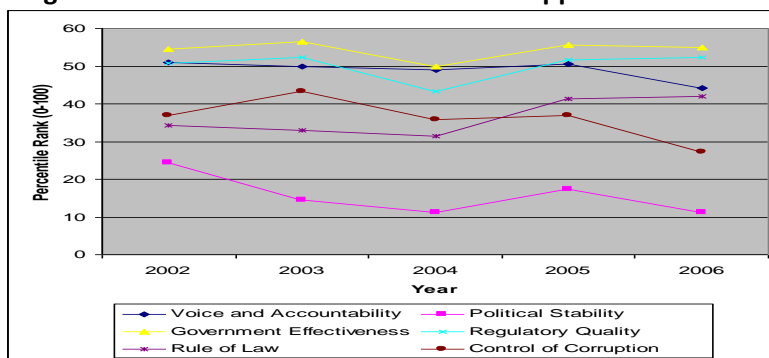
**Figure 8. Corruption Perception Index,<sup>5</sup> Selected Countries of ASEAN: 2006**



Source: Transparency International

- 4.7 In the same vein, perception surveys on governance indicators of countries around the world (Figure 9) rank the Philippines low in terms of control of corruption, political stability and the rule of law. While reforms in the past three years have been made in setting up a juvenile justice system and automation of elections and the ratification of the United Nations Convention Against Corruption (UNCAC), bold steps need to be undertaken to dramatically improve governance in the country. It cannot be overemphasized that good governance creates an enabling environment for markets to work efficiently and contribute to sustained growth.

**Figure 9. Governance Indicator of the Philippines: 2002-2006**



Source: World Bank

- 4.8 The relentless pursuit for the accountability of public officials and employees relegates the need to strengthen monitoring institutions. Honesty and integrity in the public sector are crucial determinants of an effective and efficient government. Thus, intensifying oversight institutions such as the Civil Service Commission (CSC), Commission on Audit (COA), and Office of the Ombudsman will help develop consciousness in terms of accountability and ethical responsibility of those in public

<sup>4</sup> Transparency International is a Berlin-based non-governmental organization which advocates the curbing of corruption all over the world.

<sup>5</sup> The Corruption Perception Index (CPI) is a result of surveys done by Transparency International which relate to perceptions of businessmen, academics and risks analysts with regard to the degree of corruption in a specific country. The index ranges between 10 (highly clean) and 0 (highly corrupt).

service. Although the government has instituted an incentive and awards program for those demonstrating exemplary service, the current compensation package offered are not competitive enough to attract the finest and the brightest of employees. The meager salary of employees compels them to turn to malicious and anomalous activities in order to meet the growing needs of their families. Considering the consistent increase in the prices of commodities, reviewing and re-evaluating salary rates of government personnel becomes very trivial.

- 4.9 An effective manner of monitoring the government's accountability is through an evaluation of funds appropriated for government activities. Although COA's mandate is to ensure proper disbursement of funds and review agency appropriations vis-à-vis implementation of projects, the breed of misallocated and realigned fund allegedly used for personal consumption still proliferates. Given the rigid budgetary resource, tracking of expenditures should be intensely monitored, properly assessed, and be reflective of government priority programs. Improvement in terms of budget execution should be pursued by the Department of Budget and Management (DBM) and National Economic and Development Authority (NEDA).
- 4.10 The Philippines has a number of anti-corruption agencies tasked to combat corrupt practices such as graft and tax evasion. In 2005, the Bureau of Customs (BOC) and Bureau of Internal Revenue (BIR) instituted anti-corruption programs such as the Revenue Integrity Protection Services (RIPS), Run After Tax Evaders (RATE) and Run After The Smugglers (RATS) which have filed 70, 28, and 43 tax evasion cases respectively, against high profile individuals. Aside from agency initiatives such as the Lifestyle Check Coalition established in 2003, increase in funding have been earmarked to strengthen institutional capacities of agencies like the Ombudsman and Commission on Audit (COA) which are tasked to fight graft and corruption. In late 2006, the Philippines signed the United Nations Convention Against Corruption (UNCAC) which seeks to combat corruption on a global level through prevention, criminalization, international cooperation and asset recovery.
- 4.11 Reforms in the Philippine judicial and justice system are crucial in globally projecting a strong rules-based institution. The judiciary's integrity will help boost economic growth and eventually help alleviate the poverty stature of the country. Credibility and integrity are fostered through speedy resolution of cases and established competency of judges and court personnel. This can be determined through the improved delivery of judicial services which can only be enhanced through worthy incentives in terms of salaries and wages of personnel.
- 4.12 Supporting reforms in the judicial system will help entice foreign investors to bring their businesses and create jobs in the country. An independent judiciary is a strong pillar of a democratic state. Furthermore, a penal system that sends the signal that criminality must pay and that contracts are consistently enforced ensures the maintenance of the rule of law. As such, reforms under the Action Plan for Judicial Reform (APJR) 28 should be assured of continued budgetary support. The

components of the APJR's thrusts include strengthening of the judicial systems and procedures, ensuring institutional development reforms, enhancing human resource development, harmonizing the reform support systems, improving institutional integrity development, and promoting access to justice by the poor. The APJR is financed through local funds (53.45%) and foreign financing wherein reform program activities are funded by donor agencies through grants.

4.13 Streamlining efforts have been constantly pursued by the Department of Budget and Management (DBM). Streamlining, in this aspect, refers to the downsizing of the public sector in order to bring down recurrent costs, strengthen institutional capacity, and improve the delivery of basic services to the people. Government inefficiency is often an end result of inept performance of functions relatively due to duplication of tasks. In order to initiate government rationalization, performance and expenditure evaluation should be conducted to determine agencies with overlapping and multiple layers of policies and functions then, later on, proceed with reforms to reorganize the government.

4.14 In order to sustain progress in governance, the government's rationalization program should continually be promoted. According to the Department of Budget and Management (DBM), 76 percent or only 89 have submitted their rationalization plans out of the 109 agencies expected to submit their plans (Table 1). Out of the submitted plans, only 23 have been approved by DBM. Despite the current rationalization program being undertaken, its fiscal and structural impact is limited given that a number of agencies have legislated charters. Thus, there is a need for Congress to legislate a re-engineering program to correct the present weaknesses in the institutional structure of governance (e.g. overlapping, overstaffing and fragmentation of responsibilities across agencies) that have caused rent-seeking and incoherence in government policies and programs. However, an adequate separation and benefits package must be ensured for the employees that will be displaced by a re-engineering program.

**Table 10. Overall Status of the Rationalization Plan Submission  
(Net of Entities Exempted, as of September 7, 2007)**

Status	Departments	OEOs/Other Agencies	GOCCs	Total	
				No.	%
A. Plans Submitted to DBM	20	27	36	83	76
1. Approved	2	14	7	23	21
1.1 Attached Agencies	3*				
2. Being Evaluated					
- Complete Submission	13	11	20	44	41
- Partial Submission	4	0	4	8	7
3. Plan Returned for Revision	1	2	5	8	7
B. Plans for Submission to DBM	1	1	24	26	24
<b>Total</b>	<b>21</b>	<b>28</b>	<b>60</b>	<b>109</b>	<b>100</b>

\*Rationalization Plan not counted individually: already part of mother department over-all plan

Source: Department of Budget and Management

- 4.15 Government personnel satisfaction, usually in terms of benefits and privilege packages, is also indicative of a government's efficiency. According to the World Bank, the salaries of senior civil servants are as little as 20 percent of private sector equivalents. Meanwhile senior officials of public enterprises who managed to be exempted from the Salary Standardization Law (SSL) receive remunerations that are many times higher than their counterparts in line agencies, causing distortion in the public sector compensation system. As such, a review of the SSL must be geared toward making public sector salary more competitive, performance-based and at par with private sector pay. Though a more competitive pay does not automatically reduce corruption, it encourages people to play by the rules and attracts the so-called best and the brightest to the public sector. The governing law concerning salaries of government personnel is still Republic Act No. 6758 which is the Compensation and Position Classification Act of 1989. To date, the bill on standardization of salaries is still pending approval.
- 4.16 The political environment has always been deluged with electoral problems ranging from electoral protests, fraud, and abuse. Such conditions denude the veracity of the election results in the country proving the viability and immediacy of electoral reforms. The most essential reform would be to establish the credibility of the Commission on Elections (COMELEC). Its image has been consistently tarnished not only with every election period that passes but also with the Commissioners appointed in each administration. Revamping the Comelec may considerably help restore credibility of the electoral body. Electoral rules should be concretely formulated and clearly defined to organize restrictions and limitations in the proceedings. Modernization of the electoral process has been pursued but the lack of funding prevents the government from fully implementing the new system. The feasibility of automating the elections can be tested not only during a real time election period but also through a conduct of mock elections. This will enable implementers to further review and gauge the potential of the system.

## **Direction for Reforms**

### **A. Strengthening the Bureaucracy**

- 4.17 ***Amend the Civil Service Code.*** Merit and fitness should be the foundation of a strong bureaucracy. As the bureaucracy's human resource agency, the Civil Service Commission (CSC) is hard put to implement this as it is continually hampered by antiquated issuances and political influence. As such, there is a need to consolidate and update the legal framework pertaining to the CSC to strengthen its mandate. Moreover, this measure seeks to depoliticize the bureaucracy by empowering the CSC to oversee the appointment and discipline of public employees that have ranks below assistant secretary. This also limits the political appointments of civil servants. As of September 2007, the CSC's Rationalization Plan has been approved by DBM along with 2 department-level offices, 14 OEOs/other government agencies and 7 GOCCs.

## B. Improving the Delivery of Basic Services

- 4.18 ***Strengthen the oversight function of Congress.*** As a means to ensure that laws are effectively implemented by the Executive Branch, enhancing legislative oversight by strengthening the committee system of Congress and its support services, better equips legislators in seeing to it that corruption and inefficiency do not hamper the provision of basic services. This can be done by easing the workload of some committees due to the number of assigned issues needing legislative actions. Constant changes in staff composition, chairmanships as well as leaderships in Congress also contribute to the strength of the structure of Committee systems in both Houses of Congress. Although these may be considered factors, it generally creates an impact in the design of and the stability of the structure system.
- 4.19 ***Enact a Right to Information Act.*** By guaranteeing the citizen access to official records and documents and papers pertaining to official acts, transaction and decision of the government, the people shall be fully enlisted in the decision-making and legitimizing process. Public officers are also made more keenly aware of their accountability to the public. However, this right shall be limited if the information devolved would affect the security and defense of the State from internal subversion and external threats, the stability of its currency and reserves, and the preservation of law and order.
- 4.20 ***Enact a National Identification (ID) System.*** The escalating concern for the onslaught of terrorism and endemic corruption catapulted the proposed measure for a National ID System. Although varying contentions were raised regarding issues of feasibility and propriety (such as cost-ineffectiveness, invasion of privacy, efficiency in administration, information management, et al.), the simplicity of making transactions with the public and private sectors and the countless benefits derived from it outweigh the disadvantages. Efficient implementation of the ID system will help establish the identity of citizens, control proliferation of illegal immigration, curb tax evasion and welfare fraud, protect citizens from terrorism, improve delivery of public services and mitigate corruption activities.
- 4.21 ***Amend the Local Government Code of 1991.*** Local government units (LGUs) are viable catalysts for growth and are efficient levels of delivering basic services if they are given the proper support. Thus, amendments to the Code are in order, specifically the decentralization of taxing powers to the local government units, to achieve accountability at the local level. To breathe life into the Local Government Code (LGC) each LGU should have the financial capability to program its own development. It is thus imperative to enhance the financial capacity of an LGU through an amendment of the LGC, specifically decentralization of some of the taxing powers to the LGUs, increase of allotment of each LGU - up to 50% - based on the collection of national taxes (not merely on national internal revenues), increase in the share of LGUs in the proceeds of the utilization and development of national wealth from 40% to 60%, broadening of LGU tax base, and independence from the national government in terms of fiscal management. A bill has been filed by Senator Aquilino Pimentel addressing the same concerns suggesting additional functions

such as the possible devolution of tertiary health services to the LGUs such as management of primary hospitals.

- 4.22 ***The allocation formula for the Internal Revenue Allotment (IRA) must also be reviewed to make it more equitable especially for poor LGUs.*** Simultaneous with the strengthening of financial position of LGUs is the guarantee to vest the LGU with the primary authority to allocate, utilize and dispose of funds generated by or allotted to them. This would achieve accountability at the local level. These proposals are imperative given that in recent years several laws have been enacted such as the Solid Waste Management Act that will be implemented at the local level. This trend should be complemented with the proper institutional and financial support to LGUs. Moreover, LGUs should equitably utilize allocated funds for the delivery of public services such as health, education, and poverty-alleviation programs.

