Paving The Road To Inclusive Growth and Development

A Proposed Legislative Agenda for the 15th Congress

Senate Economic Planning Office
December 2010

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FOREWORD

While the 14th Congress has made significant strides in pursing reforms and enacting laws that will further boost economic growth and improve the quality of life of Filipinos, it cannot be denied that much more needs to be done. The country is still beleaguered with its age-old problems, primordial of which are the poor fiscal position, low investment rate and the low public trust and investor confidence due to lack of good governance. In the last two years, these domestic problems were further aggravated by external factors such as the high food and oil prices in 2008 and the onslaught of the global financial crisis whose full impact the country felt in 2009. Climate change is also becoming an increasingly significant threat to the realization of our economic and development goals. Clearly, reform measures that would address the persisting structural problems as well as the new set of challenges need to be carried out.

As part of our mandate to provide technical support to the Members of the Senate in their task to enact relevant and timely legislation, SEPO presents to the Honorable Senators the "*Paving the Road to Inclusive Growth and Development: A Proposed Legislative Agenda for the 15th Congress*". This report is a product of SEPO's desk review of lingering socio-economic and political issues complemented by a series of consultative meetings with various experts from research institutions, academe, business and government sector. The report recommends a menu of legislative proposals that SEPO deemed to be the most important in order for the country to achieve inclusive growth and development in the medium-term. It is our hope that the Senators would consider them in the crafting of their respective legislative agenda.

The efforts put forth by the hardworking SEPO staff and officers whose valuable skills and unquestionable dedication made the endeavor of putting together this report possible is deeply acknowledged.

RONALD R. GOLDING
Director General

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GLOSSARY OF TERMS

ADB	Asian Development Bank
AFMA	Agriculture and Fisheries Modernization Act
AMLA	Anti-Money Laundering Act
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
BOT	Build-Operate-Transfer
CARP	Comprehensive Agrarian Reform Program
CARPER	Comprehensive Agrarian Reform Program Extension with Reforms
CC	Control of Corruption
CER	Consortium on Electoral Reforms
CES	Career Executive Service
CHR	Commission on Human Rights
CIS	Collective Investment Scheme
CISA	Credit Information System Act
CMP	Community Mortgage Program
CMR	Child Mortality Rate
COA	Commission on Audit
COMELEC	Commission on Elections
CPBD	Congressional Planning and Budget Department
CPI	Corruption Perception Index
CTRP	Comprehensive Tax Reform Program
DA	Department of Agriculture
DBM	Department of Budget and Management
DECS	Department of Education, Culture and Sports
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DHUD	Department of Housing and Urban Development
DOE	Department of Energy
DOF	Department of Finance
ECCD	Early Childhood Care and Development
EMB	Environmental Management Bureau
EPIRA	Electrical Power Industry Reform Act
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investments
FLEMMS	Functional Literacy, Education and Mass Media Survey
FOI	Freedom of Information
FPI	Federation of Philippine Industries
FTA	Fair Trade Alliance
GAA	General Appropriations Act
GAD	Gender and Development
GDP	Gross Domestic Product
GE	Government Effectiveness
GGI	Global Gender Gap Index

GOCCs	Government-Owned and –Controlled Corporations
HDI	Human Development Index
HRH	Human Resource for Health
HUDCC	Housing and Urban Development Coordinating Council
ICT	Information and Communications Technology
IMD	International Institute for Management Development
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IRA	Internal Revenue Allotment
JICA	Japan International Cooperation Agency
KKZ	Kaufmann, Kraay and Zoido-Loboton
KP	Katarungang Pambarangay
LARA	Land Administration Reform Act
LDCs	Local Development Councils
LEB	Life Expectancy at Birth
LGC	Local Government Code
LGU	Local Government Unit
LGUs	Local Government Units
MDGs	Millennium Development Goals
MDRP	Maximum Retail Drug Price
MMR	Maternal Mortality Rate
MOA	Memorandum of Agreement
MSY	maximum sustainable yield
MTPDP	Medium Term Philippine Development Plan
NAT	National Achievement Test
NCAJ	National Council on the Administration of Justice
NEDA	National Economic Development Authority
NFA	National Food Authority
NGOs	Nongovernment Organizations
NHIP	National Health Insurance Program
NPC	National Power Corporation
NTRC	National Tax Research Center
NUJP	National Union of Journalists in the Philippines
NWRB	National Water Resources Board
ODA	Official Development Assistance
OFW	Overseas Filipino Worker
PAGASA	Philippine Atmospheric, Geophysical, and Astronomical Services Administration
PERC	Political and Economic Risk Consultancy
Phil HDR	Philippine Human Development Report
PIDS	Philippine Institute for Development Studies
PNHA	Philippine National Health Accounts
PNP	Philippine National Police
PPA	Philippine Ports Authority
PPP	Public Private Partnership
PSS	Philippine Statistical System

PV	Political Stability and Absence of Violence
R&D	research and development
RA	Republic Act
REIT	Real Estate Investment Trust
RL	Rule of Law
RQ	Regulatory Quality
SEC	Security and Exchange Commission
SECEs	Statements of Electoral Contributions and Expenditures
SHFC	Social Housing and Finance Corporation
SPF	Special Purpose Fund
SNITS	Simplified Net Income Taxation Scheme
SUCs	State Universities and Colleges
THE	Total Health Expenditure
TI	Transparency International
UITF	Unit Investment Trust Fund
UNCAC	United Nations Convention Against Corruption
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
VA	Voice and Accountability
VAT	Value Added Tax
WB	World Bank
WEF	World Economic Forum
WGI	World Governance Indicators
WHO	World Health Organization

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Overview

A high, broad-based and sustained growth has always been an elusive goal for the Philippines. Just when the country's macroeconomic fundamentals are gathering momentum and the pace of economic growth begins to increase, it is shaken up by either natural disasters or man-made crises. The country's failure to post high, uninterrupted and inclusive growth is contended by many analysts as the main reason the Philippines is still struggling with unconscionable poverty and inequality.

Average annual gross domestic product (GDP) growth from 2001 to 2007 has been higher than usual at 5.4 percent as against the 3.9 percent average from 1990-2000. This modest gain, however, was undermined by exogenous pressures such as the food and fuel price spikes in 2008 and the United States' financial turmoil which eventually spawned a deep global economic slowdown in 2009. The Philippines, buffeted by strong inflow of remittances from OFWs, managed to escape recession and registered a 1.1-percent GDP growth rate in 2009. This is its slowest GDP growth rate since the Asian financial crisis. With the subsequent recovery of the world economy, as well as the national elections in the early part of the year, the Philippine economy grew by 7.5 percent in the first three quarters of 2010. However, growth is expected to ease to no more than 5 percent in 2011 on account of reduced policy stimuli and slower world trade. Moreover, doubts are being placed on the attainment and sustainability of high growth as the long standing bottlenecks which have made the country vulnerable to recurring crises in the past remain to be addressed[1].

Numerous studies have attempted to explain the Philippines' dismal long-term economic performance. Using the growth diagnostic framework, the ADB (2007) identified the tight fiscal situation, inadequate infrastructure, weak investor confidence due to governance concerns, and the inability to address market failures that lead to a small and narrow industrial base as critical constraints to long-term growth in the Philippines. Briones (2009), on the other hand, argued that weak institutions offer the most convincing explanation for mediocre growth.

The fragile fiscal position is one of the urgent concerns the government has to confront. In 2009, the Philippines' fiscal deficit swelled to a record PhP298.5 billion or 3.9 percent of the GDP. As of September 2010, the deficit has grown to PhP259.8 billion or 4.3 percent of the GDP. A most alarming trend is the continuous slide in the tax effort. From a low of 12.8 percent in 2009, it has dipped further to 12.7 percent from January to September 2010[2]. While the current public debt-to-GDP ratio of 72.9 percent is significantly lower than in the previous years, it is still relatively high by emerging market standards. The government is already allocating the equivalent of 56 percent of its projected revenues to pay for the interest and principal amortization of its debt.

[1] Critics have pointed out that growth in 2010 may simply be a base effect, given the low growth numbers in the previous year and because of the presidential elections in May 2010 which fueled the expansion in consumption spending.

[2] In 2004, when 11 economists from the University of the Philippines warned of an impending fiscal crisis, the tax effort is 12.8 percent.

Consequently, resources for infrastructure and other developmental needs are being sacrificed. If rehabilitation of government finances will not push through, the situation will likely lead to a more vicious circle of high debt and weak economic growth. A higher debt situation will further compromise the ability of the government to run countercyclical fiscal policies. Furthermore, it will increase the country's exposure to swings in the financial market sentiment, which has become more uncertain recently due to the European sovereign debt crisis. Another downside risk of higher debt is that it may further dissuade investments as the cost of borrowing increases and lesser loanable funds become available. This will be catastrophic given the already very low investment level in the country.

In 2009, the Philippines only cornered a mere 5.3 percent of the total foreign direct investment (FDIs) inflows in Southeast Asia, as against Thailand's 16.2 percent, Indonesia's 13.3 percent, and Vietnam's 12.2 percent[3]. The growth of domestic investment is anemic as well. The country posted an investment-to-GDP ratio of 14.0 percent[4] in 2009, one of the lowest in the region and way below the 2004-2010 Medium-Term Philippine Development Plan (MTPDP) target of 28 percent[5]. While the Philippines' ranking has improved a little in the 2010-2011 Global Competitiveness Report of the World Economic Forum (WEF), it is still the least competitive in the Southeast Asian region. Inadequate public sector investments in infrastructure, corruption, inefficient government bureaucracy and procedures, policy instability and tax regulation are considered to be the main inhibitors to doing business in the country (WEF, 2010). Bocchi (2008) pointed out that *élite* capture has beleaguered the traditional sectors of the economy enabling politically-connected corporate conglomerates to enjoy oligopolistic market power and barriers to entry. This has kept the cost of inputs high, and the investors at bay.

Aside from widespread corruption, governance and institutional problems such as poor peace and order situation, and recurring political instability stemming from the weak political and electoral systems, continue to hound the nation. The Philippines is constantly ranked as among the world's most corrupt and it is regarded that the lack of access to government information has undermined the citizenry's capability to monitor such behavior. Meanwhile, the massacre of 57 people in Maguindanao in 2009 and the still unresolved cases of extrajudicial executions represent the bleak human rights picture and the lack of respect in the rule of law in the country. Yet another testament to the inadequacies of the law enforcement system is the hostage taking crisis in Manila which claimed the lives of eight Hongkong tourists. Such incidents have marred the public image of the country internationally and placed it at an even more disadvantage relative to its neighbors as a travel and foreign investment destination.

Not surprisingly, job creation, both in number and quality, suffered from the country's failure to attract investments. The Philippines' unemployment rate of 7.9 percent in 2009 is the second highest in East Asia, next to Indonesia. The underemployment rate, which is a more serious problem and is particularly prevalent in rural agriculture and the informal sector, is even higher at 19.2 percent. The lack of productive employment has penalized the poor the most as labor is the

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[3] United Nations Conference on Trade and Development (UNCTAD)'s FDI database

[4] At current prices

[5] Indonesia's investment-to-GDP ratio in 2009 is 31 percent; Cambodia, 21percent; Korea 26 percent, Thailand, 22 percent; and Vietnam, 38 percent.

only factor of production they own. Overseas work has become an alternative for the growing joblessness in the country but studies have shown that the diaspora has had alarming social and economic costs.

Apart from the lack of decent work, inequitable access to human development services such as education, health, and nutrition as well as inadequate social protection have kept the country from making significant dents in poverty (ADB, 2007). The July 2010 Progress Report on the Millennium Development Goals (MDGs) showed that the Philippines has low probability of achieving its universal primary education and maternal health goals. It will also find difficulty in halting the spread of HIV/AIDS. The number of poor people, instead of declining, even increased from 23.8 million in 2003 to 27.6 million in 2006. In all likelihood, the yet to be released 2009 poverty data, which will show an even higher poverty incidence because of the impact of the food and fuel crisis and the global economic recession.

On top of these, the country has to deal with the global threat that is climate change. The string of calamities, which battered the Philippines in 2009, served as a grim reminder of the country's vulnerability to the vagaries of nature and underscored the need to adapt and mitigate the effects of climate change. This is all the more necessary because while climate change affects all members of society, its impact is felt most strongly by the poor and the marginalized. Estimates from the World Bank (2009) showed that typhoon *Ondoy* alone dragged 150,000 to 250,000 near-poor into poverty, causing a 0.1 percentage point to 0.3 percentage points rise in the national poverty incidence. Left unabated, the impacts of environmental degradation will further erode whatever gains the government has achieved in terms of socioeconomic development and poverty alleviation.

Notwithstanding this multitude of challenges, the critical role of the legislature in the country's overall economic development cannot be overemphasized. The 15th Congress, with fresh mandate from the citizenry, is best opportuned to undertake reforms and pursue an agenda of change that will steer the country towards long lasting economic growth and inclusive development.

The menu of reform proposals that follow isthe Senate Economic Planning Office's (SEPO)'s recommendation for consideration of the 15th Congress. SEPO, through policy research has identified them as necessary to attain a high, sustained growth and inclusive development. The list of reform measures also intends to complement the MTPDP 2010-2016, which is currently being prepared by the Executive.

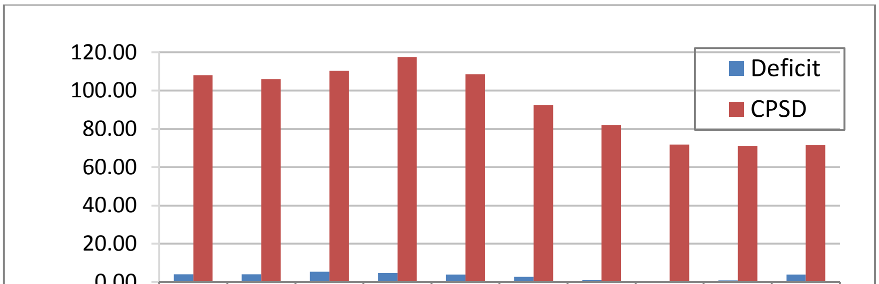
SEPO deemed it to be the Senate's urgent tasks to enact crucial reforms which will: (1) ensure sound and sustainable government finances; (2) improve the investment and trade climate; (3) strengthen institutions and promote good governance; (4) make growth work for the poor; and finally, (5) manage the environment.

ENSURING SOUND AND SUSTAINABLE GOVERNMENT FINANCES

The government's fiscal position plays a pivotal role in fostering economic growth and improving social outcomes. It is a crucial indicator of macroeconomic stability and the main determinant of the country's capacity to spend on basic services and other developmental goals. In the last three years, the fiscal position of the government has markedly deteriorated. Thus, putting the fiscal house in order is inarguably one of the legislature's most important tasks for the next three years.

The recent developments on the external front contributed significantly to the worsening of the government's fiscal balance. To soften the impact of the soaring oil prices and the tight supply of agricultural commodities in the world market in 2008, the government implemented an automatic adjustment system for the reduction of oil tariff duties[6], and incurred a higher import bill from its heavy importation of rice.[7] In 2009, to mitigate the impact of the global economic slump, the government introduced a PhP330-billion temporary stimulus package known as the Economic Resiliency Plan[8], which included an increase in salary through the Salary Standardization Law III. In addition, Congress passed RA No. 9504, which exempted minimum wage earners from paying income tax and granted additional tax exemptions for workers.[9] While these measures helped ease inflationary pressure and stimulate domestic demand, they also resulted in the dramatic rise of the fiscal deficit from PhP68.1 billion in 2008 to PhP298.5 billion in 2009. Earlier targeted to be zero by 2010, the fiscal deficit is now projected at PhP325 billion or 3.9 percent of the GDP. As of September 2010, the deficit is already PhP259.8 billion, or 80 percent of the full-year ceiling.