### C. Ensuring Enforcement of the Rule of Law

- 4.23 ***Consider the recommendations of the Feliciano Commission.*** The Feliciano Fact-Finding Commission was established to basically address the concerns of the Oakwood Mutiny staged in July 2003. It outlines a number of reforms that Congress may consider in both its legislative and appointive functions so as to prevent episodes of military adventurism. In particular, it recommends that a civilian be appointed to the Department of National Defense (DND) to institutionalize the supremacy of civilian authority over the military. It also proposes the creation of the AFP Service and Insurance System in place of the AFP Retirement System and Benefits Service (RSBS). Given the hazards of the profession, there is also a need to modernize and upgrade the management of health services in the AFP as well as the benefits accorded to beneficiaries of soldiers killed in action. Despite the specific recommendations cited in the Feliciano Commission report, the government has yet to prove its efforts in addressing these concerns. A former AFP officer and graduate of West Point stressed the prevalence of corruption in the military profession as indicated in his article dated November 18, 2006 published in *Newsbreak*. Inability to address this gnawing concern will continually deteriorate the morale of soldiers, and cause discontent in the ranks of the AFP, and probable downfall of the administration.<sup>6</sup>

- 4.24 ***Pursue legislation under the UNCAC.*** The ratification by the Senate of the UNCAC in 2006 requires the government to review its legal and institutional framework in combating corruption to align it with the treaty. Among these measures are:

- 4.24.1 ***Amendments to the Ombudsman Law (RA 6770).*** There is a need to strengthen the Ombudsman's mandate in curbing corruption, hence amendments to RA 6770 should be pursued. It should create an investigation unit that will investigate not only graft cases but also lifestyle

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<sup>6</sup>[http://www.newsbreak.com.ph/index.php?option=com\\_content&task=view&id=1203&Itemid=88889094&limit=1&limitstart=1](http://www.newsbreak.com.ph/index.php?option=com_content&task=view&id=1203&Itemid=88889094&limit=1&limitstart=1)



checks patterned after the Independent Commission Against Corruption (ICAC) in Hong Kong. To further enhance the capability of the agency, it is necessary to increase the number of investigators and prosecutors, and authorize the agency to hire private lawyers to help them prosecute cases.

4.24.2 *Whistleblower's Protection Act.* This measure expands the coverage of the Witness Protection Program by including whistleblowers or those who expose government irregularities. It not only provides that evidence presented be handled with utmost confidentiality but also frees whistleblowers from criminal and civil prosecution in the event of reprisal by the accused.

4.24.3 *Amendments to the Bank Secrecy Law.* Though a contentious issue, the relaxation of the provisions of the Bank Secrecy Law will help ensure transparency and accountability in a country often wracked by corruption scandals.

#### **D. Instituting Political and Electoral Reforms**

4.25 ***Develop genuine political parties.*** Political parties must be made viable institutions of democracy as a vital link of the public to the political system. Issue-based platforms rather than personalities must be their hallmark. In the Philippines, the lack of genuine and issue-based political parties has been a perennial concern. To correct this, strengthening political parties must consist of a ban on political turncoats, political dynasties and regulation of party activities. Government support for parties should also be examined as part of efforts to democratize access to the political process.

4.26 ***Institute campaign finance reforms.*** Money politics is at the root of corruption and patronage. The lack of transparency in campaign donations and expenditures cripples the public trust in electoral contests and institutions. This measure will seek to correct this malady. Government support to parties will reduce the ill effects of money politics.

4.27 ***Review the Party-List System of Representation.*** The present Party-List law was approved without a clear delineation between the meaning of the words "sector" and "party"--hence, the confusion that marred the past elections. To avoid this, the law must be carefully reviewed to clarify certain provisions. Moreover the system of limiting to three (3) representatives per party even though some groups are able to garner more votes than 20 percent of the total number of registered voters is irrational and unheard of in many parts of the developed world. This also disperses party-building efforts across many organizational fronts. As a result, some parties split into smaller parties to maximize their advantage.

- 4.28 ***Pursue COMELEC reorganization and review the Omnibus Election Code.*** In anticipation of the much delayed automated elections, there is a need to reorganize the COMELEC to strengthen its capability to deal with a modernized electoral process. Likewise, electoral laws that are still designed for manual elections (e.g. write-in system) must be reviewed to make them consistent with the modernization of the electoral process.
- 4.29 ***Institute Regulatory Measures.*** There is a need to improve competition in the market in order to promote economic efficiency of the country. Enactment of a competition policy will enhance market strategies as well as increase participation of investors in the trade market. An enactment of Anti-Trust Bill due to the incessant changes in market behavior will discourage monopoly and promote distortion in the manipulation of price commodities in the market. In addition, the potential of E-governance to increase efficiency in government transactions is also advocated by the World Bank. E-governance seeks to promote greater transparency and accountability of the government and eventually help limit the conduct of corrupt activities as well as promote ease in government processing. Better access to information will boost efficient delivery of public services and bring people closer to the government.

## 5.0 INSTITUTING SOCIAL REFORMS FOR THE POOR

- 5.1 Poverty incidence and income inequality in the Philippines remains one of the highest in Asia.<sup>7</sup> In 2006, the total family income of the tenth decile (richest ten percent) is still about 19 times that of the first decile (poorest ten percent) whereas the Gini coefficient,<sup>8</sup> at .456, is still higher than the Gini coefficient registered more than two decades ago.
- 5.2 Furthermore, poverty in the Philippines is predominant in the rural sector. This is primarily due to the sluggish growth of the country's agricultural sector. Almost three out of four or 73 percent of the total number of poor in the country reside in the rural areas. The poverty level in rural areas is much higher at 48.8 percent than the 18.6 percent in urban areas. This means almost 5 out of 10 rural residents are poor compared with almost 2 out of 10 urban residents.
- 5.3 In the latest SWS survey in 2007, both poverty incidence and degree of hunger have increased from their 2006 level. The over-all poverty incidence slightly went up to 53 percent from 52 percent while hunger is at its highest level, with one in five or 18 million Filipinos starving for food. Zamboanga del Norte, where more than two-thirds of resident-families have incomes below the poverty threshold, was identified as the poorest province in 2003 Poverty Mapping by the NSCB.

**Table 11. Poverty Incidence of Ten Poorest Provinces in 2003  
(In percent of provincial population)**

Provinces	1997		2000		2003	
	Poverty Incidence	Rank	Poverty Incidence	Rank	Poverty Incidence	Rank
Zamboanga del Norte	42.4	25	47	17	64.6	1
Maguindanao	41.6	27	59.3	2	60.4	2
Masbate	61.4	2	61.3	1	55.9	3
Surigao del Norte	46.9	12	42.6	23	54.5	4
Agusan del Sur	45.3	15	52.3	9	52.8	5
Surigao del Sur	45.2	17	38.4	35	48.6	6
Misamis Occidental	43.4	21	46.8	18	48.1	7
Mt. Province	56.6	5	48.4	15	46.7	8
Biliran	39.6	31	33.3	44	46.5	9
Lanao del Norte	45.2	16	49.3	12	46.5	10

Source: NAPC; [http://www.napc.gov.ph/poorest 40 municipalities 2000](http://www.napc.gov.ph/poorest_40_municipalities_2000)

- 5.5 The NAPC study indicates that the poverty incidence among farmers and fisherfolks is generally higher among all sectors across all regions than the average poverty level nationwide. Balisacan's estimates (2006) incidentally show that the agriculture sector contributes 61.3 percent to total poverty. Recent studies by the NSCB and

<sup>7</sup> Latest statistics from the NSCB indicate that in 2003, about 24 per cent of Filipino families or 30 per cent of the household population earned incomes below the poverty line.

<sup>8</sup> The Gini coefficient provides a measure of income inequality within a population. A Gini coefficient ranges from 0 to 1, with 0 indicating perfect income equality among families, and 1 indicating absolute income inequality.

NAPC likewise identified the farmers, fisherfolks, women and children, mostly in Mindanao and the Bicol Region, as the worst-off among all basic sectors.

- 5.6 The challenge henceforth lies in how to design well-targeted interventions and cost-effective schemes in order to successfully deliver much-needed economic and social services to the poor. Once the poor becomes skilled and free from health and environmental risks, the government also needs to provide access to physical and financial capital and labor opportunities. To be effective at ensuring availability and quality of services, policies and programs should therefore be tailored to remove financial, legal and socio-cultural barriers to services delivery. These barriers, to mention a few, include direct and transaction costs of availing of social services, registration requirements and gender discrimination.
- 5.7 How much does the national government spend on the much-needed social services in the country? Relative to Malaysia and Thailand, the Philippine government allocates less to social expenditures (see table below). Until 2004, Indonesia spent less than the Philippines, but only because Indonesia subsidized the prices of petroleum products very heavily. Without the oil subsidies, the Indonesian government may now be spending more on social services than the Philippine government.

**Table 12. National Government Social Expenditures (as % of GDP)**

	Indonesia	Philippines	Malaysia	Thailand
2004	N/A	4.0	9.5	N/A
2003	2.3	4.2	11.7	7.8
2002	2.1	4.7	11.8	7.8
2001	1.7	5.3	11.1	7.9
2000	4.2	4.7	8.7	7.6

Source: *www.aric.adb.org*; Medalla, F. (2007)

- 5.8 Recent overall trends in the nominal level of NG expenditures indicate an improved allocation to social services. For instance, the share of education and health budget to total national government budget improved slightly from an annual growth of 0.04 percent and -14.57 percent in 2002-2003 to 10.82 percent and 24.73 percent in 2007-2008, respectively. However, if taken as a percentage of GDP, the NG expenditures in education and health steadily posted negative growth from 2002 to 2006, except health which recorded a leapfrog increase from -3.6 percent in 2004-2005 to 4.7 percent in 2005-2006. For 2008, budget allocation for health as a percentage of GDP will continue to get significant increase to 12.0 percent from 1.9 percent in 2007. But the budgetary share of education as percentage of GDP will decline from 1.5 percent in 2007 to -0.5 percent in 2008.

**Table 13. Growth of Sectoral Allocation of National Government Expenditures  
as % of GDP: 2001-2008**

PARTICULARS	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008
ECONOMIC SERVICES	(5.6)	(3.3)	(12.0)	(7.3)	15.2	(2.6)	6.5
Agriculture, Agrarian Reform and Natural Resources	(10.3)	(3.6)	(22.4)	21.4	(8.3)	(17.0)	3.5
SOCIAL SERVICES	0.9	(7.8)	(7.3)	(7.6)	(0.2)	1.2	3.3
Education, Culture, and Manpower Development	0.9	(8.1)	(8.2)	(11.7)	(0.7)	1.5	(0.5)
Health	3.0	(21.5)	(7.6)	(3.6)	4.7	1.9	12.0
DEFENSE	6.9	(2.8)	(12.4)	(2.5)	(2.3)	(6.9)	2.5
GENERAL PUBLIC SERVICES	(1.3)	(0.6)	(13.6)	10.4	(4.5)	(9.0)	(0.8)
NET LENDING	73.9	(31.0)	(10.3)	(73.0)	(93.1)	6,096.8	18.4
DEBT SERVICE	0.6	8.3	6.5	(1.0)	(6.6)	(8.5)	(16.6)

*Note: 2007 and 2008 figures were computed using mid-range GDP as projected by the DBCC.*

*Source: BESF, various years (DBM)*

### **Prioritizing Reforms for the Poor**

- 5.9 Alleviating the abject condition of the poor requires more investments in education and health and providing access to physical and financial capital as well as job opportunities. It entails reforms directed at addressing the security aspect of the individual's livelihood and employment. Expanding access to social services, i.e. health and education, land, housing and labor opportunities would help make the poor less vulnerable to economic and environment-related shocks. Well targeted interventions are therefore crucial in addressing the needs of the poorest sectors of the society.
- 5.10 Education and health are the top two areas where social reforms can be maximized towards the twin goal of high economic growth and poverty reduction. Education's role in development efforts has significant effect on labor productivity since labor returns are determined by the skill component of the laborer. The role of health, meanwhile, pertains to the physical well-being of the individual. Investments in health further contribute to the improvement of the well-being of the poor because of its symbiotic relationship with economic growth as well.
- 5.11 Access to physical and financial assets and labor opportunities are likewise vital in poverty reduction programs. Unequal distribution of land restricts the ability of the poor to invest in themselves and in productive endeavors. Land is good for the poor as evidenced by the increase in per capita income of agrarian reform beneficiaries from 1990 to 2000 (ADB, 2005). Shelter on the other hand provides the sense of security and dignity allowing a positive attitude towards work and outlook in life.
- 5.12 Many anti-poverty flagship programs were undertaken by the past administrations. Most important of these is the Comprehensive Agrarian Reform Program (CARP) which was implemented in 1987 during the presidency of Corazon Aquino. To date,

the Department of Agrarian Reform (DAR) has been able to distribute about 80 per cent of CARPable lands to about 2.2 million farmers and land tenants. The Social Reform Agenda (SRA) of President Fidel Ramos was another anti-poverty program which put emphasis on providing the poor access to economic opportunities within a liberalized and deregulated market.

The SRA, specifically its microfinance component, encouraged a number of rural banks and cooperatives and credit NGOs to engage in innovative lending techniques in favor of the poorest households nationwide including the small scale farmers and landless farmers, small scale fishers and minorities, urban poor and disadvantaged groups as its targeted clients. The SRA also focused on agricultural development; fisheries and aquatic resources conservation, management and development; protection of ancestral domains; workers' welfare and protection; socialized housing; comprehensive integrated delivery of social services; institution-building and effective participation in governance; credit; and livelihood which are the government's flagship programs in response to the overarching goal of poverty reduction.

- 5.13 The KALAHÍ Program or the Kapit-Bisig Laban sa Kahirapan became the new strategy of the Arroyo Administration towards poverty reduction. Launched in 2001, KALAHÍ adopted five (5) core strategies (i.e. accelerated asset reform, improved access to human development services, provision of employment and livelihood opportunities, security from violence and social protection, and institutionalized and strengthened participation of the poor in governance) to ensure the delivery of social services in the far-flung areas. Projects under the KALAHÍ include water systems for safe and potable water, farm-to-market roads, day care centers, and public markets, among others.
- 5.14 As of June 2004, approximately P 826.8 million worth of anti-poverty programs and services has benefited 1,359 KALAHÍ convergence areas or barangays. Of this amount: 36 percent went to agrarian reform, distribution of ancestral domain titles, and socialized housing; 49 percent went to delivery of nutrition, health and education services; while 15 percent was utilized for livelihood development and the remaining one (1) percent was used for capacity building programs of the local government units. (NAPC, 2007)
- 5.15 Despite these landmark anti-poverty policies and programs of the government, poor economic conditions continue to smother many Filipinos in the rural areas. NAPC, which is responsible for coordinating all KALAHÍ anti-poverty programs, reports that many programs have limited outreach. They observe that there is inconsistency between policies and programs, especially in the micro-credit programs, which discourages players or private service providers to be active stakeholders. Added to

this is the lack of harmony among institutions responsible for implementing the programs, such as the case of CARP which is being implemented by about a hundred agencies and government instrumentalities.

## **A. Education Sector**

5.16 Our Constitution explicitly ensures that quality education is the ‘right of all citizens’ and, hence, accords it the highest priority in budgetary allocation. Unfortunately, this constitutional guarantee does not always translate to improved access and quality of basic education. In fact, access to and quality of education in the country has been worsening. Participation rates,<sup>9</sup> cohort survival rates<sup>10</sup> and completion rates<sup>11</sup> have all been declining while dropout rates<sup>12</sup> have been increasing. According to the 2003 Functional Literacy, Education and Mass Media Survey (FLEMMS), 34 percent or 11.6 million of the population 6-24 years old did not attend school. The top 3 reasons cited for not attending school were employment/looking for work, lack of personal interest, and the high cost of education.

5.17 Elementary participation rates dropped from 90.1 percent in school year (SY) 2001-2002 to 84.41 percent in SY 2005-2006. Secondary participation rates started to increase from 57.55 percent in SY 2001-2002 to 60.15 percent in SY 2002-2003. But gains were eroded as they dropped to 58.20 percent in SY 2005-2006. Looking at completion rates, more and more students fail to finish elementary and secondary schools every school year. In SY 2002-2003, about 67 out of 100 students who entered Grade 1 managed to finish elementary on time. This has dropped to only 57 students in SY 2005-2006. The same case can be seen in the secondary level wherein completion rates have dropped from 69.97 per cent in SY 2001-2002 to 54.14 per cent in SY 2005-2006. Elementary dropout rate has also increased from 6.51 percent in SY 2001-2002 to 10.57 percent in SY 2005-2006. The same trend can be seen at the secondary level – from 8.53 percent in SY 2001-2002 to 15.81 percent in SY 2005-2006.

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<sup>9</sup> Participation rate is the ratio between enrolment in school at age range to the total population of that age range.

<sup>10</sup> Cohort survival rate is the proportion of enrollees at the beginning grade or secondary year who reach the final grade or end of the required number of years of study.

<sup>11</sup> Completion rate is the percentage of first year entrants in the elementary/secondary who complete/finish the level in accordance with the required number of years of study.

<sup>12</sup> Dropout rate is the proportion of pupils/students who leave school during the year as well as those who complete the grade/year level but fail to enroll in the next grade/year level the following school year to the total number of pupils/students enrolled during the previous school year.

**Table 14. Basic Education Indicators (In percent)**

	SY 01-02	SY 02-03	SY 03-04	SY 04-05	SY 05-06
<b>Participation Rate</b>					
Elementary	90.1	90.42	88.74	87.08	84.41
Secondary	57.55	59.19	60.15	59.97	58.2
<b>Cohort Survival Rate</b>					
Elementary	69.05	69.97	60.67	60.89	58.36
Secondary	71.49	66	68.46	69.89	59.1
<b>Completion Rate</b>					
Elementary	-	66.95	59.32	59.07	56.76
Secondary	69.97	59.9	63.14	64.77	54.14
<b>Drop Out Rate</b>					
Elementary	6.51	7.3	9.93	9.82	10.57
Secondary	8.53	13.03	11.96	11.3	15.81

Source: Department of Education (Factsheet as of February 20, 2007)

- 5.18 Comparative education indicators among the ASEAN members also show the dismal performance of the Philippines from 1990 to 2004. While students in the rest of the ASEAN nations registered substantial improvements in cohort survival and literacy rates, the Philippines' record digressed during that period. For example, male cohort survival rates of Brunei, Cambodia and Myanmar in 1990 were 92 percent, 58 percent, and 55 percent and went up to 99, 62, and 68 percent, respectively, in 2004. On the other hand, the Philippines' male cohort survival rate in 1990 was 76 percent but went down to 71 percent in 2004. Female literacy rates of Cambodia, Indonesia, and Lao PDR in 1990 were 71 percent, 95 percent, and 64 percent, respectively. The rates went up to 79, 99 and 83 percent in 2000-2004 while Philippine female literacy rate stayed the same at 97 percent.

**Table 15. Education Indicators in Select Asian Countries (In Percent)**

Country	Pupils Starting Grade 1 who Reach Grade 5					Literacy Rate 15-24 Years Old			
	1990		Latest Year			1990		2000-2004	
	Female	Male	Female	Male	(Year)	Female	Male	Female	Male
Brunei	92	92	100	99	(2004)	98	98	99	99
Cambodia	54	58	65	62	(2004)	71	82	79	88
Indonesia	78	34	87	92	(2004)	95	97	99	99
Lao PDR	54	55	62	64	(2004)	64	79	75	83
Malaysia	97	97	98	99	(2002)	95	96	97	97
Myanmar	55	55	72	68	(2004)	...	...	93	96
Philippines	83	76	80	71	(2004)	97	96	97	94
Singapore	...	...	...	...		99	99	100	99
Thailand	...	...	...	...		98	99	98	98
Vietnam	86	80	86	87	(2002)	93	94	94	94

Source: Asian Development Bank (ADB) - Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))

- 5.19 In terms of learning inputs, national pupil-teacher ratio is about 35 in the elementary level and 39 in the secondary level. However national input ratios do not show a complete picture. When disaggregated into regional basis, other areas experience greater teacher shortage. ARMM, for instance, has a pupil-teacher ratio of 42.29 for



elementary and 48.34 for secondary. To compound the problem, 4,650 teachers in SY 2006-2007 actually perform solely non-teaching tasks but hold teaching positions. Added to this is the situation of 38,287 teachers teaching part time while also performing non-teaching tasks. (Basic Education Information System [BEIS] SY 2006-2007)

- 5.20 Likewise, national pupil-instructional room ratios may appear to be adequate at about 37 pupils to a room for the elementary level. However, large discrepancies abound when it is disaggregated by region. For instance, the Cordillera Administrative Region (CAR) had only 26 pupils in a room while the National Capital Region (NCR) had 79 students. While there were about 56 students to a high school classroom nationally, the NCR had an alarming 82 students in a room.
- 5.21 The story is the same for student-seats ratio. If anything, figures indicate that no elementary and secondary school student in the country can actually claim to have his or her own seat in a classroom as the ratio is still greater than 1. In addition, in SY 2006-2007, there were 12 municipalities without public high schools. It should also be noted that of the 37,347 public elementary schools, 24,379 or more than 65 per cent do not have principals. In the 4,981 public high schools, 1,427 schools or about 29 percent, do not have principals. (DepEd statistics)

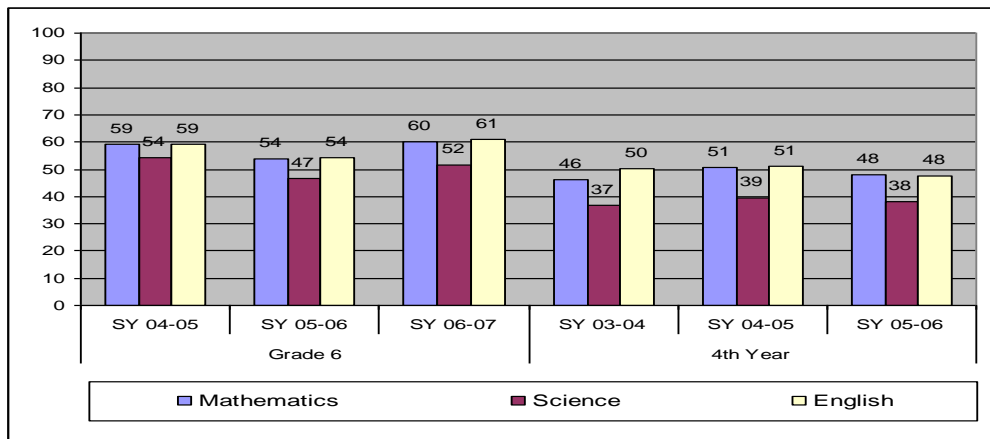
**Table 16. Pupil Input Ratios: SY 2006-2007**

Region	ELEMENTARY			SECONDARY		
	Pupil-Teacher Ratio	Pupil-Instructional Room Ratio	Pupil-Seats Ratio	Pupil-Teacher Ratio	Pupil-Instructional Room Ratio	Pupil-Seats Ratio
Region I	28.83	27.77	0.94	34.46	45.21	1.16
Region II	29.79	28.63	0.96	37.03	42.26	1.19
Region III	36.59	35.53	1.01	42.59	56.08	1.18
Region IV-A	41.64	43.31	1.03	47.02	65.48	1.34
Region IV-B	35.92	36.03	1.29	37.59	50.84	1.53
Region V	34.40	35.83	1.29	36.67	51.38	1.53
Region VI	30.42	30.97	1.00	35.29	47.89	1.22
Region VII	36.25	37.41	0.97	43.78	57.95	1.22
Region VIII	31.08	31.84	0.96	39.54	51.10	1.27
Region IX	32.97	34.77	1.00	37.56	53.15	1.36
Region X	34.41	35.52	1.10	38.39	53.11	1.30
Region XI	35.62	37.71	1.08	37.35	54.89	1.23
Region XII	38.62	40.58	1.15	39.40	56.33	1.29
CARAGA	31.65	33.81	0.89	38.63	52.90	1.17
ARMM	42.29	48.13	1.80	48.34	62.97	1.68
CAR	27.63	26.37	0.83	32.69	42.91	1.11
NCR	40.74	78.85	1.59	36.89	81.94	1.51
Total	35.17	37.43	1.09	39.17	55.68	1.30

Source: Department of Education

5.22 Even more alarming is the quality of education that our students obtain from our educational system as evidenced by the very poor and stagnant achievement rates in the National Assessment Tests. For instance, in SY 2006-2007, Grade 6 students answered correctly 60 percent of the questions in Mathematics, 52 percent in Science, and 61 percent in English. Fourth year students recorded dismal performance in SY 2005-2006 as they only managed to answer correctly 48 percent of the questions in Mathematics, 38 percent in Science and 48 percent in English.