Figure 1. National Government Deficit and Consolidated Public Sector Debt, 2000-2009 *(as % of GDP)*



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Deficit	4.00	4.05	5.32	4.63	3.84	2.70	1.07	0.19	0.92	3.89
CPSD	108.0	106.0	110.3	117.6	108.6	92.5	82.0	71.8	71.0	71.7

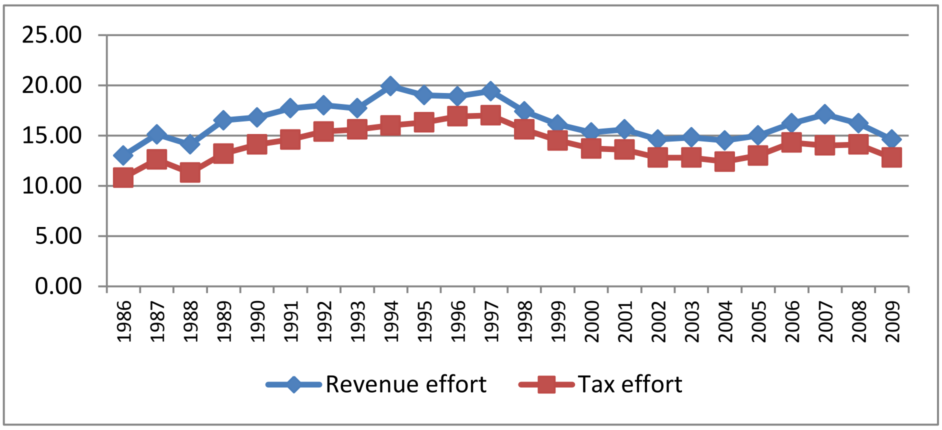
Source: Department of Finance

[6]From an oil tariff duty of 3 percent, shipments of petroleum products were slapped with an import duty of 1 percent starting February 1, 2008 when the second set of trigger prices for oil was breached.
[7] The volume of NFA rice imports increased from 1.8 million MT in 2007 to 2.3 million MT in 2008.
[8]Almost one-third of the PhP330 billion stimulus package was allotted for infrastructure. Infrastructure spending for the period 2007-2010 was increased from the programmed PhP1.7 trillion to PhP2.0 trillion.
[9]During this period, the corporate income tax was also reduced from 35 percent to 30 percent. A few more measures passed during the said period are expected to erode the tax base by as much as PhP41.2 billion in 2010.

It is important to note though that even before the said external shocks occurred, the government's fiscal position was already shaky. Revenue collection, in particular, has been a perennial challenge. Except for the small surpluses registered from 1994 to 1997, government expenditures have consistently exceeded revenues. The literature attributes this to the complicated and unresponsive tax system, and the weak institutional capacity that cultivates corruption and results in large tax leakages.

Poor revenue collection. In the last two decades, there were two major attempts to reform the tax system. The first was the 1986 tax reform program and the second was the 1997 Comprehensive Tax Reform Program (CTRP). Diokno (2005) argued that while the former led to higher revenue and tax effort for the government, the latter resulted in the opposite. One of the reasons is the non-passage of the rationalization of fiscal incentives. The said measure was considered to be a key reform component in the design of the CTRP but was eventually bypassed in the legislative mill. In addition, the indexation process in the CTRP, which is supposed to make up for the potential revenue loss of restructuring the taxes on cigarettes and alcohol products from ad valorem to specific tax, was never implemented. Worse, higher tax exemptions and incentives were granted, which further narrowed the tax base and made the system unresponsive to changes in economic activity. The government also undertook a trade liberalization program in the 1990s. Average nominal tariff rates were gradually reduced from 28 percent in 1991 to 13.4 percent in 1997. This led to a significant drop in import duties collection. Consequently, the overall tax effort progressively declined from 17 percent in 1997 to 12.4 percent in 2004.

Figure 2. Revenue and Tax Effort, 1986-2009 *(in %)*



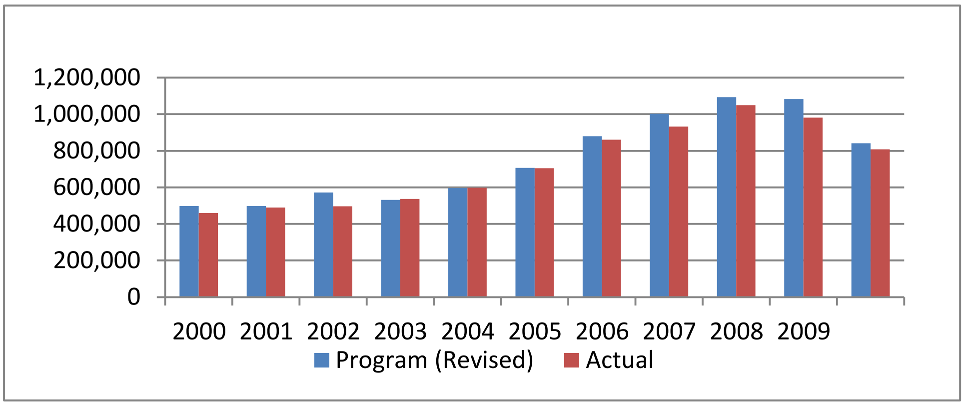
Source: Department of Finance

The continuous slide in the tax effort was only arrested when the 13th Congress, in an effort to avert a then looming fiscal crisis, embarked on a fiscal consolidation program and passed three fiscal measures between 2004 and 2006. These are RA No. 9334, 9335 and 9337. RA No. 9334 provided discrete increases in the excise tax rate on cigarettes and alcoholic products while RA No. 9335, otherwise known as the Lateral Attrition Law created a reward and penalty system covering the officials and employees of the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC). RA No. 9337 or the reformed value added tax (VAT) law expanded the coverage of the VAT and authorized the increase of the VAT rate from 10 percent to 12 percent. With the passage of these laws, the tax effort increased to 14.3 percent in 2006 (Manasan, 2007).

However, the improvement proved to be short-lived. Not even the unprecedented economic growth of 7.2 percent in 2007 prevented the tax effort from falling anew to 14.0 percent during that year. By the end of 2009, tax effort has fallen to 12.8 percent, the same tax-to-GDP ratio prior to the government's fiscal consolidation program.

Poor tax administration is one of the culprits for the tax revenue shortfall. In the last 10 years, the government was only able to meet its tax revenue targets twice. Both the BIR and BOC often fell short of their collection targets. Most of the time, revenues are being propped up by non-tax revenue collection, such as receipts from privatization[10] and the income from the Bureau of the Treasury. As of September 2010, actual tax revenue collection compared to target is short by PhP34.5 billion while total revenue collection is short by PhP40.4 billion.

Figure 3. Total Tax Revenues, Program vs. Actual, 2000-2010 *(in million PhP)*



Source: DOF

Manasan (2008) showed that during the period 2005-2007, the marginal rise in the tax effort of the BIR was largely brought by changes in tax policy rather than by improvements in tax collection, and that in fact, tax collection efficiency even deteriorated during the period.

Estimates from different agencies revealed the extent of tax evasion in the country. Studies from the National Tax Research Center (NTRC) showed that from 2001 to 2005 individual income tax gap or leakage averaged PhP35.7 billion annually while leakage from the VAT was approximately 29.8 percent of potential tax collection or about PhP41.6 billion every year between 1998 and 2002. The Department of Finance (DOF)[11] placed the alcohol and tobacco tax leakages at PhP1.5 billion in 2000, the foregone revenues from corporate income tax at 37.7 percent of potential collections or PhP54.1 billion yearly between 1998 and 2002. Likewise, the Fair Trade Alliance (FTA) and the Federation of Philippine Industries (FPI) estimated the tax leakage from the collection of import duties and taxes due to smuggling at PhP174.2 billion annually.

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[10] Privatization receipts collected in 2007 and 2008 amounted to PhP90.6 billion and PhP31.3 billion, respectively. Selling government assets, however, is clearly not a sustainable strategy to generate revenues for it does not provide a consistent income stream as the number of saleable assets dwindles.
[11] As cited in USAID, 2006

Recent proposals to increase the VAT rate from 12 percent to 15 percent should hence be studied more carefully, given the government's poor performance in collecting on existing taxes. This is not to say though that no new tax measures should be passed as while improving tax administration could greatly improve revenue collection, certain weaknesses in the tax policy also need to be corrected.

Insufficient and inefficient spending. The constant need to finance the fiscal deficit meant continuous borrowings, and concomitantly, higher government debt. In 2009, the NG debt stood at PhP4.4 trillion, up from PhP3.8 trillion in 2007. Including the deficit of the government-owned and -controlled corporations (GOCCs), public financial and social security institutions, the total public sector debt as of September 2009 is recorded at PhP5.5 trillion, equivalent to 72.9 percent of GDP. While this is significantly lower from the debt level prior to the fiscal consolidation period, it is still high by emerging market standards. More importantly, debt servicing has been costly as it is taking away much-needed resources for productive investments such as in infrastructure and human development. In 2010, interest payments account for 22 percent of the national budget or 4 percent of GDP.

Consequently, there has been limited opportunity to increase spending, particularly on social services. Total public expenditure as a percent of GDP has gone down over the last decade. Spending on education and health, which account for 2.8 percent of GDP and 0.3 percent of GNP, respectively, is way below international standards. The United Nations Educational, Scientific, and Cultural Organization (UNESCO) provides a benchmark figure of around 6 percent of GDP for education spending, whereas the World Health Organization (WHO) recommends 5 percent of GNP for health spending. Similarly, expenditure for public infrastructure increased with the introduction of the Super Regions Project in 2007. But its share to GDP from 2007 to 2009 averaged at only 2.9 percent, still less than the benchmark 5 percent of GDP advocated by the World Bank.

Table 1. Sectoral Distribution of Public Expenditures *(as % of GDP, annual averages)*

Particulars	1998-2000	2001-2003	2004-2006	2007-2009	2010
Economic services	11.2	8.4	6.5	5.9	4.7
Social services	6.7	5.4	5.3	5.2	6.4
Education, culture, and manpower	3.7	3.2	2.5	2.6	2.8
Health	0.8	0.4	0.3	0.4	0.6
Net lending	0.1	0.1	0.1	0.1	0.1
Debt services	3.9	5.0	5.4	3.7	4.0
Total public expenditure	27.5	24.1	21.9	19.7	20.0

Sources: Budget of Expenditure and Sources of Financing (BESF), Department of Budget and Management (DBM) and Bureau of the Treasury (BTr)

The limited resource envelope is made even smaller by inefficient public spending. Unproductive investments have been made to promote various political and/or economic interests with little regard for their long-term consequences or the broader public interest. Furthermore, there is growing perception that a considerable share of public funds is misspent and wasted through corruption and fraud. This view is fueled by systemic leakages, particularly in public procurement, which is alluded to by controversies such as that surrounding the anomalous procurement of PhPP728 million worth of fertilizers in 2005. Critical government projects are known to be impeded by delays in procurement, particularly due to lengthy review processes, restraining orders filed by losing bidders, contested procedures, and failure in the bidding of contracts. Although RA No. 9184 or the Government Procurement Reform Act was passed way back in 2003, improvements in the mechanisms for disclosure, complaints handling and supplier evaluation are yet to be put in place to promote transparency and full competition in bidding.

Another important issue that underlies insufficient expenditure on basic services and which has become more obvious in recent years is that fiscal management rules, particularly in the budget process, are not so clear cut as they may seem. Some Executive actions are deemed to impinge upon Congress' power over the purse.[12] Under the Administrative Code, the Executive has 17 budget-related discretionary powers. These include the Executive's power over large lump sum allocations, the power over savings, and the power to impound.[13] The use of such powers is critical because it has a huge bearing on how and to what extent limited resources are utilized to achieve various policy objectives. For instance, Social Watch Philippines, a network of nongovernment organizations (NGOs), has been criticizing the previous administrations for allocating significant proportion of the budget to the Special Purpose Fund (SPF) as well as in its utilization of unprogrammed funds. The said practice is said to have subjected the national budget to the whims and caprices of the President since SPFs are lump sum appropriations that are governed only by special provisions or requirements and released only with approval by the President. Similarly, as unprogrammed funds have no clear and identifiable purpose and are highly discretionary, they are prone to abuse and mismanagement.

Likewise, while the President's power to impound funds or suspend expenditure for a specific budget item can be used to regulate spending to prevent unmanageable deficits, , it can also '*override,*' or some would say *'usurp,'* the mandate of the General Appropriations Act (GAA) as enacted by Congress. The use of such powers opens up too much room for Executive discretion such that funds appropriated by Congress are not used for their intended purpose. The situation derails the development priorities determined by Congress and engenders patronage politics. It was estimated that from 2008 to October 2009, PhP140 billion worth of funds was impounded by the Executive.[14]

Direction for Reforms

Restructure excise taxes on tobacco and alcohol products*.* The multi-tiered structure of the current tobacco and alcohol excise tax system requires a complex set of rules for product classification and has opened up much room for discretion and abuse. It has resulted in the practice of downshifting production and demand from high/medium-priced products to low-priced products. As a consequence, effective burden[15] has decreased over time. It has also adversely affected the state of competition in the market since homogenous products with the same prices are slapped

[12] The 1987 Philippine Constitution provides that the power of the purse rests with Congress. Members of Congress are thought of as representatives of the people and therefore, know better the needs of their respective districts.
[13] The Administrative Code provides the basis for the Executive's discretionary power over lump sum appropriations (Sections 35 and 47 of Book VI); power over savings [Section 1 (6) of Book VI]; and power to impound (Section 38 of the National Budgeting Provisions).
[14] Estimate from Social Watch. 2009 as cited by Rep. Edcel Lagman of Albay.
[15] The ratio of tax rate to retail price

with different tax rates. Moreover, the current system does not provide for the indexation of sin taxes to inflation. Taxes on so-called sin products should, ideally, track price movements to ensure that these taxes be an effective source of revenue and a strong deterrent to the consumption of such products. The DOF estimated that around PhP40 billion is expected to be gained with the restructuring of the excise tax system on sin products.

Rationalize fiscal incentives and tax perks. Studies showed that in the absence of more fundamental factors,[16] tax incentives would not be enough to substantially affect investment decisions and in the same manner, would not be able to make up for a deteriorating investment climate. In the case of the Philippines, fiscal incentives appear to have been more detrimental than beneficial. The country has consistently been outranked by its neighbors in terms of investment despite its generous provision of tax and non-tax incentives. Moreover, numerous laws granting tax incentives have resulted in an unwieldy tax system and the loss of much needed revenues. Reside (2004) estimated that the cost of providing redundant fiscal incentives has totaled PhP43.2 billion (or almost 1% of 2004 GDP). Given the huge leakage in the country's fiscal resources, it would be worthwhile to harmonize tax incentives. Redundant incentives may be replaced by performance-based types of tax incentives. Focus should be given to exports, strategic projects and domestic investments in the poorest provinces.

Review/refine the proposed SNITS. Of the estimated average annual individual income tax gap or leakage of PhP35.7 billion from 2001 to 2005, 27 percent came from compensation income earners while 73 percent came from professionals and self-employed income earners (NTRC, 2006). The Simplified Net Income Taxation Scheme (SNITS) seeks to address the disparity between the tax burden borne by wage earners and self-employed income earners. However, there is also a need to study its impact on other taxpayers. For instance, it may overlook the need of small businesses that maintain small inventories. The DOF estimated that the incremental revenue gain from the measure would amount to PhP5.24 billion.

Pass the Customs and Tariff Modernization Act. The country's Tariff and Customs Code, which was enacted in 1978, needs an updating as it no longer reflects the realities and complexities of the present global trade environment. Modernizing the country's customs procedures will greatly help in curbing smuggling. The DOF has estimated that the persistent smuggling in the country costs the government some PhP89 billion in foregone revenues. Industry estimates are higher at PhP175 billion, which is lost to technical smuggling[17] alone. The passage of such measure will also serve as the Philippines compliance to the Revised Kyoto Convention and other international customs best practices that seek to simplify and harmonize customs procedure.

Reform the procedures for real property valuation. Presently, national government agencies and local government units (LGUs) use different sets of standards in real property appraisal. Taxpayers therefore face not only a complicated system for paying real estate taxes but also one

[16] Based on UN's Tax Incentives and Foreign Direct Investment Surveys (2000), this refers to market size, access to raw materials, infrastructure, and skilled labor.
[17] Technical smuggling involves the misdeclaration, undervaluation, misclassification of goods, and other kinds of importation fraud.

that is susceptible to political influence. According to the NTRC, only 42 percent of the real property tax collectibles are being collected at the national level. This implies that LGUs have not sufficiently maximized their revenue-raising potentials and are still heavily dependent on the internal revenue allotment (IRA). Adopting a single base valuation standard that will eliminate the existence of multiple land valuation and broaden the tax base will improve tax collection.

Enact a fiscal responsibility bill. This measure will instill fiscal discipline and temper the tendency to enact unfunded laws or offer to broaden tax breaks conditioned on the imposition of countervailing mechanisms through revenue generating programs. The bill could also call for the exercise of responsible fiscal management by LGUs through timely and efficient remittance of national government revenues.

Harmonize the tax treatment of financial instruments and institutions. The tax treatment of financial institutions and their products (e.g., bank vs. non bank firms or private vs. government-sponsored institutions) are currently distorted. Tax distortion affects the investment and saving decisions of individuals and provides distinct advantages to particular financial products. As a general principle, taxes, particularly in the financial sector, should be neutral so as not to unduly impact on the resource allocation decisions of the private sector. Removing the tax induced distortion in the financial sector will level the playing field and make money flow to where it is most productive.

Institutionalize budgetary reforms. The current fiscal situation necessitates improving the allocative efficiency of the budget. In this light, it might be high time to conduct a careful study on possible amendments to the Administrative Code, particularly the section on National Budgeting Provisions (Book VI). The following may be considered:

1. ***Enactment of an impoundment control bill*** which will limit the Executive's prerogative to suspend (i.e., impound) the expenditure of appropriated fund.

2. ***Enactment of a law that provides for the automatic return of savings to the General Fund.*** The law that allows the augmentation of budget items from savings does not specify the sources of savings that may be utilized nor is it clear whether unexpended items in a reenacted budget can be considered as savings upon the passage of a new GAA. There is also the possibility of bloating the budget for an item wherein the excess amount is deemed to be saved and used for other purposes by the Executive. This may be detrimental in terms of managing the fiscal position.

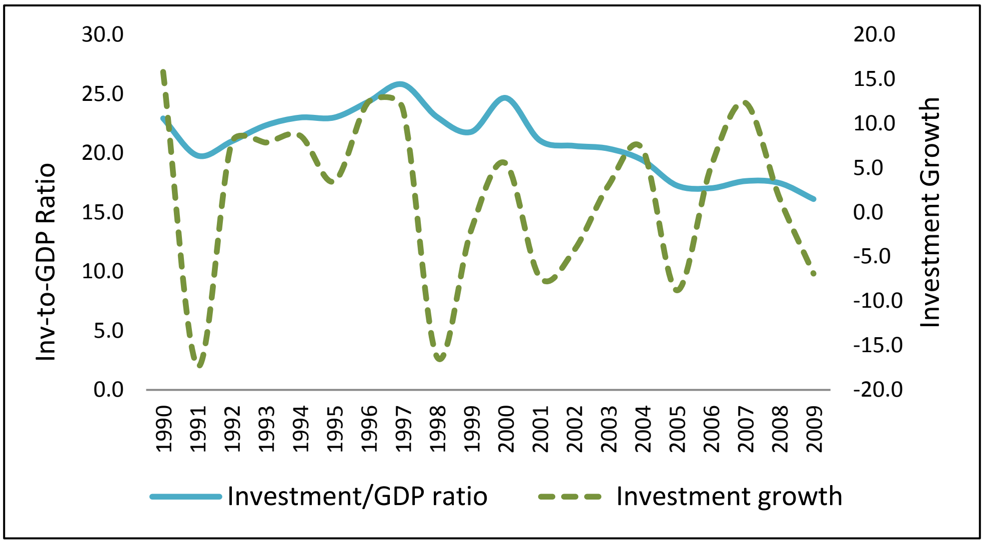
3. ***Review of the criteria for offering government guarantees on debt, or repeal the automatic guarantees made by GOCCs.*** Debt incurred by GOCCs account for around 90 percent of debt that is directly guaranteed by the national government. More than 70 percent of contingent obligations are accounted for by foreign loans. This makes government finances more susceptible to foreign exchange risks.

Enact a law that will serve to strengthen and/or restructure the PSS. Official data issued by the Philippine Statistical System (PSS) impacts on the effectiveness of the policies and programs that are formulated to address socioeconomic concerns. Accurate and updated data, for instance, are crucial in coming up with reliable and realistic forecasts of government revenues and expenditures as well as in monitoring and evaluating government programs and projects. However, there have been issues in the past regarding the reliability, integrity, relevance and timeliness of official data being churned out by various statistical agencies. There is hence a need to reform the statistical system to enhance the relevance and effectiveness of statistics as a policy tool.

Improving the Investment And Trade Climate

The Philippines introduced reforms to liberalize its trade and investment regimes in the 1980s. Since then, policies were geared to build up investor confidence in the country's economic prospects. However, the Philippines has yet to fully reap the potential benefits of liberalization. One of which is increasing levels of investment that would generate employment and engender technology/knowledge transfer.

Figure 4. Investment-to-GDP Ratio and Investment Growth



Source: National Statistical Coordination Board (NSCB)

Investment-to-GDP ratio has been declining in real terms over the last two decades and investment growth has been far from stable. Average investment growth during the last three years (2007-2009) stood at 2.4 percent, much lower than the 5.5 percent in 2000. On the other hand, investment-to-GDP ratio averaged at 17.1 percent, lower than the 20.4 percent posted in 2000.[18]

Table 2. Gross Capital Formation Growth Rates, 2005-2009

Type of Expenditure	2005	2006	2007	2008	2009
Capital Formation	-8.8	5.1	12.4	1.7	-9.9
Fixed capital	-6.6	3.9	10.9	2.9	-3.5
1. Construction	-7.3	7.6	19.4	4.6	3.9
Public	18.7	34.1	25.9	1.4	13.4
Private	-1.0	-3.7	13.0	8.4	-3.8
2. Durable Equipment	-6.7	1.4	4.5	1.6	-10.6

Source: NSCB

Even while the country posted an average GDP growth of 4.4 percent during the last nine years, investment grew by an average of only 0.2 percent. The Philippines' low state of competitiveness provides an answer to this puzzle. The International Institute for Management Development (IMD) *World Competitiveness Yearbook* defines competitiveness as "the ability of a

[18] With the contribution of gross fixed capital to growth also declining from 1.8 percent in 2007 to -0.6 percent in 2009 (CEIC database).

nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people."

Compared to its Asian neighbors, the Philippines consistently ranks low in competitiveness surveys. The Philippines ranked 39th out of 58 countries in the *2010 World Competitiveness Yearbook* published annually by the IMD. Likewise, the Philippines ranked low in the WEF's 2010-2011 Global Competitiveness Index where it placed 85th out of 139 countries. Moreover, the cost of doing business in the country has remained high as reflected in the *2010 Doing Business Survey* where the country place consistently in the bottom third.

Table 3. Ranking of Selected Asian Economies in Competitive Surveys

Country	Global Competitiveness Index (WEF)		World Competitiveness Yearbook (IMD)		Doing Business Survey (IFC)	
	2009	2010	2009	2010	2009	2010
Indonesia	54	44	42	35	129	122
Malaysia	24	26	18	10	21	23
Philippines	87	85	43	39	141	144
Singapore	3	3	3	1	1	1
Thailand	36	38	26	26	12	12
Viet Nam	75	59	…	…	91	93
Number of Countries	133	139	57	58	181	183

Sources: World Economic Forum (WEF), International Institute for Management Development (IMD) and International Finance Corporation (IFC)

The country's low ranking in competitiveness surveys explains why the country secures only a small fraction of FDIs that flow into the region. From 2001 to 2009, net foreign inflow to the Philippines averaged US$1.57 billion or only about 4 percent of the total FDIs poured into Southeast Asia. With more foreign investors seeking new opportunities in emerging markets, competition for FDIs is becoming more vigorous. To reel in more investments, Asian countries are pouring in more money in infrastructure, research and development and skills training, and imposing regulations to maximize the ease of doing business.

Table 4. Average net FDI flows, 1990-2009 *(in current prices, million US$)*

Country	1990-2000	2001-2009
Indonesia	-	5,108.9
Malaysia	4,722.4	4,246.2
Philippines	1,288.9	1,566.6
Singapore	9,204.5	18,052.2
Thailand	3,203.1	6,993.4
Viet Nam	1,322.1	3,252.3
Others	899.6	1,539.4
Total South-Eastern Asia	22,202.6	22,878.8

Source: United Nations Conference on Trade and Development (UNCTAD)
Note: Others include Brunei, Cambodia, Lao and Myanmar

The inability of the Philippines to garner a bigger share of the FDI inflow in the region is attributed to fundamental factors such as: (1) inadequate and poor infrastructure; (2) high input costs (i.e., energy costs); (3) high cost of doing business (i.e., administrative, transaction, and frictional costs); (4) low labor productivity; and (5) weak institutions/poor governance.

Inadequate and poor infrastructure. Infrastructure is key in fostering a healthy investment climate. Infrastructure boosts economic growth through demand and supply channels by decreasing production costs, contributing to the diversification of the economy, providing access to technology, and increasing economic returns to labor. Correspondingly, infrastructure helps alleviate poverty by expanding access to education, health services, water and sanitation, employment, credit, and markets for produce.

The country's deficient infrastructure stock is often cited as a critical constraint to investment and growth. In the latest *Global Competitiveness Index*, the Philippines ranked 113th out of 139 countries in terms of infrastructure competitiveness. China, a relatively new player in the global economy, has better transport and energy facilities than the Philippines. In Southeast Asia, the Philippines tails behind Indonesia, Malaysia and Thailand in the quality of its overall infrastructure.

Table 5. 2010 Infrastructure Competitiveness Ranking in Selected East Asian Economies

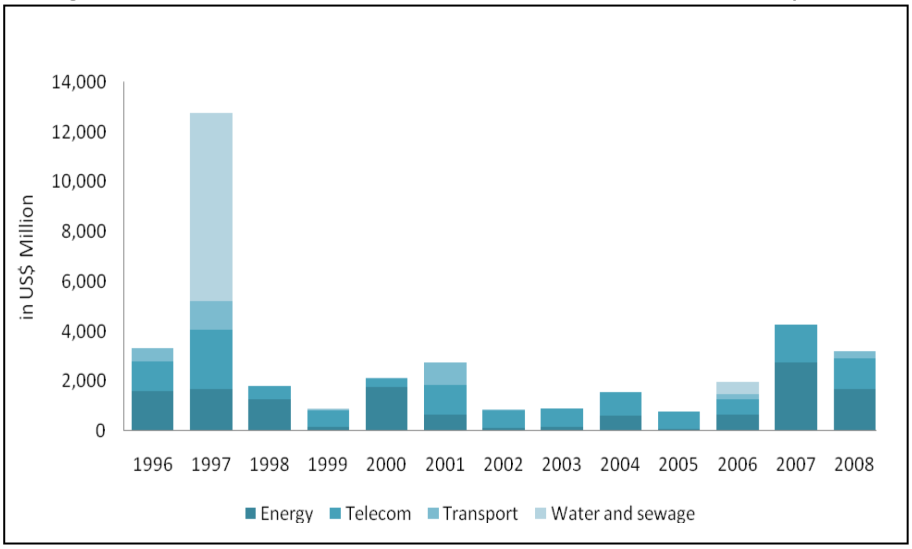
Particulars	China	India	Indonesia	Malaysia	Philippines	Thailand	Singapore
Quality of overall infrastructure	72	91	90	27	113	46	3
Quality of roads	53	90	84	21	114	36	1
Quality of railroad infrastructure	27	23	56	20	97	57	6
Quality of port infrastructure	67	83	96	19	131	43	2
Quality of air transport infrastructure	79	71	69	29	112	28	2
Available seat kilometers (hard data)	2	12	21	22	28	16	17
Quality of electricity supply	52	10	97	40	101	42	9
Telephone lines (hard data)	57	10	82	80	106	93	28
Mobile telephone subscription	111	118	98	47	88	32	17

Source: Global Competitiveness Report 2010-2011, World Economic Forum

Cognizant of this shortcoming, the national government has considerably increased its infrastructure spending during the last three years. Infrastructure spending constituted 15.4 percent of total government spending in 2009 from 14.2 percent in 2007. The poor absorptive capacity of implementing agencies, however, has been hampering the growth of public construction spending. This is further aggravated by the lack of coordination between funding and implementing agencies.

Private sector participation in the provision and financing of infrastructure services was actively sought through RA No. 6957, otherwise known as the Build-Operate-Transfer (BOT) Law. From 2001 to 2008, total infrastructure investment with private sector participation reached US$16.3 billion. Nevertheless, private sector participation in infrastructure investment remains comparatively low. The transport sector, in particular, is bogged down by anemic private sector participation in infrastructure financing and lackluster competition in the shipping and air industries. Flawed regulatory frameworks also confer conflicting roles on port authorities to manage/own and regulate ports. This has restrained the participation of private investors in the development and operation of port facilities.

Figure 5. Total Infrastructure Investment with Private Sector Participation



Source: Public-Private Infrastructure Advisory Facility, World Bank

High input costs. Another oft-cited factor which erodes the country's competitiveness is the prohibitive energy costs and more recently, the intermittent power outtages in some parts of the country. Power rates in the Philippines are still among the highest in the region. One reason for this is the country's continuing dependence on imported fossil fuels for much of its power generation requirements.

Moreover, the latest Department of Energy (DOE) power supply and demand forecast models indicated potential shortages in all three grids (Luzon, Visayas and Mindanao grids) in the short term if no new power plants are built to bolster capacity. Periodic brownouts are already routine occurrences in the Visayas since 2009 due to capacity shortages in that grid. Mindanao also experienced power shortages in 2010 even if the recent droughts did not diminish the reliable capacity of the hydroelectric plants in the region. Even the Luzon grid, which was expected to experience power shortages by 2012 if no new capacity is added to the system, has already been experiencing sporadic outages this year.

A prolonged period of regular power outages is naturally very unattractive to potential investors. It results in losses in productivity, interruptions in the delivery of basic services, loss of economic opportunities and foregone revenues.[19] Because the Electric Power Reform Act (EPIRA) prohibits the National Power Corporation from building any more new plants, the government must rely on the private sector for additional generation capacity. Although there are a number of privately-initiated power projects which are in the pipeline, these are still not enough to address the long-term forecasted power demand of the country.

[19] During the power crisis of the early 1990s, when practically the entire country suffered daily power outages of up to 12 hours, the Asian Development Bank estimates that the Philippine economy sustained losses between US$600 to US$800 million per year.

High cost of doing business. In the *2010 Doing Business Survey,*[20] the World Bank-International Finance Corporation ranked the Philippines 144th out of 183 economies. While Thailand, Indonesia and Malaysia, have nudged higher in the rankings, the Philippines slid further down the ranks in the years since 2007. This is despite the regulatory reforms that were instituted by the Philippine government in the areas of getting credit (e.g., microfinancing), paying taxes (e.g., corporate income tax reduction and other fiscal incentives) and closing a business. Also for the past few years, Vietnam fared better than the Philippines, while only Cambodia and Laos fared worse than the country.

Table 6. Doing Business 2010, ASEAN Countries

Indicator	Country (2010 Ranking)							Philippines		
	Camb	Indi	Laos	Malay	Sing	Thai	Viet	2007	2010	Change in rank
OVERALL RANKING	145	122	167	23	1	12	93	113	144	-31
Starting a business	173	161	89	88	4	55	116	135	162	-27
Dealing with licenses	145	61	115	109	2	13	69	77	111	-34
Employing workers	134	149	107	61	1	52	103	122	115	7
Registering property	116	95	161	86	16	6	40	81	102	-21
Getting credit	87	113	150	1	4	71	30	94	127	-33
Protecting investors	73	41	182	4	2	12	172	141	132	9
Paying taxes	58	127	113	24	5	88	147	129	135	-6
Trading across borders	127	45	113	35	1	12	74	52	68	-16
Enforcing contracts	141	146	111	59	13	24	32	113	116	-3
Closing a business	183	142	183	57	2	48	127	147	153	-6

Source: World Bank

Out of the the 10 major categories in the survey, the Philippines improved in only two areas. These are in employing workers and protecting investors. The country fared the worst in starting a business inspite of the introduction of One-Stop Shop program. On the average, it takes 203 days to secure the neccessary licenses (longer than the 177-day period in 2007) and around 82 percent of per capita income (higher than the 76 percent in 2007).

In the area of closing a business, it takes almost six years to close a business in the Philippines, twice that of Malaysia and Thailand. Moreover, recovery rate in closing shop in the Philippines is very low – only 4.4 cents for every dollar invested. This is a far cry from Indonesia's 13.0 cents, Vietnam's 18.0 cents, Thailand's 42.4 cents and Malaysia's 38.6 cents. Overall, it seems that nothing effective has been done during the last three years to lessen the transaction costs of investors in the country.

Also, the most recent economic crisis provided an impetus for enacting Financial Recovery and Insolvency Act (RA No. 10142). This law provided financially distressed firms with some flexibility and capability to rehabilitate themselves and maximize their chances of survival.[21] The legal

[20] Doing Business is an annual report which compares business regulations across countries.
[21] Insolvency and debt recovery procedures constitute one aspect of the financial architecture in an economy. These procedures include formal laws and informal rules on the enforcement of debt contracts, bankruptcy, liquidation, and the rehabilitation of distressed firms.

remedies in the past are described as difficult, protracted and thus, costly. Recovering loans, for example, even when they are fully secured, is uncertain. The passage of RA No. 10142 addressed this situation by providing ailing firms four different remedies for rehabilitation and insolvency.