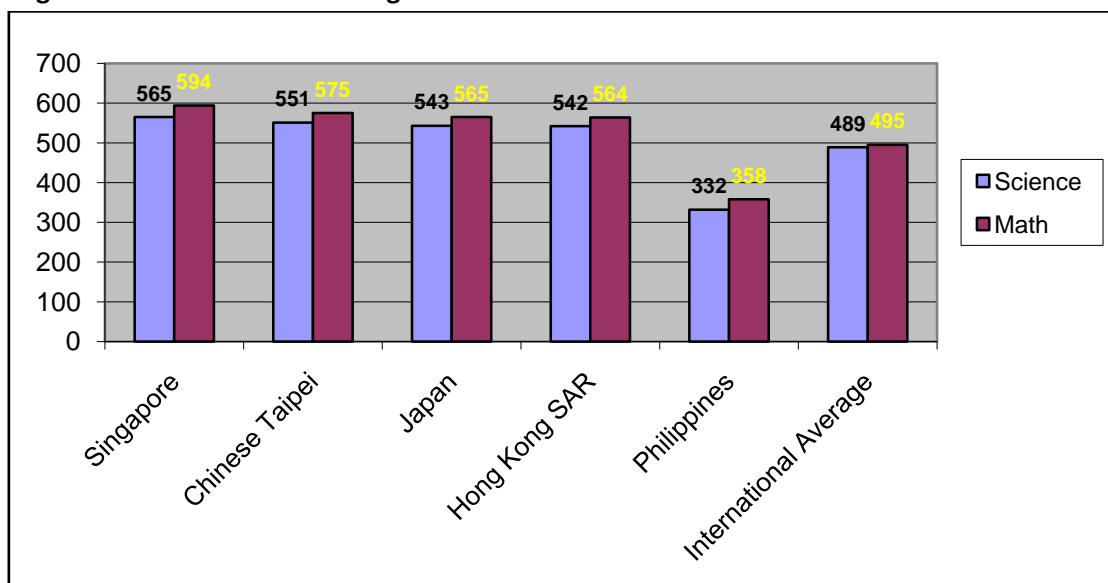
**Figure 10. Mean Percentage Scores of Grade 6 and 4<sup>th</sup> Year Students: SY 2004-2007**



Source: Department of Education (Factsheet as of Feb. 20, 2007)

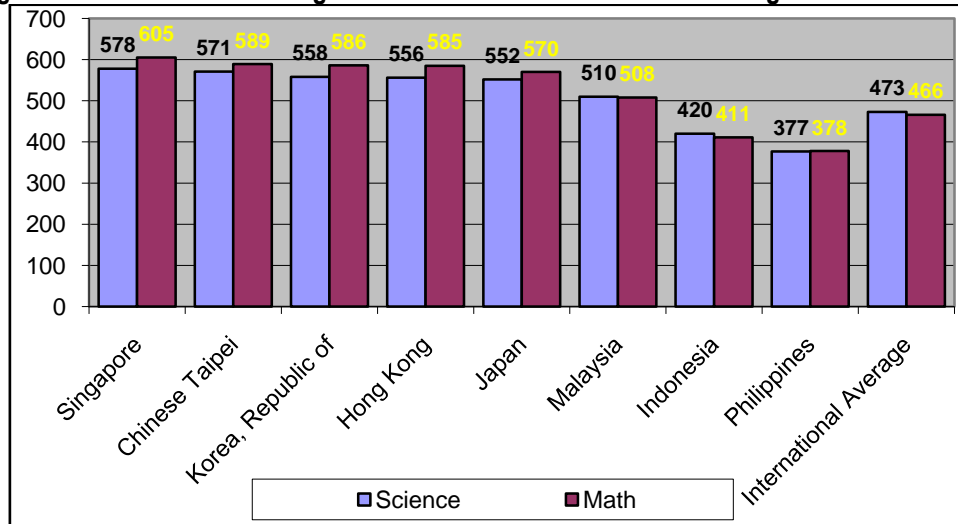
5.23 International tests like the 2003 Trends in International Mathematics and Science Study (TIMSS) also show the depressing performance of Filipino students. In 2003, Filipino fourth-grade pupils scored the lowest among pupils in selected Asian neighbors and scored more than 100 points lower compared to the international average. The same is true for high school students, they scored significantly lower compared to their other Asian counterparts. (Figure 12)

**Figure 11. 2003 TIMMS Average Science and Math Scale Scores of Fourth-Grade Students**



Source: Highlights From the Trends in International Mathematics and Science Study (TIMSS)2003

**Figure 12. 2003 TIMSS Average Science and Math Scale Scores of Eighth-Grade Students**



Source: Highlights From the Trends in International Mathematics and Science Study (TIMSS)2003

5.24 Technology Management. It is widely acknowledged that investments on science and technology (S&T) and research and development (R&D) are important for long-run growth and competitiveness. It becomes more imperative as the Philippines tries to build a knowledge-based economy, move production towards high skilled-labor and away from low skilled-labor intensive industries, and nurture high value-creating small and medium enterprises (SMEs). However, various measures of S&T and R&D in the Philippines remain pale compared to the rest of the region as shown by selected indicators (Table 17).

**Table 17. Selected Indicators on Science and Technology (S&T) and Research and Development (R&D), various years**

Countries	R&D Expenditure as % of GDP, 2002	Researchers per million population, 2003	Technology Achievement Index, 2001	Human Capital Index, 2001	Networked Readiness Index, 2006-07
Philippines	0.1	48	0.265	0.581	69
Singapore	2.2	4,745	0.875	0.621	3
Malaysia	0.7	299	0.446	0.488	26
Thailand	0.2	287	0.361	0.615	37
Indonesia	0.1 <sup>13</sup>	207	0.175	0.347	62
China	1.2	663	0.417	0.298	59
Vietnam	No data	No data	0.231	0.358	82

Notes:

1. The Technology Achievement Index is a composite score incorporating 8 indicators that include among others internet access, high-tech exports, R&D manpower, patents in the United States, and scientific journal articles.
2. The Human Capital Index measures literacy rate, secondary enrolments, and tertiary enrolments in all subjects.
3. The Networked Readiness Index (NRI) ranks 124 countries based on potential to participate and benefit from information and communications technology (ICT) using criteria such as the presence of ICT-conducive environment (e.g. broad business environment, regulation, hard and soft ICT infrastructure), the level of ICT readiness and propensity of the three main stakeholders (e.g. individuals, the business sector and the government), and the actual usage of ICT by the three stakeholders.

Sources: Gill and Kharas (2007); World Development Indicators (2003); UNCTAD (2005); The Global Technology Report 2006-2007

<sup>13</sup> 2001 data

- 5.25 The Department of Science and Technology (DOST) has formulated a seven-point agenda for 2006 to 2010 focus on the following components: focus on five priority R&D programs; enhance technology transfer program; implement high impact programs in the regions; boost innovation capacity; accelerate S&T human resources development; upgrade DOST facilities; and develop and advocate needed appropriate S&T policies. DOST puts in place comprehensive R&D program on the five identified areas: biotechnology, information and communications technology, health products, environment, and energy. However, given the department's meager budget, DOST needs to trim down their priority projects to selected activities and areas and try to avoid spreading its resources too thinly.

#### **Direction for Reforms**

- 5.26 ***Implement the Key Reform Thrusts of the Basic Education Sector Reform Agenda.*** The Basic Education Sector Reform Agenda (BESRA) is a package of policy reforms within 5 key reform thrusts geared towards attaining Education for All objectives by the year 2015. Specific policies include adopting competency-based standards for hiring and deployment of teachers, further developing the basic education curriculum linked to desired learning outcomes, a multi-year budget format for basic education, school-based management wherein every school would come up with their specific school improvement plans with the active involvement of local stakeholders, among others.
- 5.27 ***Institutionalize public preschool basic education.*** This legislation would provide free public preschool education for 5 year olds and would require it as a prerequisite before entering Grade 1. Numerous studies point out that children who undergo preschool learning perform better and stay in school longer than those who enter Grade 1 directly.
- 5.28 ***Amend Republic Act No. 7880 (Roxas Law).*** This amendment will re-align the annual DepEd budget for Capital Outlay in favor of increasing the allocation for legislative districts with classroom shortages. In addition, Capital Outlay shall be increased annually vis-à-vis target classroom student ratio and shall be managed by DepEd instead of DPWH.
- 5.29 ***Promote technology-based entrepreneurship.*** Since financing is a major issue for technology-based entrepreneurship, the development of venture capital industry should be encouraged. Venture capitalists take high risk projects and receive an equity stake in the business in return for investment. Another option is the creation of Small and Medium Enterprises Stock Exchange (SMEX) to raise capital for SMEs that do not yet meet the capitalization requirements for public listing by the Philippine Stock Exchange (PSE). Other support services (e.g. access to technology information and development services, business plan preparation, marketing, quality

testing and metrology-related services, establishment of networks among technopreneurs) should also be made available to entrepreneurs.

- 5.30 ***Increase and sustain funding for state universities and research centers*** involved in R&D particularly those located in S&T parks (e.g. UP Ayala Technopark) for faculty and personnel training, assistance in publishing and patenting, development of courses and programs, scholarships, and acquisition of materials and equipment. S&T parks are also ideal locations for business incubation and promoting business-academe-government collaboration and partnership.
- 5.31 ***Increase scholarships provided to MS and PhD students.*** Given that the government has limited funds to finance scholarship programs, certain courses such as in Engineering and ICT should be prioritized as the country's export earnings are increasingly derived from these sectors.
- 5.32 ***Pass laws on comprehensive technology transfer and increase incentives to inventors.***
- 5.33 ***Support for the Congressional Commission on Science, Engineering, and Technology (COMSET).***

## **B. Health Sector**

- 5.34 As a result of the implementation of health programs in the past decade, health outcomes in the Philippines have significantly improved. However, recent National Health Demographic Survey results indicate that the poor continue to have relatively lower access to basic health services such as immunization, medical treatment, diarrhea and maternal/child care than other income groups in any region in the country. Poor families would usually forego health care, or borrow money at usurious rates, sell the few assets they have, or pull children out of schools to afford health services they need for catastrophic illness. Moreover, challenges remain as improvements in health have not been at par with expectations as compared with other Southeast Asian countries.
- 5.35 In terms of infant and child mortality for example, a child born in the Philippines is at greater risk of dying before the age of five than children born in other South East Asian countries.

**Table 18. Infant and Child Mortality Rate in Selected Asian Countries: 1990 & 2004**

Country	Infant mortality rate (per 1000 live births) 1990	Infant mortality rate (per 1000 live births) 2004	Under 5 mortality rate (per 1000 live births) 1990	Under 5 mortality rate (per 1000 live births) 2004
Vietnam	36	17	51	23
Singapore	7	3	8	3
Thailand	34	18	40	21
Malaysia	16	10	21	12
Philippines	34	26	66	34

Source: National Demographic and Health Survey 2003, WB indicators 2006

- 5.36 Life expectancy remained steady at 64 years for males and 71 for females in 2005. Morbidity rates from infectious diseases such as malaria and tuberculosis (TB) have also improved. Maternal mortality rate (MMR), however, increased from 172 per 100,000 live births during the period 1991-97 to an estimated MMR of 178 in 2005.
- 5.37 A report on the Women's Health and Safe Motherhood Project (WHSMP)<sup>14</sup> identified the leading causes of maternal mortality to be postpartum hemorrhage (20.3%), hypertension complications of pregnancy (25%), obstructed labor, and complications resulting from abortion (9%). Most maternal deaths can be prevented through quality maternal care which includes adequate information on family planning, adequate prenatal care, proper obstetric care, adequate management of obstetric emergencies, and effective referral systems.
- 5.38 The challenges that confront the country's health system are multi-faceted. Inequity in access to and availability of health services is illustrated by the regional disparity in the distribution of government facilities and health workers across the country. Health facilities like specialty hospitals are heavily concentrated in Metro Manila. The National Capital Region (NCR) has the most number of health personnel in contrast to ARMM, Region X1 (Southern Mindanao) and CARAGA who are deprived of doctors.<sup>15</sup>

The World Bank reports that tertiary hospitals are still retained by the DOH while nursery and secondary hospitals are mostly devolved to LGUs. DOH estimates that the funding needs for retained and re-nationalized hospitals, after the devolution, will account for a large part of its yearly budget allocation. This comes at the cost of adequately funding public health.

- 5.39 From 1998 to 2007, health services registered a continuous decline in percentage share of the national budget. The P15.7 billion proposed health allocation for 2008 is only 1.3 percent of the P1.23 trillion proposed 2008 national budget.

<sup>14</sup> Asian Development Bank, July 2007. *Performance Evaluation Report. Philippines: Women's Health and Safe Motherhood Project.*

<sup>15</sup> DoH 2005. *National Objectives for Health, Philippines 2005-2010*

- 5.40 As a percentage of GDP, expenditure on health barely increased yearly averaging 0.33 percent. This shows that the health sector hardly benefited from the marked improvements in the country's total output in recent years. For instance, public sector spending on health increased slightly from 0.33 percent of GDP in 2007 to projected 0.35 percent of GDP in 2008. As such, public sector spending for health is still much lower than the international standard set by the World Health Organization, which is at least 5.0 percent of the GDP.
- 5.41 Observers point out that the perennial low public spending for health compromises not just the attainment of goals for the country's health sector, but also our chances of reducing poverty. Poverty is no longer just an issue of income, but more about human development.
- 5.42 The DOH indicated that a total of P8.9 billion annually is needed to finance the health-related Millennium Development Goals (MDGs). However, yearly contribution from the national government and Official Development Assistance (ODA) for the attainment of the said goals are estimated to be around P0.687 billion and P0.784 billion, respectively, leaving a budgetary gap of about P7.429 billion.

**Table 19. Yearly Cost Estimate For the Health Programs and Projects Related to MDGs**

MDG Programs & Projects	Total Cost (Pesos)	DoH Funding (Pesos)	ODA (Pesos)	Budget Gap (Pesos)
Reduction of child mortality	1,469,938,544	370,544,000	3,500,000	1,095,894,544
Improvement of Maternal Health	4,750,729,673	107,880,277	11,230,000	4,706,817,950
Halt and Reverse the Spread of HIV/AIDS	358,253,587	22,899,667	153,377,930	181,976,000
Combat Malaria	1,727,102,970	19,200,000	137,509,683	1,353,502,080
Combat Tuberculosis	606,877,000	166,877,000	261,200,000	178,800,000
<b>TOTAL</b>	<b>8,988,100,328</b>	<b>687,400,944</b>	<b>783,708,810</b>	<b>7,516,990,574</b>

Source: DoH, 2005

- 5.43 The DoH pointed out that with the devolution of health services to local government units (LGUs), the estimated budgetary gap for the MDG health goals as well as the entire health sector may be lower, that is, if the LGUs are putting high priority on health over the other services.
- 5.44 Based on the 2003 Philippine National Health Accounts, LGU health spending reached P23.8 billion pesos or 17.5 percent of total health spending while national government accounted for P22.7 billion or 16.7 percent. The burden of financing health care is still heaviest on individual families (out of pocket) which accounted for 44 percent, while only nine (9) percent is contributed by Social Health Insurance to the total health expenditure in the same year.

**Table 20. Health Expenditures by Source of Funds: 1999 & 2003**

Source of Funds	1999	2003
Government	34.2	34.2
National	20.7	16.7
Local	18.5	17.5
Social Health Insurance	5.0	9.5
Out of Pocket	43.3	44.0
Other Private Sources	11.2	11.3

Source: National Health Objectives, DoH 2005

- 5.45 While it is true that LGUs now spend more on health than the national government, studies have shown that 70-80 percent of LGU expenditures for health are on personal services, leaving very little for the purchase of vaccines and medicines. Moreover, disaggregated figures show the yawning resource gap between the rich and poor LGUs.
- 5.46 In the devolved set-up, LGUs are expected to be self-reliant, sustainable and financially independent from the national government. However, most LGUs still depend on the national government in financing local expenditures and devolved services through the Internal Revenue Allotment (IRA) and other national transfers.<sup>16</sup> Thus, ensuring the efficient and appropriate delivery of health care remains a challenge since such service is largely dependent on the efforts and absorptive capacity of the LGUs.
- 5.47 The Philippines likewise has one of the lowest health service ratios in the Asian region. There is only one attending doctor, seven health workers (nurses and midwives) and one hospital bed available for every 1,000 Filipinos. With the exodus of the health workforce, the health system is bound for further deterioration and impending “collapse.”

### Direction for Reforms

- 5.48 **Improvement of Health Care Delivery System.** Passage of measures pending in Congress that seek to improve the hospital care delivery system by strengthening and redefining the complementary roles of the DOH and the LGUs is encouraged. Given the devolution of health care delivery services to LGUs, a re-tooling and re-training of the health professionals in their leadership and management skills and knowledge is important.

<sup>16</sup> NSCB statistics show that as of June 2007, of the 1,497 municipalities in the country, most belong to the lower brackets of 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, or even 6<sup>th</sup> class based on revenues. Of the 131 cities on the other hand, only 40% are classified as 1<sup>st</sup> class.



- 5.49 **Improve the health delivery services by strengthening the capability of health maintenance organizations (HMOs).** Government should encourage the participation of the private sector, i.e. HMOs, in delivering efficient and high quality health and medical services to the public. By providing sound business environment and instituting proper regulatory framework, the private sector can be an effective partner of the government in making health services more affordable and widely accessible.

**Suggested Executive Action:**

- 5.50 **Develop and strengthen the technical expertise of public health practitioners** particularly on disease surveillance and epidemiology, health risk assessment, research, policy and standards development, project development, disease prevention and control, and health promotion.

**C. Asset Reform: Expanding Access and Opportunities for the Poor**

**C.1 Access to Land**

- 5.51 Poverty in the Philippines is generally a rural phenomenon. In 2003, the National Statistics and Coordination Board reported that 73 percent of the poor reside in the rural areas (NSCB, 2005). Rural poverty is naturally linked to the state of agriculture and the environment with the rural poor generally consisting mainly of landless farmers, farm workers, fisherfolks and indigenous people. Of the so-called basic sectors, farmers and fisherfolks are generally considered to be among the poorest, with poverty incidence of 42.4 percent and 43.6 percent, respectively. The average income of the poor in the agriculture sector is only about 84.5 percent of the poverty threshold according to the poverty gap measure. Furthermore, inequality also exists among households whose heads are engaged in agriculture.
- 5.52 Several factors contribute to the continuing impoverished situation of the rural poor, one of which is the lack of access to land.

**Table 21. Poverty Incidence and Magnitude of Poor Population, by Sector: 2000 & 2003**

Sector	2000		2003		Increase (Decrease)	
	Poverty Incidence (%)	Magnitude of Poor	Poverty Incidence (%)	Magnitude of Poor	Poverty Incidence (%)	Magnitude of Poor
Women	32.3	12,227,315	29.0	11,602,634	(3.3)	(624,681)
Youth	24.5	5,476,061	23.5	5,293,223	(1.0)	(182,838)
Children	42.5	14,093,102	38.8	13,469,849	(3.7)	(623,253)
Senior Citizens	28.0	1,277,139	18.4	969,906	(9.6)	(307,233)
Urban Poor	17.3	6,784,016	15.9	6,360,978	(1.4)	(423,038)
Migrant and Formal Sector Workers	18.7	2,622,324	18.4	2,886,445	(0.3)	264,121
Farmers	46.6	2,431,995	42.4	2,027,689	(4.2)	(404,306)
Fishermen	50.8	450,020	43.6	440,579	(7.2)	(9,441)
All Population	33.0	25,472,782	30.0	23,836,104	(3.0)	(1,636,678)

Source: NSCB, 2005

**Table 22. Poverty by Sector of Employment: 1985-2000 (In percent)**

	1985	1988	1991	1994	1997	2000	Contribution to total poverty, 2000
<b>Agriculture</b>	57.7	51.2	51.9	49.9	42.3	45.9	61.3
<b>Mining</b>	46.4	34.4	44.7	37.1	30.0	58.4	2.4
<b>Manufacturing</b>	31.4	21.9	20.9	16.5	13.5	16.1	4.2
<b>Utilities</b>	17.5	10.8	12.5	9.5	9.5	6.7	0.1
<b>Construction</b>	39.6	33.8	33.8	34.5	23.1	29.8	7.7
<b>Trade</b>	27.3	18.6	21.3	17.8	13.5	15.4	5.8
<b>Transportation</b>	27.8	24.1	22.5	21.2	13.7	18.2	6.1
<b>Finance</b>	13.2	8.5	6.9	7.1	3.0	9.1	0.7
<b>Services</b>	20.0	15.4	15.2	12.7	9.9	10.5	4.3
<b>Unemployed</b>	21.5	18.3	16.8	17.1	12.1	14.0	7.3

Source: Balisacan, 2003, based on FIES data

- 5.53 Land is the primary resource of the poor in developing countries. It is the primary means by which poor people gain livelihood, generate investments and accumulate wealth. Deininger (2004) points out that because land comprises a large share of the asset portfolio of the poor, providing them with secure property rights to land that they already occupy can greatly increase their wealth. Access to land also enables new asset owners to apply for bank loans and to secure access to financial capital.
- 5.54 The latest incarnation of the government's efforts to introduce asset reform in the Philippine agricultural sector is the *Comprehensive Agrarian Reform Program (CARP)*. Nearly two decades since the start of the Program, challenges have abounded and still abound. Implementation of the land acquisition and distribution (LAD) component of CARP has been slower than expected. Of the 4.4 million hectares meant to be re-distributed by the Department of Agrarian Reform (DAR) under CARP, only 3.7 million hectares or 84 percent had been distributed to around 2.2 million beneficiaries from 1988 to 2006. The bulk of the remaining lands for distribution is concentrated in two regions - - Western Visayas (which only registered a 59.9 percent accomplishment rate at the end of 2006) and Bicol Region (with a mere 55.2 percent accomplishment rate).

**Table 23. Land Acquisition and Distribution, as of June 2006**

REGION	SCOPE (ha)	DISTRIBUTED (ha)	DISTRIBUTED (%)	ARBs (number)
<b>CAR</b>	77,856	85,417	109.7	65,677
<b>I</b>	140,340	125,835	89.7	101,300
<b>II</b>	300,055	320,249	106.7	179,468
<b>III</b>	405,290	383,754	94.7	242,462
<b>IV</b>	375,635	291,198	77.5	194,788
<b>V</b>	453,769	250,409	55.2	149,182
<b>VI</b>	559,688	335,379	59.9	233,883
<b>VII</b>	166,802	125,513	75.2	95,772
<b>VIII</b>	385,505	361,678	93.8	161,392
<b>IX</b>	158,469	187,133	118.1	105,515
<b>X</b>	269,799	261,766	97.0	146,571
<b>XI</b>	202,279	203,850	100.8	141,551
<b>XII</b>	431,035	426,231	98.9	184,991
<b>XIII</b>	200,262	195,827	97.8	94,553
<b>ARMM</b>	301,573	185,470	61.5	61,149
<b>TOTAL</b>	<b>4,428,357</b>	<b>3,739,709</b>	<b>84.4</b>	<b>2,158,254</b>

Source: DAR

- 5.55 Budget for CARP is through the Agrarian Reform Fund (ARF) which, by law, is sourced from the proceeds of the government privatization program and the sequestration of the Marcoses' ill-gotten wealth. From 1987-2006, the ARF accumulated 127.6 billion pesos, of which 56 percent came from mandated sources (i.e. Asset Privatization Trust, the Philippine Commission on Good Government) while the rest came from general appropriations. Disbursements have reached 131.34 billion pesos, of which 46 per cent went to DAR and another 38 percent to Land Bank, mostly for landowner compensation.
- 5.56 The implementation of the CARP, however, has been plagued by various difficulties and problems. The land acquisition and distribution component of the program has been hindered by powerful opposition from traditional landowners and various administrative bottlenecks. Landowner resistance usually takes the form of legal disputes with regard to coverage and land valuation as well as reported cases of harassment of potential beneficiaries. Disputes in land valuation arise from the country's inconsistent land laws and inadequacies in land management. Only recently has the formula for land valuation been revised effecting an increase in land values that are more acceptable to land owners.
- 5.57 The premature conversion and reclassification of *CARPable* lands have also deprived beneficiaries from owning land. The adoption and implementation of a comprehensive national land use policy could go a long way towards correcting this problem.

- 5.58 In addition to the bottlenecks of land acquisition and distribution process, improper documentation of transfer of land parcels to the rightful beneficiaries further weakened the implementation of CARP. Moreover, it should be noted that an efficient land administration system does not only ease the implementation of CARP but also has a strong potential contribution to national development.
- 5.59 Compared to Thailand, Malaysia, Indonesia, Cambodia and Laos, the Philippines is the only country in the region without a single legal framework, i.e. Land Code, which governs land administration. On the same note, the Philippines is also the only country in the region that employs two processes, judicial and administrative, making land registration process more costly and cumbersome on the part of the client.
- 5.60 As a result, registration of property in the country is very costly in terms of fees and time spent in processing. The table below summarizes the processes, duration and cost of registering land in the Philippines. It takes about 33 days and costs about US\$3,730 to register a parcel of land because the owner or buyer has to go through a total of eight (8) procedures.

**Table 24. Registering Property in the Philippines**

Nature of Procedure	Step #	Duration (Days)	Cost(US \$)
Preparation of the deed of sale and ratification by Notary Public	1	1	1950
Obtain a certified true copy of latest tax declaration from the Assessor's Office of Manila	2	1	0.19
Payment of Documentary Stamp Tax and Capital Gains Tax at an authorized Bank	3	1	975
Obtain tax clearance (or Certificate Authorizing Registration) from the Bureau of Internal Revenue	4	14	0
Obtain a certificate of updated payments of Real Estate Taxes from the Treasurer's Office of Manila	5	2	0.93
Payment of Transfer Tax at the Treasurer's Office of Manila	6	1	487.5
Apply with the Assessor's Office of Manila for the issuance of a new tax declaration over the building in the name of buyer	7	3	1.87
Apply for registration with the Register of Deeds of Manila	8	10	313.92
Totals	8	33	3729.41

Source: *Doing Business 2007*

- 5.61 Lastly, former tenants are unable to fully reap the benefits of land ownership because they are still unable to access formal credit sources. Some studies (Nagarajan, et al., 1991, 1992) note that the collateral function of land has been eroded by land transfer restrictions in the law, thereby limiting the beneficiary's access to credit. The authors observe that land pawning (*sangla*) is a common mechanism for beneficiaries to obtain credit while circumventing formal restrictions. The downside is the possibility of land reconsolidation under this practice, as has been observed historically. The government needs to look into innovative strategies to give CARP beneficiaries and small farmers in general, access to credit facilities so

that they are not forced to turn to the informal credit providers, which have been known to charge usurious rates.