Low labor productivity. Because the Philippines cannot compete with low labor cost countries such as China and Vietnam, it needs to ensure high labor productivity, timeliness of supply and product innovation to maintain international competitiveness. While the country's labor productivity has increased in the last decade, it has been overtaken by those of neighboring countries (i.e., Indonesia and Thailand). As a result, the country has one of the lowest output-per-labor unit in the region.

Table 7. Average GDP per person engaged at constant 1990 prices *(US$ at PPP)*

Country	1980-1989	1990-1999	2000-2008
Cambodia	2,255.5	2,579.5	3,298.5
China	2,096.7	3,527.0	7,237.7
Hong Kong, China	28,554.9	42,068.5	51,556.6
Indonesia	5,178.2	7,344.5	9,191.1
Japan	31,651.5	38,520.8	43,289.0
Malaysia	11,427.5	16,858.3	22,517.9
Philippines	6,485.0	6,302.5	7,364.1
Singapore	23,818.3	33,768.9	44,709.1
Thailand	6,059.6	11,317.7	13,974.3
Viet Nam	2,021.5	3,019.4	4,655.0

Source: Key Indicators of the Labour Market, International Labour Organization

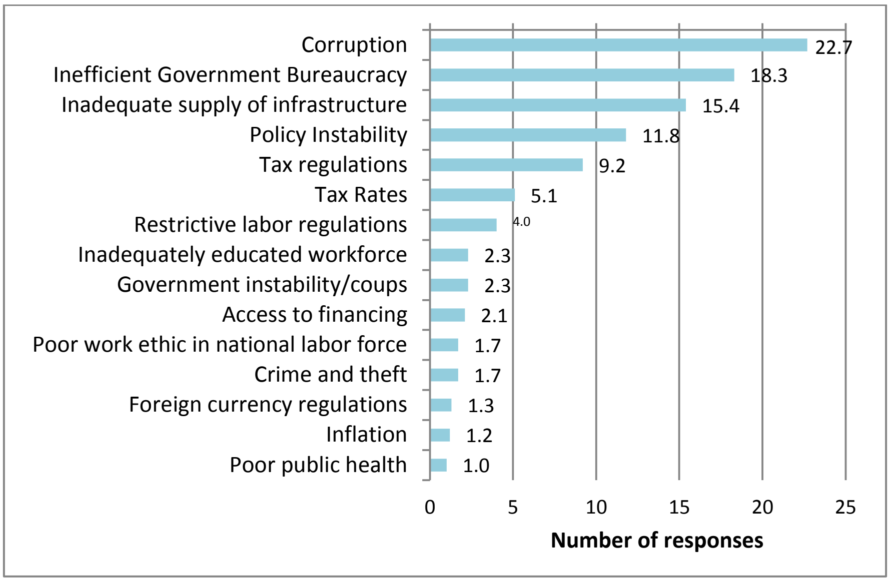
Improving productivity implies the need for a much improved infrastructure and logistics services, which seems daunting since the Philippines has one of the worst infrastructure stock in the region. Robust labor productivity growth also calls for greater focus on technological upgrading of firms, increased reliance on training and human capital, and in a broader sense, better provision of basic education services.

Weak institutional framework and poor governance. Institutional framework, whether formal (e.g., laws and regulatory authorities) or informal (e.g., cultural norms and codes of conduct), is a key determinant of investor confidence in committing funds and taking on risks. Corruption, inefficient bureaucracy and inconsistent policy environment erode investor confidence as well as government credibility. They also give rise to so-called frictional costs, which contribute to the rising cost of doing business in the country.

The *2010-2011 Global Competitiveness Report* cited corruption as the most problematic factor for doing business in the Philippines. Likewise, in the *2009 Enterprise Survey* conducted by the World Bank, 53.3 percent of the firms surveyed expected to give gifts to secure a government contract while 18.6 percent expected to pay informal payment to public officials (to get things done).[22]

[22] Some 1,326 firms that were covered by the survey.

Figure 6. The most problematic factors for doing business in the Philippines



Source: Global Competitiveness Report 2010-2011, WEF
Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

On a brighter note, the 14th Congress passed measures that provided strong regulatory frameworks in the financial sector. In 2008, Congress passed RA No. 9510, the Credit Information System Act (CISA). The CISA established a central and comprehensive credit information system that will allow financial institutions to manage their risk at lower administrative costs, promote transparency, and enhance the credit evaluation process. Following the Legacy Group debacle in 2008, the Pre-Need Code (RA No. 9829) was also enacted to serve as the statutory basis for the supervision and regulation of the pre-need industry. It vested the Insurance Commission the authority to oversee the industry and promote the welfare of investors and plan holders alike. In addition, the Real Estate Investment Trust (REIT) Act (RA No. 9856) lapsed into law in late 2009. The REIT law provides the statutory framework to regulate real estate investments in the country as it allows investors to directly participate in the ownership and financing of real estate projects at affordable rates of return. Lastly, the Real Estate Service Authority (RESA) Law (RA No. 9646) was passed to regulate the practice of the real estate profession. It is hoped that the professionalization of real estate practice would stimulate the real estate market, enhance LGU's real estate tax collection and thus, their fiscal autonomy. The preceding measures are expected to have a tremendous positive effect on the financial sector's ability to adapt to the unpredictable state of financial markets. Progress in other areas though was patchy.

According to the IMF's Financial System Stability Assessment Update Report (April 2010), capital market and insurance supervision remain largely compliance-oriented, and that the legal framework and supervisory agencies in these sectors need further strengthening. Moreover, government policies in the financial sector also tend to be overlapping and distortionary, and while legal protection of supervisors has improved, it remains weak.

Direction for Reforms

Pass a competition law. Some market situations entail deviations from the general rule of "perfect competition."[23] These situations provide for the rationale for state intervention in the form of a competition policy that will ensure effective competition in markets. Such policy is viewed as a means to curb what many perceive as overly inflated prices of electricity, fuel and rice as a result of alleged collusion between market players. Thus, the passage of such measure must be considered in the name of consumer welfare protection. The law should however also provide enough safeguards because: (1) if there are market failures, there are also government failures; (2) the government does not necessarily have the competence, resources, or well-meaning agents to solve market failures; and (3) in a weak state, initial good intentions of the government can easily give way to rent-seeking activities of vested interests.

Review and/or amend the BOT Law. Public Private Partnership (PPP)[24] is the Aquino administration's centerpiece program for its national infrastructure development plan. There is hence a need to strengthen the legal framework for PPP. Llanto (2007) emphasized the need to transform RA No. 7718 or the Build-Operate-Transfer (BOT) Law, into a principal legal framework for PPP in the Philippines. The law must express the importance of competitive bidding and clarify the treatment for the use of direct negotiation and unsolicited proposals. The law must also assert the sanctity of contracts and should provide for greater transparency with regard to the content of contracts.

Amend the PPA Charter. Lack of competition in ports operations and services stifles the participation of private sector players in the sector and contributes to the high cost of shipping in the country. The Philippine Ports Authority (PPA) effectively dominates the sector, acting as both the regulatory agency and an owner and developer of ports. To address this, the PPA Charter should be amended to separate its regulatory functions from its port development and ownership functions.

Create a Philippine trade representative office. The Philippines is expected to benefit from trade agreements in terms of creating a larger market with greater opportunities, promoting economies of scale, enhancing attractiveness of capital, deepening economic linkages, lowering business costs and increasing intraregional trade and investment. However, the lack of coordination among lead government agencies in charge of trade policy formulation and negotiations contribute to a vague, incoherent and divided negotiating stance in multilateral and bilateral trade agreements in which the country participates in. To promote and protect the national interest in free trade agreements, a clearly identified government agency should be mandated to consolidate negotiating positions and to ensure an effective feedback mechanism to all stakeholders in the trade policy formulation.

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[23] The most common economic argument for regulation is to address market failures (brought about by anti-competitive firm behavior, information asymmetries, etc.); economies of scale (and scope) in production; and/or inequities in demand.

[24] PPPs are contractual arrangements between government and private sector to deliver public infrastructure and/or public services.

***Study the proposal to create DICT**.* The developmental potential of information and communications technology (ICT) cannot be denied. However, at present, government agencies providing information and communications services to the public are dispersed and lacking in coordination and capacity. These agencies should be rationalized and subsumed under an umbrella department, the Department of Information and Communication Technology (DICT) which will become the primary policymaking, planning, coordinating, and implementing, regulating and administrative entity of the government when it comes to ICT. This will ensure that there is a clear direction for ICT development, especially amid the growth of the business process outsourcing and ICT industry in the country. The DICT, together with other Philippine government agencies, should also address major issues related to the IT and BPO sectors such as intellectual property rights, human resources, data protection, security, and quality management and standards.

Energy Sector

Begin the process of instituting a nuclear power program in the country. A properly implemented nuclear power program could provide the country with a stable, constant and relatively cleaner supply of baseload power in the future. However, this would entail the updating of the archaic scientific, technological, regulatory and legislative frameworks governing nuclear energy policy in the country. The government should also invest in the education and training of more nuclear engineers and scientists to guarantee the sustainability, safety and continued development of the country's nuclear energy program.

Pass an energy efficiency and conservation law. The government has been pursuing the exploration, development and optimal utilization of the country's indigenous energy sources in the interest of energy security and self-sufficiency. The government has also taken early steps to promote the development and use of alternative, non-traditional energy sources (such as biomass, wind and solar power) to augment the country's energy supply. Despite these efforts, the threat of a potential power shortage still looms. Thus, there is still a need to manage energy demand by introducing energy efficiency and conservation measures. While the DOE has already been implementing the National Energy Efficiency and Conservation Program, the passage of a law that will institutionalize and strengthen these measures would help ensure long-term energy security for the country.

Exercise stricter congressional oversight on power sector reforms. There are still a number of reforms in the EPIRA (RA No. 9136) that need to be implemented. Stricter Congressional oversight is required to ensure that these provisions are instituted in a timely and proper manner. Full implementation of these reforms should help attract more investments in the power sector and possibly bring about lower power rates in the long run.

Financial Sector

Amend the New Central Bank Act. If there is a lesson to be learned from the United States' mortgage crisis in 2008, it is that: unbridled risk-taking behavior of market players coupled with an insufficient regulatory framework could severely hamper and/or distress the whole financial system. Strengthening the supervisory and regulatory capacity of the Bangko Sentral ng Pilipinas (BSP) by amending its Charter should hence be a legislative priority. The BSP needs to adapt international best practices. Tougher criminal and administrative sanctions for violations of the banking laws and regulations will also help ensure the protection of investors/depositors' interests.

Amend the Insurance Code. The Philippine insurance industry can be described as conservative and risk-averse. As a result, its investment options are limited to banks and government securities, and some equities. Amending the Insurance Code will enable the insurers to expand their insurance activities, update their admitted assets and collaterals, adopt business models and strengthen the Insurance Commission's supervisory and regulatory powers.

Pass a collective investment schemes law. At present, different financial instruments with similar economic activities are governed by different regulatory bodies as well as imposed with different tax treatments. Mutual funds for instance are regulated by the Securities and Exchange Commission while the unit investment trust funds (UITF) are regulated by the by BSP. Consequently, these disparities have created an uneven playing field in the financial sector, discouraged savings and increased transaction costs. A law that will establish a comprehensive regulatory framework for all forms of collective investment schemes (CIS) will eliminate the existing differences in regulatory treatment and taxation requirements for collective schemes products.

Amend the AMLA. The Philippines has taken the necessary steps of enacting and amending the Anti-Money Laundering Act (AMLA) to combat money laundering in the country and bolster the country's compliance with the international standards against the said crime. However, weaknesses in the supervisory, legal and regulatory frameworks still persist. The limited scope and definition of money laundering, for one, need to be expanded. In its 2009 evaluation report of the Philippines, the Asia-Pacific Group (APG)[25] on Money Laundering pointed out that several serious crimes are not part of the predicate crimes list for money laundering under the AMLA. The APG assessment also noted that under the Philippine law, terrorist financing is not criminalized as a separate offense. The assessment also found that given the scale of unlawful activities in the country, the amount of assets forfeited so far through civil forfeiture is low, and a significant time lag exists between case filing and resolution. APG also noted that Philippines has not extended the coverage of the anti-money laundering obligations to the entire designated non-financial businesses and professions (DNFBPs) sector such as casinos, real estate agents, dealers of precious metals and stones, lawyers, notaries, and accountants.

[25] The Asia/Pacific Group on Money Laundering (APG) is an international organisation whose members include the United Nations, International Monetary Fund, Financial Action Task Force (FATF), Asian Development Bank and World Bank, among others. The APG is committed to effectively implement the FATF's international standards for anti-money laundering and combating the financing of terrorism

STRENGTHENING INSTITUTIONS AND PROMOTING GOOD GOVERNANCE

A large body of literature[26] points to the crucial role of governance and institutions in explaining economic growth.[27] Good governance constrains corruption, promotes transparency and encourages people participation in decision making particularly in the allocation of development resources. Strong institutions reduce information asymmetry, ensure the protection of property rights and enforcement of contracts thereby boosting investor confidence and consequently increasing economic growth.

Kaufmann, Kraay and Zoido-Loboton (KKZ) in 1999 identified six dimensions of governance:

1) *Voice and accountability* (VA), which measures the extent to which a country's citizens are able to participate in selecting their government as well as freedom of expression, freedom of association and a free media;
2) *Political stability and Absence of Violence* (PV), which measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence or terrorism;
3) *Government effectiveness* (GE), which measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies;
4) *Regulatory quality* (RQ), which measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development;
5) *Rule of law* (RL), which measures the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence; and
6) *Control of corruption* (CC), which measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption as well as "capture" of the state by elites and private interests.

It was estimated that a one-standard deviation increase in any of the said governance indicators causes two-and-a-half to as much as four-fold increase in per capita income. More recently, Zhuang, et al (2010), using the same set of governance indicators, noted that developing Asian economies with surplus in government effectiveness, regulatory quality and rule of law in 1998, grew faster during 1998 to 2008 on average, by 1.6, 2.0, and 1.2 percentage points, respectively, every year compared to economies with governance in deficit in these dimensions. There were even instances when the corruption index overshadowed the more traditional explanatory variables such as real interest rates or GDP in explaining the investment rate (De Dios, 2008).