### **Direction for Reforms**

- 5.62 ***Review the implementation of the CARP.*** With the implementation of the land reform program going much slower than expected, there is a need to extend, subject to program review and evaluation, the implementation period of the CARP in order to complete the land acquisition and distribution (LAD) component of the program. Complementary to this are some needed reforms in the Program in order to accelerate the LAD process as well as to tackle the issues plaguing CARP implementation. These include: stricter penalties for beneficiaries who default on amortization and real property tax payments, better screening and identification of qualified beneficiaries, fixing the country's land registration system, and liberalizing the conversion of farm lands with high value alternative use (i.e. lands near major urban centers).
- 5.63 ***Enact a Land Administration Reform Law (LARA).*** To be able to develop a broad-based and cohesive land policy, the country's land administration laws and regulations should be consolidated with a clear focus of a long term reform in land administration system, including streamlining and merging of functions and resources of 19-20 agencies. In addition, the passage of LARA Bill will have impacts on both the expenditure and revenue sides of national and local government budgets.
- 5.64 ***Enact a National Land Use Law.*** Pass a comprehensive land use act that will delineate forest lands and agricultural lands with proper consideration of the supply and demand requirements and productivity trends in these areas.
- 5.65 ***Increase tax on idle lands.*** Provide disincentives for keeping land idle by increasing idle land taxes. This will also help minimize land ownership for speculation and minimize conflicts among landowners and the government.
- 5.66 ***Adopt a more acceptable land valuation system.*** Find a strategic formula for proper land valuation that will be acceptable to private individual land owners. The Land Valuation Reform Bill which seeks to formulate standards in land valuation in the country should be given utmost consideration.
- 5.67 ***Amend the Free Patent Law.*** As a complement to the LARA Bill, there is also a need to amend the present Free Patent Law in order to correct the imperfections in the country's land titling and registration system. These amendments should include reducing the minimum period of occupation from 30 years to 10 years, broadening

the coverage of the law to include non-agricultural lands and allowing holders of Free Patents to freely transfer and trade their property in the land market.

## **C.2 Access to Fishing Resources**

- 5.68 The fisheries sector has made significant contributions to the Philippine economy. Gross Value Added (GVA) in fisheries grew by 5.88 percent in 2006 as compared to the 3.85 percent of the entire agriculture sector. Fisheries production continues to grow, reaching 4.4 million metric tons (MTs) in 2006 from 4.2 million MTs in 2005. The fisheries sector is also one of the top export earners for the country, accounting for about a fifth of total agricultural exports. Despite these gains, serious problems continue to plague the sector, such as the significant depletion of aquatic resources and the massive poverty in the fisheries sector.
- 5.69 Fishery-dependent households are among the poorest of the poor in the Philippines. Data from the NSCB show that the fisheries sector has the highest poverty incidence among all the basic sectors. In 2003, poverty incidence among fisheries workers is 50.8 percent compared to total poverty of 33 percent, or to farmers at 46.6 percent.
- 5.70 Household heads/fishers and others in the fishing industry have relatively lower education levels compared with households in general. Also household heads/fishers have lower access rates to basic necessities like safe water (61.8% as against 78.5% for all households), sanitary toilets (51.5% against 82.5% for all households) and electricity (51.2% versus 75.4% for all households) than other households, and are more likely to live in makeshift houses in slum settlements. Furthermore, the average size of households of fishers and of others in the fishing industry is greater than the national average (Israel, 2004). In addition, the mean income and expenditure of fishery-dependent households is about half of the average expenditure for all households nationwide.

**Table 25. Characteristics of Households of Fishers: 2000**

Household Characteristics	% of Households whose Heads are		All Households (%)
	Fishers	In Fishing Industry	
Poverty incidence	61.9	59.9	33.7
Distribution of households by educational attainment of the head			
No grade completed	6.5	4.3	4.1
Elementary undergraduate	76.4	77.9	53.3
Elementary graduate	12.3	12.7	20.3
1st-3rd year high school	3.4	3.6	10.6
High school graduate	0.3	0.3	1.2
College undergraduate	0.2	0.1	0.7
At least college graduate	0.9	1.2	9.8
Access to safe water	61.8	65.8	78.5
Access to sanitary toilet facility	51.5	54.2	82.5
Access to electricity	51.2	55.5	75.4
Proportion living in makeshift houses	2.8	2.7	2.0
Proportion who are squatting	5.9	6.1	3.1
Mean family size (number)	5.6	5.6	5.1
Mean annual income (pesos)	70,244	72,959	144,039
Mean annual expenditure (pesos)	62,445	64,297	118,002

Source: Israel (2004)

- 5.71 Data on increased fisheries production conceal the reality of a deteriorating resource base. Several studies have shown that fish stocks in the major fishing areas of the country have declined significantly due to massive overfishing. Various estimates place the stock depletion to anywhere between 65 percent and 90 percent of baseline levels set in the 1970s. The destruction of important aquatic habitats such as mangroves and reefs has seriously degraded the fisheries resources of the country.

### Direction for Reforms

- 5.72 ***Delineation of municipal fishing waters through the Fisheries Code.*** The provision in the Fisheries Code delineating the scope of municipal waters as against commercial fishing grounds remains vague. While the Fisheries Code defines municipal waters up to 15 km from the municipal shore, there remains much debate as to whether this area is defined as being 15 km from the mainland shore (referred to as the “mainland doctrine”) or 15 km from the shoreline of the farthest islands of the municipality (known as the “archipelagic doctrine”). Amending the Fisheries Code to adopt the archipelagic doctrine would provide more favorable conditions for small fishermen by preventing encroachment of commercial fishing operators into what should be municipal fishing areas.
- 5.73 ***Rationalize rental fees for fishpond leases.*** One of the biggest reasons for the depletion of mangrove areas in the country has been the unchecked proliferation of fishponds. Fishpond lease rates have been set far way below resource rents and have not been revised for years. Increasing the lease rates and allocating the

increased revenues for mangrove rehabilitation projects would greatly enhance the sustainability of fisheries resources.

### C.3 Access to Shelter

- 5.74 A World Bank study (2001) says that 84 percent of Filipinos are not satisfied with their housing conditions, of which about 50 percent consider their present housing as inadequate while 34 percent rate their housing as borderline-inadequate. Moreover, those living in Visayas and Mindanao are less satisfied than those living in Luzon, with the NCR having the least number who rate their housing as inadequate. Dissatisfaction is also higher in rural than in urban areas. However, the urban poor are generally more dissatisfied with their housing than the rural poor.
- 5.75 Since the 1970s, the government has engaged in direct production of housing units, regulation, finance, and provision of infrastructure. Data from National Statistics Office (NSO) however show that government housing assistance programs barely reached the poor because of lack of information on the program, strong emphasis on mortgage finance, centralized delivery system and eligibility requirements that discriminate against the poor.
- 5.76 As such, the Housing and Urban Development Coordinating Council (HUDCC) estimates that the total projected demand for the period 2005 to 2010 would amount to 3.76 million housing units, of which 1.17 million is housing backlog and 2.59 million are new households. A huge amount of housing need come from Metro Manila and its neighboring regions (Regions III & IV) totaling 1.8 million.<sup>17</sup> A total of 438,361 housing units have been constructed from 2004 to August of 2007 with an annual average of 132,053 units built. The current production rate however does not suffice to address the country's housing problem.

#### Direction for Reforms

- 5.77 ***Change government's bias for homeownership.*** Not all people especially the poorest of the poor can afford a home even through socialized housing programs. Access to decent shelter could instead be provided through the rental housing market. Subsidies could be given to local government units who would construct and manage public rental housing.
- 5.78 ***Adopt a comprehensive National Land Use Policy.*** Inconsistent land laws and weak land administration infrastructure has encouraged the development of informal land

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<sup>17</sup> Backlog + New Households: NCR 496,926 Region IV 828,248 Region III 461,367



markets, increased the cost for urban development, and stifled revenue from real estate property.

- 5.79 ***Rationalize the government's housing programs and institutions.*** The different government housing agencies have overlapping functions and programs. Duplication of work will be avoided by upgrading the HUDCC to the Department of Housing and Urban Development merging or even abolishing redundant housing bureaus providing better focus on policy-making and its implementation.
- 5.80 ***Strengthen and improve the community based approach in home ownership.*** The Community Mortgage Program (CMP) proved to be more effective compared to other government-implemented housing finance programs based on its high loan collection efficiency rate.<sup>18</sup> However, its performance is considered unsustainable<sup>19</sup> and highly variable among communities thus the need for strengthening collective action and joint liability such as the creation of internal rules and monitoring systems to ensure accountability among the members of the loan groups.

#### **C.4 Access to Micro-Credit**

- 5.81 Microfinance stands as one of the livelihood and employment generation projects under the KALAHI Program. Through the MFI partners or conduits, the People's Credit and Finance Corporation (PCFC) expects to provide loans with support services to households living below the poverty threshold. By 2010, PCFC targets to reach 3.0 million end-clients, including small and medium enterprises. Based on the NAPC accomplishment report, PCFC micro-credit program has reached 80 provinces and 1,453 municipalities around the country. As of June 2007, about P 74 billion was released as loans.

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<sup>18</sup> In 2003, 78 percent of the loan beneficiaries paid their credit obligations.

<sup>19</sup> The CMP has yet to achieve the minimum 85 percent collection rate requirement for it to remain sustainable.

**Table 26. Philippine Microfinance Program Accomplishments  
as of First Quarter 2007**

<b>Geographical Coverage</b>	
Provinces	80 of 80
Cities	117 of 117
Municipalities	1,453 of 1,500
<b>Service Providers</b>	
Number of MFIs (unique)	1,410
Number of MFIs (including branches)	2,188
<b>Client Outreach</b>	
Active Microfinance Clients	4,006,055
Number of Jobs Generated	1,032,655
<b>Loan Releases (In Billion Pesos)</b>	
Active MF Clients	73.92
Number of Jobs Generated	28.7

*Source: Microfinance Program Committee, NAPC*

- 5.82 Almost two-thirds or 60 percent of the micro credit clients are engaged in retail trade business (e.g., *sari-sari* stores), 16 percent in agricultural activities, and 13 percent in aquaculture business while the rest are engaged in livestock, food production and processing, manufacturing, handicraft and services.

**Table 27. MicroCredit Active Clients, by Type of Livelihood Project  
as of June 2007**

<b>Type of Project</b>	<b>Percentage Share</b>
Trade	60
Agriculture	16
Aquaculture	13
Livestock	3
Services	4
Food Production & Processing	3
Manufacturing	less than 1
Others (House Improvement, Mining, Handicraft, etc)	less than 1

*Source: People's Credit and Finance Corporation*

- 5.83 According to NAPC, private banks rarely, if at all, lend to micro-entrepreneurs because of information problems, inadequate collateral and the high transaction costs associated with processing small loans. The individual borrowers themselves do not approach the banks due to burdensome requirements, high interest rates, lack of collateral and lack of information on possible sources of financing. As a result, the micro-enterprises credit market consists mostly of credit unions, some

rural banks, a handful of credit NGOs, and informal creditors which are charging the poor borrowers usurious rates.

- 5.84 Though there are new entrants in the microfinance market providing vibrant competition, these microfinance institutions, in general, have limited outreach. The sector continues to be faced with the problem of sustaining the MFIs' operations in terms of providing appropriate financial services to a greater number of poor households and microenterprises. Specifically, the MFIs are currently faced with the threats of: (1) revocation of Executive Order 138 terminating subsidized credit programs in non-agricultural sector. (The government instead should stay focused on well targeted subsidies, i.e. out-based assistance); and (2) emerging credit pollution brought about by over borrowing from one MFI to repay maturing loans in another. This situation leads to problems in loan collection.

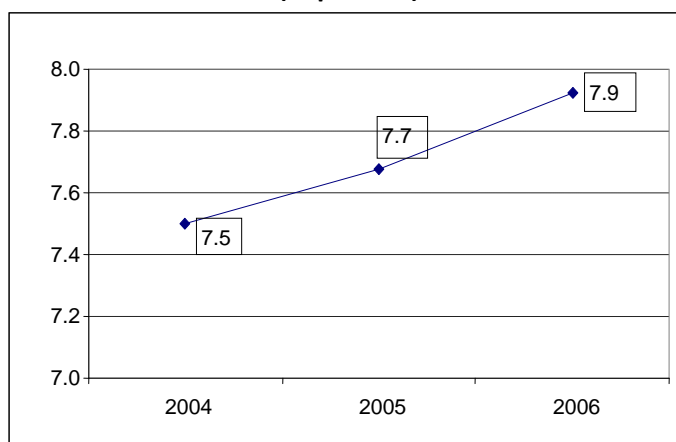
### **Direction for Reforms**

- 5.85 **Regulation and Supervision of MFIs.** For MFIs to efficiently manage their risks, an appropriate tool of regulation and supervision should be in place in order to adequately handle the prudential and safety requirements of microfinance. MFIs operate on the basis of cash flow, trust and intimate knowledge of the clients and provide loans in small amounts without collateral to asset-less borrowers.
- 5.86 **Establish a Credit Information System.** The establishment of credit information systems will reduce information asymmetries in credit markets, thereby improving credit market performance and credit delivery to the poor. Credit information systems (sometimes called credit bureaus) act as brokers of information, increasing the level of transparency in the market. In addition, a credit information system is viewed as a "natural monopoly" that reaps increasing returns to scale. That is, when a number of lenders share information, this creates an incentive for other lenders to share their information as well.
- 5.87 **Use of Performance Standards.** The use of performance standards by MFIs will help them observe financial discipline and governance and establish their credibility in the markets.
- 5.88 **Build the Capacity of MFIs.** The government should develop a systematic and sustained program of providing technical assistance to the MFIs in the areas of: strategic planning, financial management, audit and control system, basic banking skills, risk management internal control, human resources development, among other management related skills to enable MFIs to lend to more clients.

## C.5 Access to Jobs

- 5.89 Employment acts as a major route out of poverty because labor power is the principal, and most often than not, the only asset of the poor. Unfortunately, the Philippines' track record in employment generation has been generally inadequate given its rapidly increasing labor force.
- 5.90 The substantial GDP growth rates in the last three years have failed to make a dent on the Philippines' employment situation. The labor force growth continued to outpace the growth in the number of new jobs while demand for labor has mostly been weak because of the sluggish growth in investments. As a result, the unemployment rate remained high, and even worsened from 7.5 percent in 2004 to 7.9 percent in 2006. From January to July of 2007, the unemployment rate appears to have slightly improved at 7.7 percent. However, this can be attributed not to the increase in the jobs generated by the economy but to the decline in the number of labor market entrants. The quality of the jobs generated is also in question as most of them are often temporary in nature.

**Figure 13. Philippines' Unemployment Rate: 2004-2006  
(In percent)**



Source: National Statistics Office

Note: Unemployment rates used follow the new definition of unemployment

- 5.91 The youth<sup>20</sup> comprise two-thirds of the total unemployed in the Philippines (Canlas and Pardalis, 2007). What's even more disturbing is that the attainment of higher education does not guarantee them a job with decent wage. One out of three today has some college education but still remain unemployed. This phenomenon can be attributed to simple lack of and mismatch of jobs.

<sup>20</sup> The youth is defined as the population aged 15-30 years old.

- 5.92 Studies have pointed out that the mismatch problem may be informational in nature. The lack of a well-functioning labor market information system that will serve as a guide for individual investment decisions in skills acquisition has resulted in the arbitrary choosing of courses by the students or parents, and later on finding difficulty in landing jobs because of lack of information on the current demands in the labor market.
- 5.93 The poor quality of tertiary education also aggravates the matter as most fresh graduates fail to get hired over their deficiency in basic competency. Another kind of mismatch is “over-qualification” where college degrees are required even in less skill-intensive jobs. The abovementioned cases imply the need for improvements in the labor market information system and the forging of closer links between schools, training institutions and industry. Government must be able to ensure favorable terms of employment and that job opportunities are made available to the skilled and productive individuals.
- 5.94 In relation to this, clamor for wage increases has persisted, more often than not, without any clear linkage to increases in productivity. In the thirteenth Congress, two Senate Bills on Labor have been enacted into law, namely RA 9347 which rationalized the composition and functions of the National Labor Relations Commission (NLRC) and RA 9244 which aims to strengthen the regulatory functions of the POEA. Pending the signature of the President is SBN 2466 which provides for the Workers’ Constitutional Right to Self Organization. The more important bills which will make the country’s labor laws more attuned to the current realities of the labor market, particularly those pertaining to greater employment flexibility, are yet to be deliberated on.

### **Direction for Reforms**

- 5.95 ***Amend the Apprenticeship Law and the Dual Training System Law.*** There is a need to transform the Apprenticeship Program from an employment modality to a training modality. There is also a need to remove the limit on the duration of the apprenticeship system (6 months) so that firms can train the apprentice for a longer period. It must be ensured though that the system would not be used solely to bring down labor costs.
- 5.96 ***Amend the Labor Code of the Philippines.*** With the changes in the economic environment due to globalization, labor laws must be more attuned to the current realities of the market. A thorough review of some Labor Code provisions, particularly those pertaining to Administration and Enforcement (*Book III, Chapter VI Article 129*), Powers and Duties of the National Labor Relations Commission (*Book V, Chapter II, specifically Article 217*), Greater Employment Flexibility with Appropriate

Safeguards for Workers (*Articles 106 to 109 of the Labor Code in relation to Articles 279, 280, 281*) and the State Insurance Fund (*Book IV*) must be conducted.

- 5.97 ***Upgrade of workers' skills and competencies.*** Because of the high rate of technological and skills obsolescence these days, it is important to put in place a program that will allow the retraining and upgrading of skills, particularly of the unemployed, to make them more responsive to the rapidly changing needs of the labor market. The government should invest in workers' skill and competencies development and increase labor productivity by the establishment of a human resource development fund. As in the case of Malaysia, the fund can come from levies on companies' payroll with a seed grant from the government.
- 5.98 ***Promotion of a stronger public-private partnership in developing an effective labor market information system.*** This would facilitate the determination of the supply of skills needed by the economy, shorten the period and reduce the cost of job search, and effectively lessen the job-skills mismatch. Direct government interventions in the labor market such as the Public Employment Services Office (PESO) in every local government as well as private initiatives such as the Job Matching Radio Program, which regularly airs job openings in different companies, must be encouraged.

#### **C.6 Opportunities for the Rural Sector**

- 5.99 Various studies relate rural poverty to low agricultural productivity, the erratic and seasonal nature of farm labor, and the low levels of farm incomes. The low level of agricultural productivity can be traced to the (i) inability of most farmers to access or afford appropriate agricultural inputs, (ii) low level of irrigation coverage in the country, (iii) underinvestment in agricultural research, and (iv) weak linkages between research and extension. Agricultural incomes are further eroded by the poor state of post-harvest and transport infrastructure. The fisheries sector, on the other hand, is plagued by resource depletion caused by overfishing, destructive fishing methods and the degradation of aquatic habitats.
- 5.100 Balisacan (2007) stresses the point that increases in agricultural productivity and farm incomes can stimulate the growth of non-farm activities and, hence, employment opportunities. Experiences of other Asian economies point to a number of responses which have been shown to be successful in promoting rural development and agricultural growth. These include investments in rural infrastructure and human capital, promotion of small-scale enterprises and improved access to land and technology. At the same time, there is also a need to provide education, training and credit facilities in order to provide alternative sources of livelihood for the fisheries sector.

5.101 One industry that has the potential for providing employment in the rural areas is tourism. Several studies point out tourism's massive potential in terms of generating local employment and cite this as its most important impact in poverty reduction. A SEPO (2006) study states that cross-country comparisons show tourism to be significantly more labor-intensive than other non-agricultural sectors and that investment in tourism has a high propensity to generate employment. Tourism has also been shown as instrumental in the development of local enterprises in the tourist areas. In this regard, legislation aimed at developing the country's nascent tourism industry and attracting investments in the sector, whether through the provision of incentives, lump-sum grants or transport infrastructure, should be considered.

5.102 ***Increase spending on rural infrastructure.*** The government needs to align its spending pattern towards allocating more funds to improving rural infrastructure, particularly in power and transportation and small-scale irrigation projects as well as agricultural research and development. These infrastructure projects should also be coherent with the current government infrastructure program outlined in the Comprehensive and Integrated Infrastructure Program (CIIP) which follows the plans set forth in the 2004-2010 Medium-Term Philippine Development Plan (MTPDP). Specifically, the agriculture and fisheries sector would benefit most from irrigation projects which greatly increase productivity as well as bridges and farm-to-market roads which facilitate the transport and marketing of agricultural produce. The tourism industry, on the other hand, would best benefit from government investments in the transportation network such as airports, ports and roads. However, the allocation of funds for these projects must be carefully evaluated to adhere to the principle of allocative efficiency and improving service delivery.

## 6.0 MANAGING THE ENVIRONMENT

- 6.1 The pervasive and ever-increasing environmental degradation is one of the leading contributors to poverty. Poor environmental conditions caused by poor sanitation, air and water pollution undermine the ability of the country's poor to pursue economic opportunities. When a person becomes unable to anticipate, cope with, resist and recover from impacts of calamities or natural disasters and health risks due to the degradation of the environment or depletion of the natural resources, he or she reduces his/her opportunities to improve the quality of his/her life and security.
- 6.2 Rapid environmental change can lead to special circumstances in the society, such as migration, urbanization, deterioration of the person's health condition, displacement of indigenous peoples or communities and lack of access to basic environmental services such as water. These changes put added stress on the lives of the people and those who already are deprived in many aspects of their lives.
- 6.3 Indeed development specialists have recognized the strong link between economic activity and environmental change. This interaction became the basis for identifying economic (foregone opportunities/revenues), social (e.g. health, poverty), natural (loss of biodiversity) and institutional (conflicts in management) criteria for national progress. Needless to say, any poverty alleviation effort should work alongside a framework of growth that seeks to maximize social (quality of life) returns and minimize environmental costs.
- 6.4 ***Watersheds and Water Resources.*** The Philippines currently maintains a total of about 1.4 million hectares or about 125 watershed forest reserves (2004). The conditions of these watersheds are affected by the degradation, in varying states, of our Philippine river basins according to Tuddao (2007). At present, there are 74 to 78 million tons of soil being lost annually, even affecting 64 to 77 percent of the country's total land area. Diminishing ground water resources has also led to 20 to 30 percent reduction in irrigated areas since 1973.



**Table 28. Watershed Forest Reserves, by Region: 2004  
(In hectares)**

	Number	Area (Ha.)
<b>Philippines</b>	<b>125</b>	<b>1,499,334</b>
Region CAR	6	113,009
I	10	6,167
II	5	119,261
III	23	280,461
IV-A	14	39,576
IV-B	6	8,748
V	11	37,725
VI	9	131,777
VII	7	104,381
VIII	9	30,599
IX	4	11,456
X	4	114,970
XI	6	111,337
XII	2	169,272
CARAGA	7	38,241
ARMM	2	182,354

Source: Forest Management Bureau

- 6.5 Tuddao attributed the degradation of river basins and river environments to the following factors: (1) natural conditions; (2) rising trend of flood and other water-induced disasters; (3) the corresponding river control and drainage facilities; (4) pollution as a result of urbanization, industrialization and inadequate sewerage and sanitation facilities; and (5) indiscriminate land use and land development. Further, he cited deforestation and removal of natural vegetation as direct causes, while conflicting institutional mandates, inconsistent statutory and policy frameworks, migration to the uplands and development in the lowlands, poverty and economic disadvantage, and limited institutional support services as indirect causes, of the present condition of the river basins.
- 6.6 As a consequence, access to freshwater supply has become a major concern. Even as the demand for freshwater is just about one-third of the available supply, only 35 percent of distributed irrigation water is consumed by intended users. In Metro Manila, less than half of the volume of water that passes through the pipelines is revenue water. (Tuddao, 2007)
- 6.7 **Water Quality and Poor Sanitation.** In the Philippines, exposure to water pollution and poor sanitation conditions including hygiene practices account for one-sixth of the reported disease cases and nearly 6,000 premature deaths per year. The cost of treatment and lost income from these diseases amount to P 6.7 billion per year.

Currently, 25 million Filipinos lack basic sanitation and 13 million lack water sources that can provide safe drinking water and improved hygiene. Nearly all the domestic wastewater in the country is untreated, which can expose people to parasites, pathogens, and bacteria in water supplies. (World Bank, 2006)

- 6.8 The largest health risk in the country is among the 25 million people living in households without sanitary toilets. These can be found mostly in ARMM, Central Visayas and CAR. These regions registered the highest reported incidence of disease cases attributable to water pollution, poor sanitation and hygiene; and incidence rates are three to five times higher than the regions with lowest incidence rates. In Metro Manila, only 15 percent of the population is connected to the sewerage system. As a result, 192,000 tons of domestic waste in Metro Manila enter the drainage system and groundwater each year. (World Bank, 2006)
- 6.9 Because of inadequate sanitation system and the susceptibility of water supply to contamination, 58 percent of sampled groundwater was found to be infected with coliform bacteria. Surveys among LGUs also indicate that more than one half of their public water systems generate water that is unsafe for drinking.
- 6.10 **Air Quality.** One of the leading causes of death in the Philippines is the poor quality of outdoor air. In 2004, air pollution-related disease cases amounted to about five percent of all reported diseases in the country. Air pollution is also projected to be the cause of over four percent of all deaths in the country. Metro Manila has the highest disease burden from poor air quality. In the city of Manila alone, it is estimated that each year, there are nearly 5,000 premature deaths due to air pollution which account for 12 percent of all deaths in Metro Manila.

**Table 29. Proportion of Reported Disease Cases Attributable to Air Pollution: 2004**

Disease	Number of reported cases attributable to air pollution	% of all reported diseases
ALRI/Pneumonia	92,077	2.9
(children < 5 y/o)		
COPD* (adults)	47,190	1.5
Cardiovascular (adults)	15814	0.5
Total	155,081	4.9
Total number of reported cases of notifiable diseases	3, 118, 000	100%

\**Cardio Pulmonary Disease*

Source: World Bank, 2006

6.11 The burden of diseases due to poor air quality costs about P963 million per year in terms of treatment (medical and hospitalization expenses) and foregone income. The table below shows the costs of treatment of pneumonia, cardiopulmonary disease and cardiovascular diseases which are commonly caused by air pollution.