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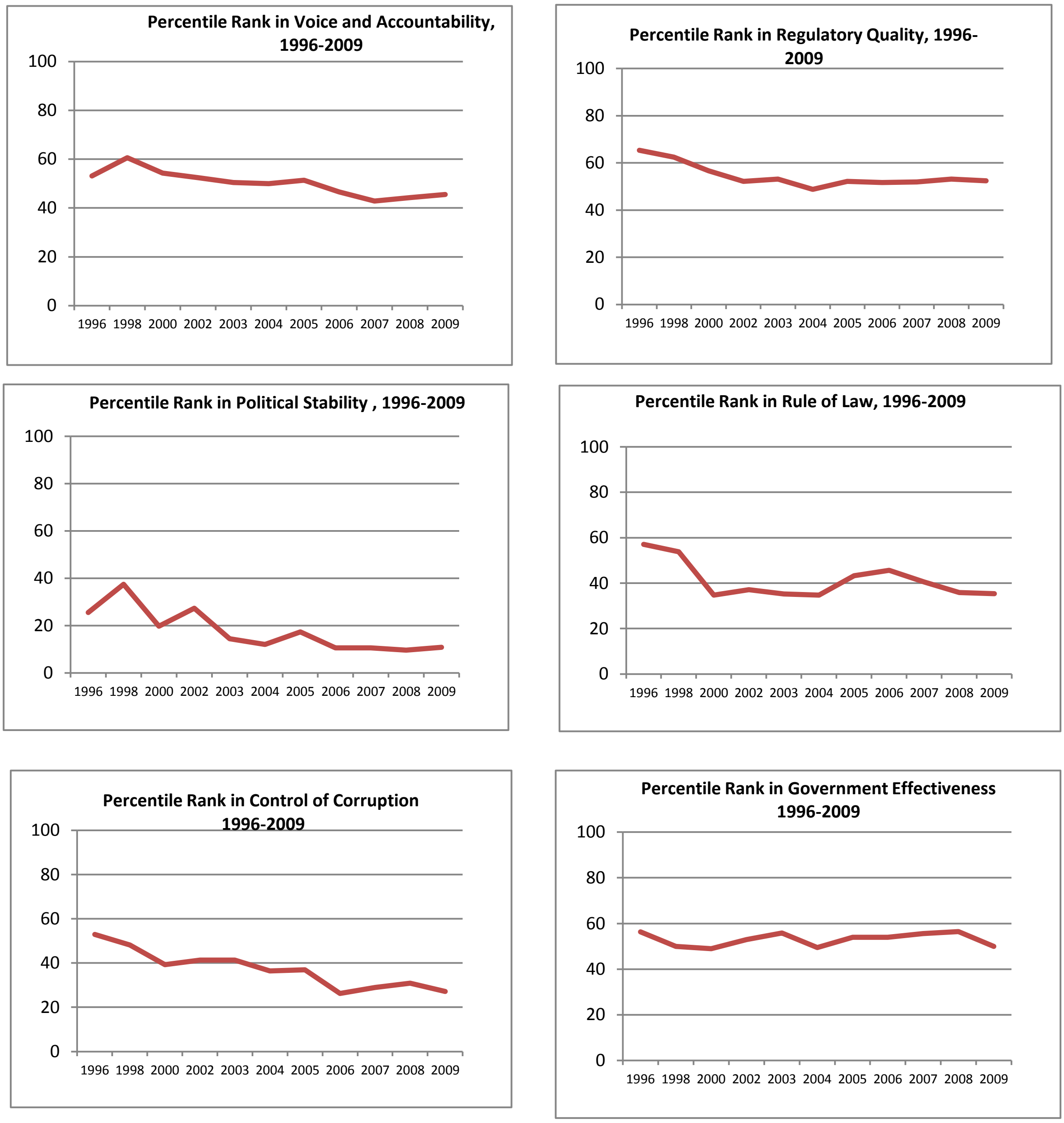
[26] Early contributions include North and Thomas [1978], North [1981,1990], Barro (1991), King and Levine (1993), Knack and Keefer (1995) while more recent empirical evidence can be found in Kaufmann et al (1999), Chong and Calderon (2000), and Rodrik et al (2002) among others.

[27] According to the World Bank, governance is consist of the traditions and institutions by which authority in a country is exercised. Institutions, according to Greif (2006), are a system of rules, beliefs, norms and organizations that together generate a regularity of social behavior.

Poor governance is considered to be a critical constraint in economic growth and poverty alleviation in the Philippines (ADB, 2007). This view is shared by Briones (2009) who opined that weak institutions offer the most convincing explanation why the country remains to be Asia's underachiever.

Figure 7. Philippines' Percentile Ranking in Worldwide Governance Indicators, 1996-2009



Source: Worldwide Governance Indicators, World Bank

Note: The above figures display the country's performance for all available years between 1996 and 2009 in six governance dimensions: 1) Voice & accountability, 2) Political stability and lack of violence/terrorism, 3) Government effectiveness, 4) Regulatory q, 5) Rule of law, and 6) Control of corruption. Each graph shows the country's percentile rank on one of the six governance indicators. Percentile ranks indicate the percentage of countries worldwide that rate below the selected country. Higher values thus indicate better governance ratings.

Over the years, the Philippines has fared disappointingly in governance-related measures. In the latest Worldwide Governance Indicators (WGI)[28] report of the World Bank, the Philippines' percentile ranking based on KKZ's six dimensions of governance remained mostly below the median. The country did particularly poor in political stability and absence of violence, and control of corruption where it scored 10.8 percent and 27.1 percent respectively. This means that of the 213 countries covered in 2009, 89.2 percent are more politically stable and less violent while 72.1 percent are less corrupt than the Philippines. These countries included Asian neighbors such as Indonesia, Malaysia, Thailand and Vietnam.

While efforts were made to improve governance in the country, they did not prosper as expected. Implementation became problematic due to the lack of political will, heavy partisan politics, inadequate financial resources and graft and corruption (ADB, 2005).

Key Governance Issues

Worsening corruption. Corruption is perceived to have worsened in recent years.[29] In its 2010 Global Corruption Barometer, NGO Transparency International (TI) revealed that 69 percent of Filipinos believed that the level of corruption in the Philippines increased over the past three years.[30] The respondents perceived political parties and the police to be the most corrupt institutions. The police was also identified as the most frequent recipients of bribes. Compared to five years ago, more respondents also reported to have paid bribes to the judiciary and for registry and permit services.

Table 8. Respondents' Answer to 2010 Global Corruption Barometer Question: To what extent do you perceive the following institutions in the country to be affected by corruption?
(1-Not all corrupt, 5 Extremely Corrupt)

Political Parties	Police	Parliament	Public Officials	Judiciary	Business	Military	Education	NGOs	Media	Religious bodies
3.6	3.6	3.5	3.5	3.1	2.9	2.9	2.7	2.4	2.0	1.9

Source: 2010 Global Corruption Barometer, Transparency International

The organization's Corruption Perception Index (CPI), another diagnostic tool which measures the perceived level of public sector corruption, rated the Philippines in 2010 as "highly corrupt." Determined by expert assessments and opinion surveys, the Philippines was ranked 134th out of 178 countries with a CPI score of 2.4 out of 10 (with 0 being highly corrupt and 10 being highly

[28] The said indicators are based on several hundred variables measuring perceptions about governance drawn from 35 separate data sources to capture the views of tens of thousands of survey respondents worldwide. World Bank also polled thousands of experts in the private sector and in nongovernment organizations.
[29] Corruption is defined as an exploitation of power for personal gain.[29] De Dios (2008) made a distinction between "petty" and "grand" corruption. The former is practiced among low- to mid-level bureaucrats and is implemented through the implicit collusion among agency-insiders who exercise discretion through the selective implementation of well-known rules. Grand corruption, on the other hand, is defined as a substantial expenditure of funds with a major impact on government budget and growth prospects (Rose-Ackerman, 1998 as cited in De Dios, 2008]). This involves projects of a one-off nature requiring typically huge sums and is done through the witting or unwitting connivance of centrally placed politicians.
[30] Transparency International is a global civil society organization that monitors and publicizes corporate and political corruption . For the 2010 Global Corruption Barometer, (TI) surveyed 1,000 respondents between June 21 and July 7, 2010 representing 63.5 million Filipinos.

clean). This is a huge deterioration from its score of 3.6 in 1999. At that time, Indonesia and Vietnam were considered to be the most corrupt in Southeast Asia but they have made headway in their fight against corruption and are now rated better than the Philippines.

Table 9. Corruption Perception Index Score, Selected Asian Economies, 1999-2010

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Philippines												
Ranking	54	69	65	77	92	102	117	121	131	141	139	134
Score	3.6	2.8	2.9	2.6	2.5	2.6	2.5	2.5	2.5	2.3	2.4	2.4
Singapore	9.1	9.1	9.2	9.3	9.4	9.3	9.4	9.4	9.3	9.2	9.2	9.3
Malaysia	5.1	4.8	5.0	4.9	5.2	5.0	5.1	5.0	5.1	5.1	4.5	4.4
China	3.4	3.1	3.5	3.5	3.4	3.4	3.2	3.7	3.5	3.9	3.8	3.5
Thailand	3.2	3.2	3.2	3.2	3.3	3.6	3.8	3.6	3.3	3.5	3.4	3.5
Vietnam	2.5	2.6	2.6	2.4	2.4	2.6	2.8	2.6	2.6	2.7	2.7	2.7
Indonesia	1.7	1.7	1.9	1.9	1.9	2.0	2.2	2.4	2.3	2.6	2.8	2.8
No. of countries	99	90	91	102	133	146	158	163	180	180	180	178

Source: Transparency International

Corruption has been a significant impediment to investment growth in the country. World Bank's *2010-2011 Global Competitiveness Report* cited corruption as the most problematic factor for doing business in the Philippines. Corruption discourages investment as it serves as an additional cost to a project and undermines competition in the market place. Moreover, corruption penalizes the poor who may be deprived of basic public services. In 2000, in a study by the Office of the Ombudsman, it estimated that some US$ 48 billion was lost to corruption in 20 years.

Weak rule of law*.* A well-established rule of law helps the economy as it creates the necessary climate of stability and predictability. Weak rule of law, on the other hand not only turns off potential investors, it also erodes the social fabric as it deprives individuals of their individual and property rights, raises barriers to justice and widens the gap between the rich and the poor.

Underpinning the rule of law is a well functioning judiciary. While concrete steps[31] have been taken to improve the public's trust in the justice system, there is still widespread perception that judges can be bought and that the justice system is biased against the poor. Moreover, the high cost of litigation aggravated by the slow pace of case resolution due to the lack of judges, prosecutors and public attorneys, has eroded the public's confidence in the country's judicial system. As of end 2009, the vacancy rate for judges was at 22.74 percent or 522 vacancies out of the 2,295 available judicial positions.[32] Court dockets are heavily clogged. Case backlog is high, especially in the regional trial courts. While salaries and allowances have recently been increased, many prosecutors are still leaving to become either private practitioners or judges.

[31] An important reform program recently undertaken is the Action Program for Judicial Reform (APJR). The APJR seeks to build a strong foundation for the long-term development of the judicial branch by improving its different components which include the judicial systems and procedures, institutional development, human resource development, support systems, institutional integrity, and access to justice by the poor.
[32] 2009 Annual Report of Supreme Court

In the 2011 Index of Economic Freedom report, the Heritage Foundation, Inc. and the US publication Wall Street Journal noted that weak judiciary, aside from pervasive corruption, has been hampering the economic freedom in the Philippines[33]. The Heritage Foundation stated that judges are nominally independent, but some have been appointed strictly for political reasons and are corrupt. Organized crime is a strong impediment to the administration of justice, and delays and uncertainty concern investors. Despite some progress, enforcement of intellectual property rights remains problematic."

Table 10. Case Backlog by Type of Court, 2003-2008

Court	2003	2004	2005	2006	2007	2008
Total	814,017	808,488	660,360	737,699	603,576	568,515
Supreme Court	6,622	6,882	…	…	…	…
Court of Appeals	22,603	23,098	…	20,158	…	…
Sandiganbayan	2,296	1,892	2,338	2,075	1,794	…
Court of Tax Appeals	525	639	983	730	697	…
Regional Trial Courts	330,901	348,312	345,706	358,467	363,777	354,502
Metropolitan Trial Courts	165,808	153,427	114,719	129,702	86,800	79,492
Municipal Trial Courts in Cities	134,650	121,249	100,863	101,867	76,042	67,668
Municipal Trial Courts	83,224	83,019	55,878	67,604	45,345	39,682
Municipal Circuit Trial Courts	66,934	69,607	39,634	56,695	28,962	26,781
Shari'a District Courts	72	54	13	60	29	59
Shari'a Circuit Courts	382	309	226	341	130	331

Source: Supreme Court

Note: Case backlog refers to the total number of pending cases, i.e., those that have not been disposed of at the end of the reference period. It is derived by subtracting case outflow from court caseload.

The weak rule of law in the country is also manifested in: (1) the poor peace and order situation, i.e., the continuing conflict, especially in Mindanao; (2) the still unresolved cases of extrajudicial killings; and (3) the proliferation of private armies as seen in the massacre of 57 people in Maguindanao in 2009. In 2007, the United Nations Special Rapporteur on Extrajudicial, Summary or Arbitrary Executions and the European Commission criticized the government for not doing enough to put an end to the killings and put the perpetrators behind bars. Moreover, the Philippines is now considered to be the most dangerous place in the world for media workers. The National Union of Journalists in the Philippines (NUJP) reported that since 1986, it has recorded 143 murder cases of media workers, of which, there had only been seven convictions.[34]

Immature political party system. Political parties are viable institutions of democracy that link the people with the political system. They define and express the interest of the people and transmit them into the appropriate channels. By providing their platform of agenda, political parties allow voters to make more informed judgments about how the candidates who campaign under their banners will behave once elected. Mature political party systems thus encourage political participation and enhance democratic accountability.

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[33] The Heritage Foundation, Inc., an influential conservative think tank in Washington prepares the annual Index of Economic Freedom report. For 2011, it rated the Philippines as still “mostly unfree” with its ranking slipping further to 115th out of 117 economies. The Index of Economic Freedom rates countries in 10 specific categories – labor freedom, business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom and property rights, and freedom from corruption.

[34] http://www.asianewsnet.net/home/news.php?id=15678&sec=1

Unlike in other countries, there are no ideological differences between the political parties in the Philippines. Political parties are seen only as temporary political alliances that serve as *adhoc* vehicles for winning elections (Friedrich Ebert Stiftung, 2008). Most Filipinos do not equate candidates or identify politicians with any political party as party switching has become rampant.

Meanwhile, the party list system is also fraught with many issues. RA No. 7941, the enabling law of the party list system was enacted to provide ample representation for the marginalized and voiceless sectors in Congress. However, the COMELEC's process of accrediting the "marginalized" as well as the qualifications of party list nominees were questioned when former government officials and politicians ran under the party list system in the past elections. It is alleged that the party list system has become a backdoor entry for the elite who want to gain political foothold in Congress. The RA No. 7941 provision that limits the party-list representation to three seats is also seen as a problem. The limitation is said to distort the development of the party-list system as it results in the non-filling up of the entire number of available seats and contradicts the principle of proportional representation, which is the essence of a party-list system (Muga, 2007).

The country's failure to develop a mature political party system has given rise to political dynasties. A study by Balisacan (2003) showed that political dynasties have significantly negative effect on growth. Similarly, Solita Monsod and Toby Monsod (2003) revealed that political dynasties are correlated with higher poverty, lower per capita income and lower primary education completion rates. Political dynasties hinder local economic development to the extent that rents for the political clan are created by restricting competition in local markets, and by leakages in the allocation and delivery of public goods to the poor. The same study also noted that provinces run by political dynasties tend to be laggards in meeting the Millennium Development Goals.

Weak enforcement of electoral laws. Elections in the Philippines are known to be mired with anomalies, violence, and violation of electoral laws. The failure to conduct a transparent, fair and credible election has undermined the legitimacy of the electoral process and has resulted in political instability.

The Commission on Human Rights (CHR) observed that while the 2010 elections can be described as generally peaceful, election-related violence remained prevalent. The CHR cited the Philippine National Police (PNP) data of at least 82 incidents of poll-related violence (27 deaths and 42 persons injured) since January 10, 2010, the start of the campaign period. The figure has not yet taken into account the 57 victims of the Maguindanao Massacre, which took place before the campaign period. Furthermore, while some forms of cheating were made more difficult by the automated election, irregularities, anomalies and fraud remained widespread with reports of massive vote-buying in many places. Coercion, intimidation and harassment carried out by armed individuals or groups were also observed. The CHR added that deviations from the statutorily-prescribed safeguards have somehow compromised the integrity of the process.[35]

[35] http://www.asiapacificforum.net/news/philippines-elections-generally-successful-but-serious-concerns-remain.html

Moreover, gross violation of campaign finance laws such as the Synchronized Elections Law and the Fair Elections Act remain unabated. The Synchronized Elections Law sets limitations to the expenses a candidate or political party may spend for an election campaign and requires them to submit itemized breakdowns for all campaign contributions, donors, and amount of contributions and expenditures. Meanwhile, Section 6.2 (a) of the Fair Elections Act provides that each bona fide candidate or registered political party for a nationally elective office shall be entitled to not more than 120 minutes of TV ad and 180 minutes for radio ad, whether by purchase or by donation. In the book *Money Politics and the May 2010 Elections*, the Philippine Center for Investigative Journalism (PCIJ) and the Consortium on Electoral Reforms (CER)[36] reported that candidates in the 2010 elections saturated the airwaves with their campaign ads, beyond lawful airtime and spending limits. They were able to go around the limit by riding piggyback on the unused airtime of proxy or allied candidates. PCIJ's review of the Statements of Electoral Contributions and Expenditures (SECEs) of candidates also revealed that most candidates and parties filed only summary reports instead of an itemized breakdown of the contributions and expenses. PCIJ reported that many even missed, including the minimum details required by law, such as the date and official receipt numbers of expenditures incurred; the full name of contributors and their addresses; the nature and amount of contribution; and the contributor's taxpayer ID number.

Inefficient bureaucracy and poor public service delivery. The 2010 Political and Economic Risk Consultancy (PERC) Report ranked the Philippines as the third most inefficient bureaucracy in Asia next to India and Indonesia.[37] The report showed that the Philippine government "goes through the motions" of addressing the problems of bureaucratic red tape "but nothing has really made a dent in the problem." Likewise, the *2010-2011 Global Competitiveness Report* noted that next to corruption, inefficient government bureaucracy is the most problematic factor for doing business in the Philippines.

The country's endemic bureaucratic pathologies have increased the transaction cost and resulted in the slow delivery of public services. Moreover, the bureaucracy's strong predisposition toward hierarchical and rigid implementation of rules enabled the perpetuation of red tape, and opened up a bigger window for graft and corruption (ADB, 2005).

Weaknesses in the civil service system have contributed to poor public service delivery. The civil service system gives more weight to political influence rather than merit and fitness, particularly in the appointments and promotions to third level and other key career positions (ADB, 2005). As of the second quarter of 2010, the estimated number of government personnel is 1.31 million. Occupied third level or career executive service (CES) positions numbered 4,763, of which, only 53 percent are held by employees who satisfied the eligibility requirement.[38] To a significant extent, this

36 The Consortium on Electoral Reforms (CER) is a network of organizations and individuals committed to the strengthening of Philippine democracy through electoral reforms and activities that would broaden people's participation and representation in democratic governance, and enhance free, orderly, honest, peaceful and credible elections.
37 PERC is a consulting firm, which produces a range of risk reports on Asian countries, paying special attention to critical socio-political variables like corruption, intellectual property rights risks, labor quality, and other systemic strengths and weaknesses of individual Asian countries.
38 As of August 2010

has undermined the quality of public service, and hindered the continuity and stability of policies and programs. In addition, the bureaucracy suffers from low morale because of gaps in the system of performance appraisal and convoluted compensation structure, among others.

Public Service Delivery in the Local level

The Local Government Code (LGC) of the Philippines devolved the main responsibility of delivering basic services such as health, education and infrastructure from the national government to LGUs.

However, almost two decades after the enactment of the LGC, LGUs continue to face difficulties in fulfilling their mandate. While some success stories of excellence in service delivery by LGUs have been reported, most local patterns of development have not been influenced by decentralization. For instance, provincial statistics showed that the same provinces comprised the bottom 10 and the top 10 on Human Development Index (HDI) for the years 1997, 2000, 2003 and 2006.[39] Moreover, the World Bank (2003) found that most local governments face the problems of declining literacy rates, inability to access potable water, environment degradation, rising unemployment rates, food insecurity and increasing poverty. A recent study by ADB (2009) showed that local policies are still very much determined by the central government and that decentralization has occurred mainly in administration and not so much on policies.

Since the LGC was passed, the percentage share of internal revenue allotment (IRA) to the LGU's total revenues has substantially risen from roughly 50 percent in 1990 to around 66 percent in 2009. The increasing dependence of LGUs on the IRA is brought by the restrictions in the LGC, which deter LGUs from fully maximizing their potential to collect revenues. This is aggravated by incentive problems[40] and the weaknesses in the administrative capacity of LGUs in major tax administration functions such as registration, collection and audit. Moreover, institutional arrangements for service delivery remain unclear in many cases, with national agencies playing a significant role in some functions that should have been fully devolved to LGUs. For example, while health services have already been devolved to LGUs the national government still maintains hospitals and provides funding for some major health programs such as immunization and vaccination. There is also lack of harmony between national and local government development planning and budgeting. Less than half of the LGUs have Local Development Plans.

[39] Bataan, Benguet, Rizal and Cavite were always in the top 10; Pampanga and Nueva Vizcaya were able to join the group in 2003 and La Union in 2006. Sulu, Tawi-Tawi, Maguindanao, Basilan and Lanao del Sur were always in the bottom 10 since 1997 to 2006.

[40] In some cases, political executives are concerned that increases in tax collections may prove politically costly.

Direction for Reforms

On Control of Corruption and the Rule of Law

The Philippines is a signatory to the United Nations Convention Against Corruption (UNCAC), the first legally binding international anti-corruption instrument. Hence, there is a need to pass new legislations and align existing laws with the provisions of UNCAC.

***Enact a freedom of information law**.* Transparency in all government transactions can only be guaranteed with the passage of a law that will provide every citizen access to official records and documents pertaining to government contracts, transactions, and decisions that are of public interest, subject to certain limitations. The bill will enlist the people in the government's decision making process, and will make it easier for them to detect the corrupt practices of individuals. Consequently, public officers will be more keenly aware of their accountability to the public.

***Protect the whistleblowers**.* Whistleblowers are instrumental in exposing graft and corruption. However, whistleblowers have not had secure avenues to disclose the anomalies they witness without fear of retaliation on them or their families. They face the risk of job loss, ostracism from colleagues, criminal and civil prosecution in the event of reprisal by the accused, and worse, death. Strengthening the current Witness Protection Program and passing a Whistleblower's Protection Law, which will ensure the protection and safety of the whistleblowers and their loved ones, and provide for a reward system, will encourage people to speak out and disclose information on official malfeasance. It must be ensured though that a mechanism for determining untruthful or unsubstantiated complaints is put in place to avoid waste of resources, as well as to prevent the use of the program to harass or smear the name of innocent individuals.

***Enact an anti-cyber crime law**.* Cybercrime is becoming an increasingly dangerous threat to human rights and the rule of law. However, the current legal framework is not sufficient to completely deter cybercrimes. The scope of RA No. 8792 or the E-Commerce Act is limited as it only penalizes hacking, cracking and piracy, and does not provide penalties for other cybercrimes such as cyber-fraud and similar offenses. The proliferation of different ICT committees and task forces in the government has also resulted in multiple and murky ICT directions. Accountability is weak as there is no single overall government body that is mandated to address cybercrimes and institute policies on combating such (Sosa, 2008). The enactment of an anti-cybercrime law will be able to address these gaps.

***Strengthen the Office of the Ombudsman**.* The lack of manpower has hindered the Office of the Ombudsman to quickly dispose complaints against erring government officials and staff. There is hence a need to increase its number of investigators and prosecutors. This would, however, require higher allocation from the national budget. An alternative proposal is to amend the Ombudsman Law and authorize the hiring of private lawyers to assist the Ombudsman in prosecuting cases.

Amend the COA Charter. Under the Constitution, Commission on Audit (COA) decisions can be appealed to the Supreme Court. However, the COA Charter does not have any provision on executing the Supreme Court's final decisions, particularly on notice of disallowances for irregular disbursements or on notice of charges for underassessment or under-collection of revenues that applies to private persons.

Empower the CHR. While it was mandated by the Constitution to investigate human rights violations involving civil and political rights, the CHR does not have the prosecutorial powers over delineated human rights cases. Vesting the CHR with residual prosecutorial power in the event that the prosecution agency of the government failed to initiate a preliminary investigation within 90 working days will address the rising demands of victims and the general public over extrajudicial killing and other cases of human rights violations. It will also unclog the court dockets of human rights violation cases.

Institutionalize citizens' participation. Civil society organizations have been playing an increasingly important and expanded role in improving transparency, access to services and the rule of law. However, their participation, particularly in the planning and budgeting processes of the government can be further strengthened, especially in the local development councils (LDCs) where they are said to be underrepresented.

Strengthen the judicial system. A judiciary that has the ability to dispense fair and impartial justice in an efficient and effective manner is said to be the foundation of a stable and progressive society. Hence, continuous reforms to strengthen the Philippine judicial system is needed. Resource constraint issues should be addressed by the legislature through the national budget to make the justice system accessible especially to the disadvantaged and marginalized. To declog the courts, the Katarungang Pambarangay (KP) system needs to be strengthened as an alternative venue for the resolution of disputes. Equally important is the implementation of the MOA creating the National Council on the Administration of Justice (NCAJ), which will coordinate all reform efforts on the justice system. The actual operationalization of the NCAJ was not sustained mainly due to lack of logistical support and changes in leadership.

On Political and Electoral Reforms

Amend the Omnibus Election Code. The Omnibus Election Code needs to be comprehensively reviewed and amended to respond to the needs of the present electoral system. For instance, the Code has no provisions on technology-based campaigning, internet and text messaging have become important channels for candidates to reach the voting public in the last election. Voting by mail can also be explored as Filipinos abroad have complained of being disenfranchised because of the considerable distance of their location from the Philippine embassies and consulates where they can cast their votes. Other amendments to the Omnibus Code should cover the imposition of stronger and wider range of penalties for election-related offenses and the strengthening of the Commission on Elections.

Institute campaign finance reforms. There is a need to review and amend the existing campaign finance laws to ensure an equal electoral playing field. For instance, the present expense-per-voter limitation set by RA No. 7166 may be inapplicable already, considering inflation and advancements in technology. Also, while candidates are required to report all contributions, there is no provision in the law that regulates excess contributions. The treatment on so-called infomercials, which are aired before the official campaign period should also be clarified. The law can also be amended to provide for sanctions on candidates who do not properly submit their statement of campaign contributions and expenses.

Strengthen the political party system. The lack of genuine and issue-based political party system, and the absence of state support in terms of financing political parties have allowed moneyed and well-connected politicians to perpetuate in politics. It has also led to a culture of political turncoatism. For political parties to become effective instruments for the democratization of political power, there is a need to enact a law that will promote the development of mature, principled political parties and institutionalize reforms in the financing of electoral campaigns.

Pass a law that will define and prohibit political dynasties. Studies have shown that political dynasties are inimical to progress and deterrents to the discovery and development of potential political leaders. The Constitutional provision that proscribes political dynasties is clearly stated in Art. II, Sec. 26 which says, "the State shall guarantee equal access to opportunities for public service, and prohibit political dynasties as may be defined by law." Unfortunately, the enabling law, which defines political dynasty, is yet to be enacted.

Amend the Party-List Law. It is widely perceived that some party list groups and their nominees who register with the COMELEC do not really represent the marginalized sector, and that the party list law is being manipulated to accommodate individuals and groups that stand for big political and business interests. This could be a result of the limited definition of the "marginalized" sectors in the law, the lack of clear parameters in determining marginalization, and a credible system of accrediting party list and nominees,

On Strengthening the Bureaucracy and Improving Public Service Delivery

Enact a civil service code. Civil servants have been perceived and stereotyped as corrupt, mediocre and inefficient. Transforming this unfavorable view of the civil service system will require the consolidation and updating of the legal framework pertaining to the Civil Service Commission and the establishment of a Career Executive System (CES). The CES will ensure the competence and expertise of senior level employees and depoliticize the appointment of government officials. The application of the merit and fitness rule should go hand in hand with reengineering the bureaucracy. Redundant structures in the government should be abolished or subsumed or consolidated with other entities. Agency functions must be clearly delineated to minimize overlaps and duplications. While a rationalization program is currently being implemented since 2004, progress has been slow with only 166 out of 216 agencies submitting their rationalization plans, and only 85 plans approved by the Department of Budget and Management. [41]

Amend the Local Government Code. Although the LGC has been considered the most empowering legislation for LGUs, some provisions in the law have prevented LGUs to effectively perform their service delivery functions. Foremost of these are the tax policy provisions, which leave LGUs little control over one of the main levers of revenue mobilization. Another concern is the LGUs' lack of access to private capital due to the provision in the law giving preference to government banks as depository banks for the LGU's IRA transfers. The LGC also needs to be amended to spell out the unclear expenditure assignments and overlapping service delivery mandates. There is also a clamor to change the IRA formula, which studies found to be arbitrary and inequitable.

[41] As of November 2010

MAKING GROWTH WORK FOR THE POOR

The 2004-2010 MTPDP set the target to reduce poverty incidence of families to 17.89 percent and subsistence incidence to 8.98 percent in 2010. The government also committed to bring down the proportion of population with income below the poverty threshold to 22.6 percent and those living in extreme poverty to 12.15 percent by 2015 (MDG 1). Towards the said goals, the Philippines embarked on programs and implemented policies to make the economy grow. However, while economic growth is a necessary condition for broader development, it is not a sufficient condition. When GDP growth averaged 5.4 percent between 2003 and 2006, only four of the 17 regions in the country registered decreases in poverty incidence. The latest official poverty statistics indicated that in 2006, the number of poor Filipinos reached 27.6 million, 16 percent more than the 23.8 million estimated in 2003. Of the 27.6 million poor individuals, 12.2 million could not even afford to meet their basic food needs.

Growth is said to have accrued largely to the corporate sector, which grew by 27.7 percent on average from 2003-2006, while nominal household income rose by only 17.5 percent on average for the same period (World Bank, 2008).[42]

With the recent developments, the government is likely to miss its poverty reduction targets. The food and fuel crisis in 2008 pushed an estimated three million Filipinos into poverty and widened the poverty gap and poverty severity (World Bank, November 2008). In 2009, despite the safety nets and strong fiscal stimulus undertaken by government, it was estimated that the global economic recession, which weakened job quality and quantity pushed 1.4 million Filipinos into poverty by 2010 compared to a no-crisis situation (World Bank, 2009).

Typhoon *Ondoy* is expected to worsen urban poverty and widen urban poverty gap as the poor and near poor population, mostly residing in large slums in the National Capital Region (NCR) and Calabarzon were severely affected by the massive flooding. *Ondoy* was estimated to have pushed around 150,000 to 250,000 near-poor into poverty, resulting in the rise of national poverty incidence by 0.1 percentage point to 0.3 percentage points from 2006 figures, and to have dragged a significant share of the NCR's poor further into poverty. On the other hand, typhoon Pepeng which hit Northern Luzon, adversely impacted agriculture. Unless rehabilitation work of key roads, bridges and irrigation system is done in the affected areas, agriculture production is expected to decline in 2010 and further worsen poverty in agricultural rural areas.

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[42] The sharp growth in the corporate sector relative to the household sector could partly explain an increase in poverty. The corporate sector, it is argued by some economists, used its profits largely to shore up its accounts and fix balance sheets in the early 2000s following the Asian financial crisis. The poor investment climate and the growing macroeconomic instability at that time did not entice the corporate sector to invest their profits. As a result, unemployment remained high and wages were kept low. However to the extent that it is likely that not all these earnings were retained, it would presumably have resulted in some real increases in income of households in the higher deciles of the income distribution, resulting in greater inequality. This would imply an increase in poverty, which is not inconsistent with the story of the growth in corporate incomes.

The Anti-Poverty Agenda

Poverty is not simply the lack of adequate income. It is a multidimensional phenomenon that extends beyond the economic arena to encompass factors such as the inability to participate in social and political life (Sen, 1979; 1985; 1987). It is a state of deprivation of capabilities and productive assets which include education and skills, shelter, land, good health and social network (UNESCAP, 2007).

Experts point to several causes of poverty in the Philippines[43] which include sluggish economic growth, underperforming agricultural sector, high levels of inequality, rapid population growth, poor quality of jobs, and limited access of the poor to health and education, among others.

Direction for reforms

Strive to achieve inclusive, pro poor growth. For the Philippines to reduce poverty, the economy should be propelled to a higher growth path and growth must be sustained in the long term. Analysts pointed out that if the country is to significantly reduce poverty, a growth rate of at least 7 percent on the average must be sustained for two decades. Again, while growth is not an end in itself, it makes it possible to achieve other important objectives such as sparing people *en masse* from poverty and drudgery. It also creates the resources to support healthcare, education, and the other MDGs commitments.

The key to achieving inclusive, pro-poor growth is expansion in access to economic opportunities and human development services, particularly by the poor. Ensuring access to the said interventions would require government to prioritize spending in infrastructure and the social services, especially in basic education, health and family planning services and the environment.

To lift rural inhabitants out of poverty, investments and strategies to propel productivity of growth in agriculture is required. Rural income diversification and migration to productive nonfarm sectors also offer important pathways out of poverty.

Enhance social protection. Following the 1997 Asian financial crisis, the government has made great strides in providing social safety nets. Several programs were initiated to address both the lack of mechanisms to combat crisis situations and the deteriorating poverty situation. The increase in budget allocation for social security, welfare, and employment in 2007-2009 is also notable. However, targeting and monitoring of these programs must be further improved to ensure that the beneficiaries are truly the poor and in need.

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[43] Balisacan , A. (2008). *Poverty Reduction: What We Know and Don't;* Canlas, D. (2008). *Why the Poor Remain Poor.*

Pay attention to reproductive health. Duty bearers must scale up family planning education and services, and establish innovative mechanisms for promoting reproductive health programs. Smaller families and wider birth intervals resulting from the use of family planning methods allow families to invest more in each child's education, health nutrition and eventually, reduce poverty and hunger at the household level. At the national level, fertility reduction cuts the cost of social services with fewer people attending school or seeking medical care, and as demand eases for housing, transportation, jobs, water, food and other natural resources.