**Table 30. Costs of Treatment of Reported Disease Cases Attributable to Air Pollution: 2005**

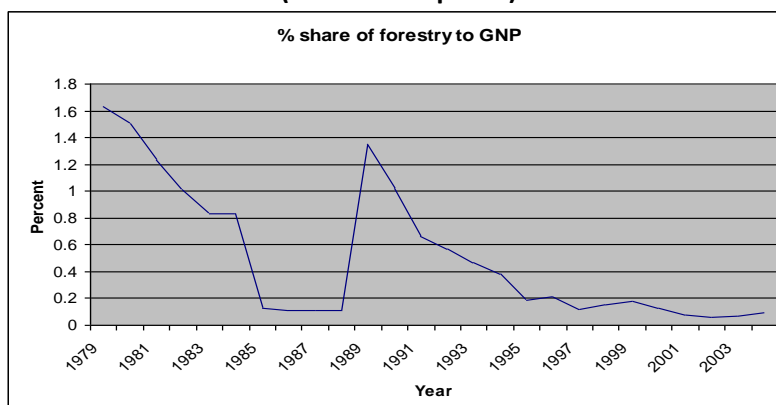
Air Pollution Related Disease	Income Losses due to Reduced Workdays (million P/yr)	Medical and Hospitalization Expenses (million P/yr)	Total Cost (million P/yr)
ALRI/Pneumonia (children < 5 y/o)	24	436	461
COPD (adults)	22	347	368
Cardiovascular (adults)	6.4	127	134
Total	52.4	910	963

Source: World Bank, 2006

6.12 **Forest Resources.** In 2005, the country had lost 3.4 million hectares of forests and has 7.2 million hectares remaining (FAO, 2005). Since 1990, the country, on the average, has lost 227,000 hectares of forests per year. Over-exploitation and inappropriate land use practices have disrupted the hydrological condition of watersheds, resulting in accelerated soil erosion, siltation of rivers and valuable reservoirs, increased incidence and severity of flooding, and decreasing supply of potable water (ADB, 2001).

6.13 As a consequence, the contribution of forestry to GNP has declined considerably through the years. Overall, it lost 96 percent of its share of GNP over a 25-year period (Figure 14). Considering this trend and the degradation that is happening to the forest resources, it is highly unlikely that forestry will ever regain its lost share of the GNP.

**Figure 14. Percent Share of Forestry to GNP: 1979-2005 (At constant prices)**



Source: NSCB

6.14 **Fishery Resources.** The World Bank (2005) estimates that the Philippine economy loses an average of P2.0 billion annually due to the depletion of the fish stocks brought about by unsustainable fishing methods. Said depletion, coupled with increases in the fishing effort seriously threatens the long-term condition of our marine resources particularly the fisheries sector. BFAR further estimates that another P2 billion worth of fish catch, on the average per year, is lost due to siltation and sedimentation. Table below shows the decline in fisheries production over the last eight years.

**Table 31. Fisheries Production: 1997 – 2004**

Year	Prod'n (in Metric Tons)	Annual Change in Prod'n (%)	Prod'n Value (Billion Pesos)	Annual Change in Prod'n Value (%)	Losses* (Billion Pesos)
1997	884,651		25.9		1.4
1998	940,533	6.3	29.7	14.7	1.6
1999	948,754	0.9	32.2	8.4	1.7
2000	946,485	-0.2	33.9	5.3	1.8
2001	976,539	3.2	36.1	6.5	1.9
2002	1,041,360	6.6	38.9	7.8	2.0
2003	1,045,316	0.4	41.4	6.4	2.2
2004	1,070,725	2.4	43.8	5.8	2.3
Ave.	956,387	2.8	32.8	7.8	2.0

Source: BFAR

\*losses due to siltation and sedimentation; municipal (30%); commercial (5%)

6.15 Improving environmental conditions can help reduce poverty since environmental conditions affect health, opportunities, and vulnerability of poor people. Environmental damage increases the expenditures people incur, such as increased healthcare costs resulting from pollution-related illness. (ADB, 2005) Evident threats of environmental degradation and resources depletion should draw our attention to addressing management problems. To work for the efficient use and/or conservation and protection of the country's watersheds, forests and marine resources, the following reforms are recommended:

#### **Direction for Reforms**

6.16 **Adopt and implement an integrated watershed management policy.** Re-file the Forest/Watershed Management Bill that paves the way for a comprehensive and integrated approach of utilizing and managing our forests and mangrove areas. The integrated approach provides for a synchronized set of guidelines on how the competing uses of forestlands/watersheds such as agricultural and infrastructure development can be harmonized in order to achieve economic and environmental

objectives. Likewise, critical watersheds and damaged habitats should be rehabilitated to arrest further degradation of resources.

- 6.17 **Enact a national land use policy.** Adopt and implement a comprehensive land use policy to delineate what, when, where and how the private firms and the public should employ our natural assets. A national land use policy allows for an orderly and optimal use of the country's land resource and harmonization of different land use objectives as well as clear delineation of functions among agencies involved in the implementation.
- 6.18 **Formulate and adopt an incentive system to attract investors.** Create and adopt economic incentives and disincentives, and appropriate pricing mechanisms to direct the behavior of resource users and other stakeholders. Provision for taxes, subsidies, grants, and technical assistance that entice resource users to organize themselves for the purpose of protecting and conserving the forest, marine and coastal resources is needed. Environmental costs such as extraction or rehabilitation costs and externalities such as pollution must also be made an integral part of the production process. This helps reduce risks and attract more investors to participate.
- 6.19 **Review and harmonize all existing laws, policies and functions** of more than 30 government agencies that are either mandated, deputized or authorized to manage, regulate, supervise or oversee water and water-related programs and projects.
- 6.20 **Formulate and adopt capacity-building and awareness initiatives.** Empower the direct and indirect resource users (i.e. fisherfolks, farmers, and indigenous peoples) thru capacity-building and environment awareness initiatives which may be spearheaded by the LGU officials. The Fisheries Code of 1998 for example strengthened further the capacity of the LGUs to oversee the fishing and aquaculture activities within their jurisdiction. More than the LGUs, the resource users such as the fisherfolks must be well informed and well trained to make them equally involved and to participate in the day-to-day management of coastal resources. The active participation of the stakeholders will also help establish transparency and accountability in eco-governance and promote equity in the approaches of local resources management.
- 6.21 **Develop and execute the Integrated River Basin Management and Development Master Plan.** To ensure sustainable use of water resources, water-related development activities should be managed and public awareness on water related problems as well as stakeholder participation in the planning process encouraged.

- 6.22 ***Strengthen local regulation and monitoring*** by expanding the training for environment (water and air) quality and sanitary inspectors who are the key players for on-the-ground implementation of environmental health protection. This includes inspection of water supply and sanitation systems and monitoring of air quality against international standards.
- 6.23 ***Establish proper environment accounting system.*** Establish a baseline information system in water resources including an inventory of forest and watershed resources. Maximum sustainable yield and carrying capacity of our ecosystems must be established and made readily available to stakeholders and other interested parties.
- 6.24 ***Ensure strict implementation of environmental laws.*** Strengthen the oversight function of Congress to ensure the proper and strict implementation of vital environmental laws such as the Solid Waste Management Act, Clean Air Act and the Clean Water Act.

#### **Climate Change and Disaster Preparedness**

- 6.25 The United Nations Environmental Programme (UNEP) estimates that 80 percent of all natural disasters worldwide occur within Asia and the Pacific. In terms of disaster damage, the region accounted for more than 50 percent of the total global amount of damage from 1900 to 2004. In 2004, total economic losses due to disasters amounted to US\$73 billion.
- 6.26 Global warming is expected to worsen the situation in the Asia Pacific. Scientists predict that should greenhouse gas emissions continue unabated, the accumulation of gases will further disrupt weather patterns, entailing more severe weather events, increased ecosystem stresses, shifting precipitation patterns, increased ranges of infectious diseases, coastal flooding and other impacts that are only now being understood. In the Philippines, global warming is largely attributed to the destruction of forests rather than carbon dioxide emissions.
- 6.27 The Intergovernmental Panel on Climate Change (IPCC) further concluded that global average sea level has risen between 0.1 and 0.2 meters while rainfall has increased by 0.2 to 0.3 percent per decade over the tropical land areas. (World Bank, 2005) Most of this relative change in sea level is due to excessive land reclamation, groundwater withdrawal, and possible subsidence at the critical sites. (World Bank, 2005)
- 6.28 Typhoons have had the most severe impact among natural disasters in the Philippines through the years. In 2006, 2.38 million families were affected by the typhoons as opposed to only 7,870 in the MT Solar Oil Spill and 3,850 in the Leyte

landslides. Damage to agriculture and infrastructure for the 2006 typhoons was estimated at P20 billion.

- 6.29 The poor, particularly the farmers and fisherfolks, are the hardest hit during disasters. They suffer the biggest loss, pushing 47 out of 100 farmers and 51 out of 100 fisherfolks into poverty (NSCB).

**Table 32. Summary Table on Natural Disasters in Philippines: 1905 to 2006**

	# of Events	Killed (# of persons)	Injured (# of persons)	Homeless (# of persons)	Affected (# of persons)	Total Affected (# of persons)	Damage US\$ (000s)
<b>Drought</b>	7	8	0	0	6,553,207	6,553,207	64,453
Avg. per event		1	0	0	936,172	936,172	9,208
<b>Earthquake</b>	21	9,580	13,051	3,985	2,205,841	2,222,877	844,885
Avg. per event		456	621	190	105,040	105,851	40,233
<b>Epidemic</b>	13	460	0	0	14,730	14,730	0
Avg. per event		35	0	0	1,133	1,133	0
<b>Flood</b>	71	2,702	570	500,841	10,447,172	10,948,583	445,311
Avg. per event		38	8	7,054	147,143	154,205	6,272
<b>Insect infestation</b>	2	0	0	0	200	200	925
Avg. per event		0	0	0	100	100	463
<b>Slides</b>	25	2,590	343	23,012	284,635	307,990	12,258
Avg. per event		104	14	920	11,385	12,319	490
<b>Volcano</b>	20	2,996	1,188	79,300	1,504,879	1,585,367	230,159
Avg. per event		150	59	3,965	75,244	79,268	11,508
<b>Wave/Surge</b>	5	69	0	5,250	1,012	6,262	60
Avg. per event		14	0	1,050	202	1,252	12
<b>Wild Fires</b>	1	2	0	0	300	300	0
Avg. per event		2	0	0	300	300	0
<b>Wind Storm</b>	230	35,434	28,838	7,089,442	70,004,123	77,122,403	8,925,304
Avg. per event		154	125	30,824	304,366	335,315	38,806

Source: "EM-DAT: The OFDA/CRED International Disaster Database, [www.em-dat.net](http://www.em-dat.net) - Université catholique de Louvain - Brussels - Belgium"

- 6.30 There are several reasons why the poor's response to disaster or an impending one is weak or inadequate. Most of the poor live in the rural areas and locate in perilous areas such as mountain slopes, riverbanks and the coasts. When disaster strikes, they are the last to be attended to because of the nature of their settlement. The lack of security of their livelihoods makes the poor reluctant to leave their property and other assets, hence they tend to stay at all cost.

- 6.31 Early warning systems are useless in some cases because of lack of access to information and technology by the poor. Also in instances when there is time to evacuate, lack of transportation facilities prevent them from doing so. Moreover, the poor usually have insufficient education on the consequences of disasters. This is one reason why early warning systems have sometimes failed.

- 6.32 An institutional framework for disaster preparedness must take into account poverty and the vulnerabilities of the poor. Moreover, it must be a mix of the proper technology, societal networks, NGO participation, environment and the right institutional interventions that suit the way the poor perceives and responds to disasters.

### **Direction for Reforms**

- 6.33 ***Pass a bill that will encourage the continuous development of alternative sources of fuel.*** Carbon dioxide emissions cause global warming. Coal-based energy sources should therefore be replaced by alternative sources of fuel. The bio-ethanol law is a step in the right direction. In Brazil for instance, the replacement of gasoline by ethanol has significantly reduced atmospheric pollution in its cities.
- 6.34 ***Institutionalize geo-hazard mapping.*** A hazard map indicates the location and size of a geographical area that is highly exposed to a particular danger (permanent danger zone), e.g., Geo-hazard Mapping Program of the Mines and Geosciences Bureau (MGB) which started in the 1980s. A reliable hazard map should use a tested methodology, based on sound assumptions, peer-reviewed, tested on actual events, assumed worst- case scenario, and used good database.
- 6.35 ***Develop a disaster risk map.*** A national scale risk map indicating the probability of a disaster occurring in a particular place or area, e.g., Mapping Philippine Vulnerability to Environmental Disasters initiated by Manila Observatory in 2005, to guide decision-makers and chief executives of local governments in identifying which provinces should be studied further in order to help residents prepare.
- 6.36 ***Re-directing foreign/multilateral donor assistance*** to (1) policy and legislation focusing on leveling the playing field and removal of perverse policies; (2) improvement of information system in natural resources; (3) rehabilitation of critical watersheds and damaged habitat; and (4) research and development, e.g., development of emissions trading schemes, models for harnessing political and stakeholders support for natural resources management initiatives.



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