Such scenarios open the so called "demographic window of development," where there are more productive citizens relative to dependents and where savings can increase. If the quality of governance during this period is such that savings translate into efficient and productive investments, the standard of living will significantly improve and poverty levels will be lower. In rural areas where poverty is more evident, the reduction of fertility rates, coupled with the creation of economic opportunities will also slow urban migration and the proliferation of urban slum dwellers.

Anticipate new challenges. Reforms and strategies to achieve high and sustainable growth must also consider the new economic environment replete with challenges in the aftermath of the global crisis and in the face of climate change.

Address issues in governance. Lastly, in the pursuit of a strongly pro-poor development agenda, it cannot be overemphasized that governance and the quality of institutions has to be upgraded so that they become more responsive to the needs and aspirations of those in the lowest rung of the social ladder.

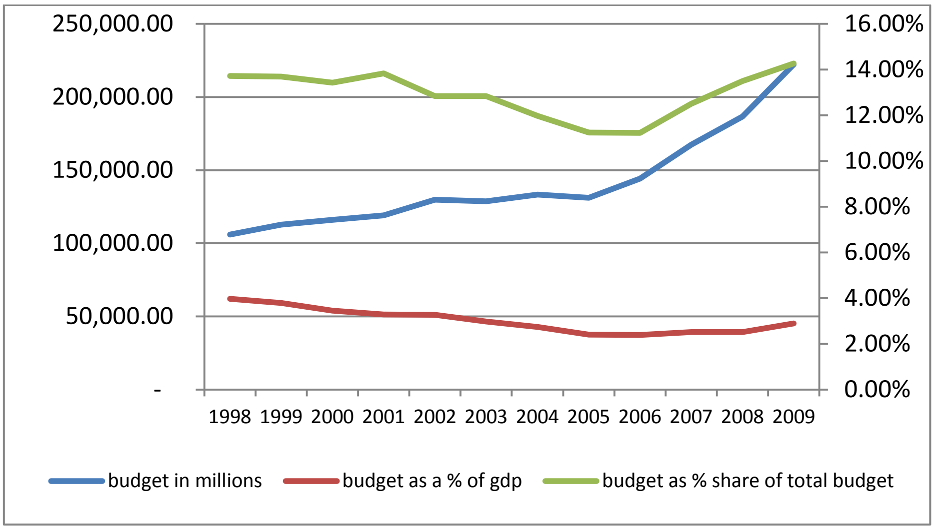
SECTORAL ASSESSMENT

Education

Funding for education has been consistently low. The quality of education and other educational outcomes are largely dependent on resources made available to support teaching and learning. For 2011, the budget of the Department of Education (DepEd) will sharply increase, representing 12.6 percent of the total national budget, and 2.3 percent of the projected 2011 GDP. While this is a welcome development, it must be noted that the amount allocated is still well below international standards. According to the World Bank, the average share of education in the national budget in developing countries is 20 percent while the UNESCO prescribes spending of at least 6 percent of GDP for education.

Perennial underinvestment in the education sector as evidenced by long-standing shortages in important enabling inputs like classrooms, teachers, chairs, textbooks and sanitation facilities have severely affected the country' educational performance in terms of access, efficiency and quality.

Figure 8. Budget for Education Culture and Manpower Development



Source: BESF, DBM

Results of the 2003 Functional Literacy, Education and Mass Media Survey (FLEMMS) show that 11.6 million or 34 percent of the population aged 6-24 were not attending school because they are working or looking for work; they lack personal interest or find the cost of education too high. Additionally, only 84 percent were found to be functionally literate. The magnitude of out-of-school youth and illiterate shows that the formal school system has failed to provide access to a large part of the population.

Moreover, participation rates for the elementary level have dropped to 75.6 percent in SY 2008-2009 from 83.3 percent in SY 2002-2003. Participation rate is also consistently higher in females than in males. The situation becomes even more alarming once dropouts are factored in. Elementary cohort survival rates for SY 2008-2009 showed that out of 100 students who entered Grade 1, only 78 reached Grade 6. Moreover, national ratios, as they are averages, appear to cover up severe discrepancies. In ARMM, for example, only 55 percent reached Grade 4 and 43 percent reached Grade 6. For the secondary level, 62 out of 100 students who entered first year reached fourth year and only 58 graduated. The gap between males and females is also much worse in the secondary level as only 51 out of 100 males complete high school compared to 64 in females.

Those that do manage to stay in school do not learn even the bare minimum required competencies. The National Achievement Tests (NAT) showed that the achievement rate for the elementary or Grade 6 level has improved from 55 percent in SY 2006-2007 to 66 percent in SY 2009-2010.[44] But it remains below the bare minimum of at least 75 percent. Second year students fared much worse as their NAT scores remained virtually unchanged during the said period.

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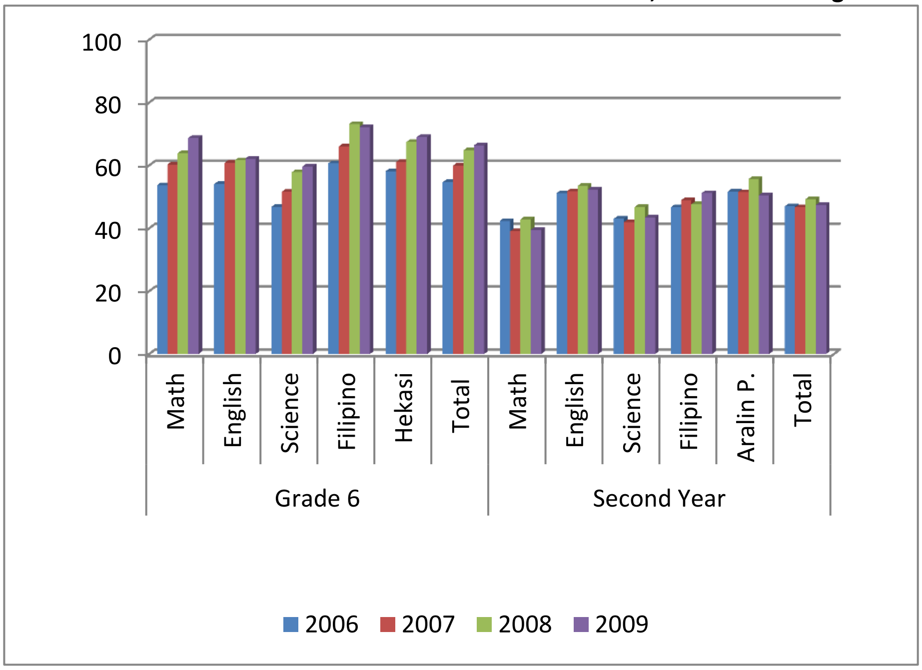
[44] The National Achievement Test (NAT) is an annual examination given by the Department of Education through the National Education Testing and Research Center (NETRC) to Grade 3, Grade 6 and 2nd year high school students. The NAT assesses the competency of both public and private school students in the subjects of Mathematics, English, Science, Filipino, and HEKASI for grade school and Mathematics, English, Science, Filipino, and Araling Panlipunan for high school. The achievement rate refers to the percentage of questions the students answered correctly. An achievement rate of 66 percent means that the students correctly answered 66 percent of the test items.

Table 11. Education Performance Indicators

		2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Participation Rate								
	total	83.3	81.7	76.6	77.3	76.1	75.5	75.6
	male	82.6	80.9	75.8	76.4	75.3	74.8	75.0
Elementary	female	84.0	82.6	77.4	78.2	76.9	76.3	76.1
	total	45.6	47.0	43.5	45.4	45.4	45.3	45.6
	male	41.8	43.0	39.2	41.3	41.3	41.5	42.0
Secondary	female	49.4	51.2	48.0	49.7	49.6	49.1	49.3
Cohort Survival Rate								
	total	69.5	63.6	63.8	60.5	64.3	65.7	77.9
	male	65.5	59.5	59.3	56.4	60.5	62.1	77.4
Elementary	female	73.9	68.1	69.0	65.1	68.5	69.6	78.4
	total	63.9	60.4	60.8	54.7	60.0	61.5	62.1
	male	56.7	53.4	54.3	47.5	53.7	55.5	56.3
Secondary	female	71.2	67.7	67.7	62.0	66.4	67.6	68.1
Completion Rate								
	total	66.9	62.1	62.1	59.0	62.8	64.3	77.6
	male	62.8	57.8	57.3	54.6	58.8	60.5	77.0
Elementary	female	71.6	66.9	67.5	63.9	67.4	68.5	78.3
	total	58.6	56.1	56.5	49.9	55.1	56.9	57.7
	male	51.1	48.8	49.4	42.1	48.4	50.6	51.5
Secondary	female	66.4	63.7	63.8	57.9	61.9	63.3	64.0
Drop Out Rate								
	total	1.3	1.4	1.3	1.4	1.3	1.2	1.1
	male	1.7	1.7	1.7	1.8	1.6	1.5	1.3
Elementary	female	1.0	1.0	1.0	1.0	0.9	0.9	0.8
	total	6.6	6.4	6.5	6.6	6.7	6.2	6.0
	male	8.9	8.7	8.9	9.0	8.9	8.3	8.1
Secondary	female	4.3	4.2	4.3	4.4	4.6	4.2	4.0

Source: Basic Education Information System, DepEd

Figure 9. National Achievement Test – Grade 6 and Second Year, Mean Percentage Scores



Source: National Educational Testing and Research Center

High population growth rate creates a severe strain on the education budget. The Philippine Human Development Report 2000 noted that one of the fundamental problems of the educational system is the rate of annual population growth. Its net effect has been a strain on classrooms, teachers, textbooks and other inputs. The population growth rate of 1.9 percent per annum has pushed teacher-student ratio in Manila to beyond 1:80 level and thus impeded the advancement of education quality (Oxford Business Group, 2010).

Governance concerns hinder the education sector. Studies showed that the Philippine educational system has an excessively centralized bureaucracy that tends to adopt a one-size-fits-all policy for culturally diverse contexts. It is also unresponsive to local needs and vulnerable to corruption (Philippine Human Development Report 2008/2009, 2009). Additionally, there is no continuity of programs. In the last 20 years, DepEd moved from one foreign-assisted project to another that was mostly undertaken on a pilot project basis (PIDS, 2009). The frequent changes in leadership[45], from secretary to assistant secretary positions also undermined policy and program continuity within the department. Newly appointed secretaries have been known to cancel or ignore the programs of their predecessors. It has also been observed that the bureaucracy is also credential-driven at the expense of quality and good performance while field managers lack management capacity based on the results of Educational Management Tests (Luz, 2008).

Direction for Reforms

Provide adequate funding for education. In the 1960s, the Philippines was generously spending 29 percent of the national budget for education. However, in the last four decades the government just allocated an average of 12 percent of the national budget for education while the international benchmark is 20 percent. Moreover, an average of less than 3 percent of GDP was spent for education from 2000-2009 while the international benchmark is 6 percent. Providing adequate funding will help the educational system catch up with shortages in important enabling inputs like chairs, teachers, classrooms and textbooks.

Amend the Roxas Law. RA No. 7880, otherwise known as the Roxas Law sets the formula for allocating the education funds for the construction of facilities and classrooms. It provides the annual DepEd's budget for capital outlay to be allocated among the legislative districts in the following manner: 50 percent of the total capital outlay to be allocated pro-rata according to each legislative district's student population in relation to the total student population of the country; 40 percent only among those legislative districts with classroom shortages, and 10 percent as may be determined by the DepEd. The priority given to population rather than to shortages has hindered the department from making more resources available where it is greatly needed.

[45] From 2001 to 2010, DepEd had six department secretaries.

Rationalize the SUC system. Studies showed that the social rate of return of tertiary education is less than the societal benefits of primary education. Low-income countries therefore benefit more from primary education, middle income countries from secondary education, and high income countries from higher education (ADB, 2008). In the Philippines, state universities and colleges (SUCs), exact a significant dent on the national budget and compete for funds that could be used for basic education. Additionally, as SUCs are established through legislation, it is susceptible to the interests of politicians and lobby groups. It is observed that political patronage and/or bargaining rather than the need for quality education has become the primary reason for the establishment of most SUCs. The Philippine Education Sector Study (World Bank and ADB) recommended that public higher education institutions in the country be rationalized through consolidation, mergers and phase-out (Imperial, 2007). Manasan (2008), however, observed that education spending for tertiary education in some regions is progressive and thus realigning budget allocation away from tertiary education towards basic education should be implemented with some exceptions.

Support the preschool education act. Studies have shown that early childhood care and development (ECCD) has a positive effect on cohort survival. Students who have undergone ECCD tend to stay in school longer and learn more. Currently, preschool education is not part of the formal education ladder. As a result, the dropout rates in the early years of learning are high. The proposed Preschool Education Act will institutionalize preschool in the basic education system, as a prerequisite to Grade 1, through which government provides free preschool education.

Adopt a 12-Year Basic Education Cycle. It has been observed that time spent on learning is positively correlated with student achievement. Countries having longer basic education cycles also scored higher in international assessment tests (CPBD, 2007). According to the DepEd, the Philippines has the shortest basic education cycle in Asia and is one of the three remaining countries in the world with a 10 year basic education cycle[46]. This is one of the factors why the country has been performing inadequately. Adopting a 12-year basic education cycle will allow more curriculum content and greater required competencies and will thus help the Philippines catch up with the rest of the world in terms of education quality.

Health

The health outcomes of Filipinos have generally improved over the last few decades in terms of longer life expectancy at birth (LEB), lower maternal mortality ratio (MMR), lower child/infant mortality rate (CMR, IMR) and better health outcomes in management of common diseases. However, progress has been slow. Compared to its ASEAN neighbors, it is lagging behind in improving health outcomes.

[46] All other countries have 12 or more years of basic education cycle.

Table 12. Health Outcomes of Selected ASEAN countries, 2008

Country	IMR	MMR	Under 5 Mortality Rate	LEB
Philippines	25[a]	162[a]	34[b]	67 (total)[c]
Thailand	16.3[d]	14[d]	20.4[d]	71.45 (total)[d]
Vietnam	16[c]	75.1[c]	26[c]	72 (total)[c]
Malaysia	6.3[c]	30[c]	8.1[c]	74.05 (total)[c]

Sources: a/ 2008 Statistical Indicators on Philippine Development, NSCB
b/ 2008 Philippine National Demographic and Health Survey 2008 Preliminary Report, National Statistics Office
c/ 2008 Statistical Tables, WHO
d/ WHO

The national average, when disaggregated into regional and provincial figures, indicates a more serious problem. In rich urban areas like Metro Manila, Cebu and Davao where adequate and modern health facilities and services are available, health outcomes are comparable to those of developed countries – i.e., LEB over 80 years, IMR less than 10, MM less than 15. In contrast, poor rural communities, such as those in Bicol, Samar and ARMM had scores almost in the same level of least developed countries – i.e., LEB under 60 years, IMR over 90, MM over 150.

The uncoordinated, inefficient spending by the national government, LGUs and the National Health Insurance Program (NHIP) puts a heavy toll on the households. The government is not spending enough for health. Annual average expenditure for health is pegged at only 3 percent of GDP or PhP0.25 per Filipino per day. The said rate of expenditure falls way below the WHO recommendation of 5 percent. The very low public spending on health has resulted in an overdependence on out-of-pocket spending.

The latest Philippine National Health Accounts (PNHA) showed that the burden of financing health care is still heaviest on individual families, with 54.3 percent or PhP127.3 billion of the PhP234.3 billion total health expenditure, coming from out-of-pocket spending of households. The out-of- pocket spending in 2007 is higher by PhP30 billion as compared with 2005 figure.

While government has come up with the National Health Insurance Program (NHIP) or PhilHealth which was intended to bridge inequalities in health financing by pooling funds from members who are healthy and can afford health care payment for those who are sickly and cannot afford medical care, only 85 percent or 78 million of the 92 million population is covered by NHIP. PhilHealth payments also contributed a mere 8.5 percent to total health expenditures in 2007. Under Philhealth's Sponsored Program, which covers indigent households, five million families or about 25 million beneficiaries were enrolled as of April 2010. Since premium payment under the said program is shouldered by national government and LGUs, it should be noted that its sustainability largely depends on availability of resources and the willingness of LGUs to enroll their constituents.

The low utilization of PhilHealth benefits by members in the lower income group is also a cause of concern. The low utilization rates by poor members is attributed to: (1) having little or no resources to pay for the remainder of the hospital bill after deducting the PhilHealth claim, (2) absence or inadequacy of PhilHealth accredited facilities, and (3) having inadequate information on the procedures for filing claims.

Even with the passage of the Cheaper Medicines Act of 2007 (RA No. 9502), cost of medications in the Philippines is still the second highest in Asia (2nd only to Japan). The Maximum Drug Retail Price (MDRP) under RA No. 9502 is only applicable to selected drugs. Out-of-pocket expenditures still outweigh government expenditure for medications (healthcare in general). To the poor who have NO capability of buying medications, no matter how low the price is, essential drugs remain inaccessible.

The inefficient geographical and sectoral distribution of the health workforce leaves health care concerns of roughly 70 percent of the population unaddressed. The country's human resource for health (HRH) finds itself in quagmire with the continuing high migration of health professionals to other countries, the demoralization of health care workers who stay and the deterioration of the quality of health education and training.

Health service delivery by LGUs leaves much to be desired. An increasing portion of Filipinos still prefer to seek treatment in tertiary hospitals, due to perceived poor quality of primary health care facilities. Thus, tertiary hospitals (which is managed and funded by the national government through the Department of Health) end up providing supposedly devolved services.

Health regulation remains weak and ineffective. The system for health regulations has been chronically inefficient and has not been used as an effective policy instrument. It suffers from regulatory capture being primarily driven by the interests of the enterprises trading in healthcare goods. Pricing and marketing of pharmaceuticals and other healthcare products have distorted national expenditures on these items in such a way that essential, lifesaving goods are either too expensive or absent from the market while items of dubious value dominate trade and commerce.

Direction for Reforms

Towards strengthening health systems, WHO (2007) recommended reforms in the following interrelated components: health financing, service delivery, health workforce, health information system, medical products, vaccines and technologies, and lastly, leadership and governance. While all components are important, health financing is most critical because improvements in all the others depend on adequate health finance.

Reform health care financing to pave way for universal health care. From 2000 to 2008, the average share of national government for health is 1.8 percent of the national budget. And while the health sector operates in a devolved system, the national government is still the major funding source for public spending on health. To adequately fund public health needs, government investments (national and local combined) should approximately equal 5 percent of government budget or at least PhP75 billion per year. This will reduce the large out-of-pocket spending of the public and accelerate the country's progress in achieving the health MDGs.

To increase funding for health, additional sources must be identified and reforms must be put in place. For instance, the incremental revenues resulting from the increased rates of sin products earmarked for the universal coverage of NHIP and for the disease prevention program of the DoH is currently at 2.5 percent (RA No. 9334). Raising the earmarked amount from its current rate may be considered. The timely release and efficient utilization of the earmarked fund must also be ensured. In addition, local governments must be mandated to identify and set aside a percentage of IRA for primary healthcare services, specifically, of health MDGs. Official development assistance (ODA) must also be tapped. Congress, however, should oversee the transparent, accountable and efficient utilization of ODA.

The NHIP must also be reformed to make it an effective tool in bridging health inequities. The enrolment drive must be intensified to expand membership among OFWs, casual and contractual employees as well as informal sector workers. Revision of the current schedule of premium contribution in proportion to ability to pay may also be considered to increase premium collections, which will allow expansion of PhilHealth coverage, especially to the poor.

Currently, the Sponsored Program is shouldered by the national government and the LGUs (provincial governor, municipal mayor, or barangay official) or congressmen. Proposals for national government to fully shoulder the premium payments of indigent members have been put forward previously. The said proposal however has to be modified such that full national government subsidy will only cover indigent members from third to sixth class LGUs for a certain period. The first and second class cities and municipalities should be tasked to fully cover premium payments of their indigent residents.

In addition, an initial package of basic health services, which will respond to the most critical health needs of the population, especially among the poor must be developed by DoH and Philhealth. The basic package availed by those in the lower income groups should be largely or fully subsidized by the national government or LGU. Together with PhilHealth, the DoH should also fast-track the accreditation of health facilities. Massive information campaign on the NHIP must also be undertaken.

Improve the Philippine health workforce. The key strategies to address this challenge are:

1) Integrate and strengthen health workforce regulatory functions through the creation of a single agency attached to the DOH to unify standards and regulations of the production, practice, and deployment of the various health professions.
2) Rationalize and standardize the production of healthcare workers by providing scholarships in health science and technical vocational education and training, especially to students coming from provinces with shortage of health workers and poor health outcomes, and by mandating learning and training institutions for health to deploy their students for training in different areas of the country, particularly those with shortage of health workers and hard to reach areas.
3) Increase compensation and benefits to human resource for health (HRH) in general, and those in hard to reach areas and/or hard to fill positions. A review of the Magna Carta of Public Health Workers is proposed together with provision for sanctions for violations by LGUs and private sector health facilities of labor laws.

4) Manage migration of health workers by entering into bilateral agreements and treaties with importing countries, which will provide ethical framework for the recruitment and deployment of HRH between contracting parties, and enforce mutual benefits and reciprocity.

Review the implementation of the Local Government Code to make health service delivery more integrated, efficient and effective. It is critical to ensure that primary health services are delivered efficiently by LGUs so that they can prevent the incidence of diseases such as diarrhea, bronchitis, influenza, pneumonia and TB. Preventive healthcare services do a lot more in the long run in protecting the people's health and require less amounts of budgetary allocation than medical treatments. The DoH and LGUs should collaborate to integrate health services delivery, either directly or through a unified and formalized referral system. Local health service delivery should be coordinated at the provincial level to ensure more coordinated and responsive local healthcare system.

Strengthen health regulations. Registration and other regulatory requirements for health goods should be redesigned to ensure not only safety and effectiveness of health products but also affordability, especially for government agencies. Marketing and other promotional activities for health products, including exorbitant advertising should be strictly regulated and even prohibited for certain goods.

Pass the RH bill. In 2007, the prevalence of HIV/AIDs in the country was at 0.1 percent of population and less than 5 percent of high risk population. Recently, however, the DoH said the rising number of cases is very alarming and a bad sign of an impending "explosion" of HIV/AIDS cases in the Philippines. In 2009, the number of HIV/AIDS patients reached 835. The ingredients of an AIDS epidemic, experts explained, have been the high prevalence of sexually transmitted infections, early sex debut, low rate of condom use and insufficient knowledge about the disease. Experts have long recommended that strategic efforts, such as upholding human rights and improving people's access to Reproductive Health (RH) services, be pushed so that progress on all health and MDGs targets is simultaneously achieved. They emphasize that the MDGs will not be met without effective RH programs as these strengthen individuals' capacities to live more productive lives and break out of poverty traps.

Housing

Access to safe and secure housing is one of the most basic human rights. To protect this right, the government has been engaging in direct production of housing units, regulation, finance, and provision of infrastructure. Studies, however, showed 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.

Due to the efforts of the housing agencies, 2 million households were served from 1987 to 2007. The number of households assisted is however, just 28.5 percent of the housing backlog for the said period and 49.3 percent of the modest targets. About 20 percent or 403,214 of the households served were the results of direct housing provision (resettlement, slum upgrading, sites and services and other projects). About 26 percent or 543,976 households benefited from tenurial assistance or community-based mortgage finance and 54 percent or 1,106,492 households from individual mortgage finance (Monsod, 2010). Data from the Housing and Urban Coordinating Council (HUDCC) showed that total housing need for 2011 to 2016 will likely be 5,732,454 units.

Table 13. Estimated Backlog, Targets and Households Served, 1987-2007 *(in '000s)*

	1987-1992	1993-1998	1999-2000	2001-2004	2005-2007	Total
Estimated Need	3,376	3,724	3,362	3,600	1,825	15,887
Backlog	1,182	2,225	1,139	2,069	585	7,200
Physical target	627	1,200	478	1,200	664	4,169
HH served	278	669	229	483	395	2,054
% Target	44.34	55.75	47.91	40.25	59.49	49.27
% Backlog	23.52	30.07	20.11	23.34	67.52	28.53

Source: Monsod

Table 14. Total Housing Needs, Calendar Year, 2011-2016

Region	Year						Total
	2011	2012	2013	2014	2015	2016	
PHILIPPINES	1,380,537	1,173,456	997,438	847,822	720,649	612,552	5,732,454
NCR	418,328	355,579	302,242	256,906	218,370	185,614	1,737,039
CAR	10,035	8,530	7,250	6,163	5,238	4,453	41,669
I – Ilocos	48,323	41,075	34,913	29,676	25,225	21,441	200,653
II – Cagayan Valley	29,582	25,145	21,373	18,167	15,442	13,126	122,834
III – Central Luzon	112,675	95,774	81,408	69,197	58,817	49,994	467,865
IV-A - CALABARZON	158,723	134,915	114,677	97,476	82,854	70,426	659,071
IV-B - MIMAROPA	27,696	23,542	20,010	17,009	14,457	12,289	115,003
V – Bicol	66,307	56,361	47,907	40,721	34,613	29,421	275,329
VI – Western Visayas	90,111	76,594	65,105	55,339	47,039	39,983	374,171
VII – Central Visayas	78,934	67,094	57,030	48,475	41,204	35,023	327,761
VIII – Eastern Visayas	44,759	38,045	32,338	27,488	23,364	19,860	185,854
IX – Zamboanga Peninsula	30,199	25,669	21,819	18,546	15,764	13,399	125,396
X – Northern Mindanao	54,446	46,279	39,337	33,437	28,421	24,158	226,078
XI – Davao	67,911	57,724	49,066	41,706	35,450	30,132	281,989
XII - SOCCSKARGEN	47,291	40,197	34,168	29,043	24,686	20,983	196,368
XIII – CARAGA	38,025	32,321	27,473	23,352	19,849	16,872	157,893
ARMM	57,191	48,612	41,320	35,122	29,854	25,376	237,476

Source: HUDCC

Several factors were seen to have caused the huge supply and demand gap in housing. On the demand side, rapid urbanization brought about continuous rural-urban migration while high population growth constantly created new demand for shelter (Ballesteros 2005). The 2007 census showed that the country's population increased by 12 million in just seven years, from 76.5 million in 2000 to 88.6 million in 2007. Projections show that by 2050, urban population will be 117 million or 84 percent of total population (HUDCC and PIDS 2009).

On the supply side, challenges arise due to problems in the land and financial markets. Inefficiencies in land administration result in higher transaction costs while revenues from real estate property cannot be fully collected (Ballesteros, 2005). The lack of resources devoted to the housing sector is worsened by poor governance. For instance, the coordinative mechanisms for the housing sector are weak. There are currently six key shelter agencies that are tasked to address different aspects of the housing sector and the activities of these agencies are not always coordinated or do not have a strategic focus (HUDCC and PIDS, 2009). In addition, the private sector lacks incentives to build affordable housing units for the poor. Finally, there is difficulty in accessing financing, especially by the poor who do not have sufficient funds to outrightly purchase or build houses (Llanto and Orbeta, 2001). Metro Manila among Asian cities has the highest average annual housing price appreciation of about 32 percent per year (Ballesteros, 2002).

Direction for reforms

Create a DHUD to enhance coordination among shelter agencies. Lack of coordination of the housing agencies have led to the creation of councils and committees tasked to address the issue. However, they have been ineffective in achieving coordination and synchronization of various housing and urban services (HUDCC and PIDS, 2009). In addition, the subsidies to the housing sector were not targeted very well. The poor who need decent shelter the most were not the main beneficiaries of these subsidies (Llanto and Orbeta, 2001).

The creation of the Department of Housing and Urban Development (DHUD) would rationalize the existing shelter agencies and harmonize and provide strategic focus on housing plans, policies, programs and projects. The DHUD should be given control of the housing budget and the shelter agencies functions relevant to housing and urban development should be clearly delineated (HUDCC and PIDS, 2009). Increased capitalization for the Community Mortgage Program should also be pursued. The Community Mortgage Program[47] administered by the Social Housing and Finance Corporation (SHFC) is able to deliver increased homeownership among the poor along with providing a higher collection efficiency ratio than other government housing finance programs (Ballesteros, 2004, UN Habitat 2009 and Ballesteros, 2009).

[47] A group lending scheme that assists informal settlers to purchase the land they occupy or the land where they will be relocated, administered by the SHFC.

Enact a land use law. At present, land laws are unclear and inconsistent and land use is not clearly defined. Because there is confusion regarding the actual use of the land, the government's response to land disputes has been unpredictable. It supports sectors favoring agricultural use over housing, business and non-agricultural use at one time or vice versa at another time. The enactment of a land use law will end the confusion brought by the inconsistent laws on land utilization and would allow the proper management of the competing uses of land (Llanto and Ballesteros, 2003, Ballesteros, 2005, HUDCC and PIDS, 2009).

Enact a land administration reform act. The country's land administration infrastructure is inefficient. There are numerous agencies involved in land administration but they are not coordinated and have overlapping responsibilities. In addition, systematic information on land and real estate properties are not available and real property valuation is not standardized. This has resulted in high transaction costs in securing, registering and transferring property rights. The passage of a law that will reform the system of land administration in the country by integrating the separate land administration agencies into one institution and standardize valuation will ease transaction costs associated with titling and management. This, in turn, will reduce the cost of housing and other land development projects (Llanto and Ballesteros, 2003, Ballesteros, 2005, HUDCC and PIDS, 2009).

Agriculture

Most of the poor people in the Philippines are in the rural areas and majority of these people are dependent on agriculture as their primary source of livelihood. The rural poor in the country are composed of small and landless farmers, farm workers, fisherfolk and indigenous people, all of whom are consistently among the poorest sectors in the country and heavily dependent on agriculture. Poverty in rural areas is a continuing problem and it is reported that the incidence of rural poverty is twice that of urban poverty. Furthermore, the data suggested that, through the years, the incidence of rural poverty has declined much more slowly than of urban poverty.

The process of rural development is clearly thus one of the primary factors essential to the sustained reduction of poverty. World Bank estimated show that there is ample evidence that agricultural growth is particularly effective in reducing poverty, whether directly, by increasing farm incomes, or indirectly, through job generation and lower food prices. The government recognizes this potential, with the MTPDP stressing the importance of energizing and modernizing the sector to achieve sustainable and inclusive economic growth. However, agriculture in the Philippines has not been able to live up to its considerable promise. In fact, the sector has been stuck in a pattern of boom and bust in the last several decades.

A number of major pieces of legislation serve as the framework for agricultural policy in the Philippines. These include the Agriculture and Fisheries Modernization Act (AFMA), the Fisheries Code and the Comprehensive Agrarian Reform Law (as well as the subsequent law amending and expanding it). However, there have been serious gaps and failures in the implementation of the various major agriculture related laws.

Slow implementation of the Comprehensive Agrarian Reform Program. The Comprehensive Agrarian Reform Program (CARP) was enacted in 1988 as the government's centerpiece for social justice program aimed to provide equity and poverty alleviation in the rural areas. However, the slow implementation of the land redistribution component of the program has blunted and lessened the potential social welfare benefits of the program. As of June 2009, 22 years after it was first enacted, only around 83 percent of the total land redistribution target has been achieved. This figure is, in fact, bloated by the public lands redistributed as part of the program. The accomplishment rate for private lands is a relatively poor 70 percent.

Poor implementation of the AFMA. The Agriculture and Fisheries Modernization Act (AFMA), which was passed in 1997, was envisioned to be the comprehensive blueprint for the transformation of the rural economy through an ambitious and wide-ranging package of policies and aimed to introduce modern technology, increase availability of rural finance, increase investments in agricultural infrastructure and others. However, some factors have combined to hamper the implementation of the AFMA, primarily the lack of financial support, the suboptimal allocation of already meager resources, and institutional and governance weaknesses. A number of studies have pointed out how public investments in agriculture have not only been way below the actual requirements of the sector, but worse, have been poorly allocated and utilized. Despite the requirements set in the AFMA, very little public resources have been assigned to such critical areas as agricultural research and development (R&D), rural infrastructure (including irrigation, rural roads, etc.) and agricultural extension, all of which are likely to provide greater and more broad-based gains for the sector. In their place, the government has spent quite a lot providing short-term fixes in the form of subsidizing inputs such as fertilizer and seeds.

Lack of resources, institutional weaknesses and poor implementation and enforcement of the Fisheries Code. The Fisheries Code was meant to provide a comprehensive blueprint for the development and management of the country's fisheries sector. However, its potential effectiveness has been hampered by lack of resources and poor enforcement of the Code. Funding for various critical areas such as credit for fisheries and aquaculture, fisheries R&D, and adequate post-harvest facilities has ranged from minimal to non-existent. Technical guidelines for determining appropriate fishing levels consistent with scientifically determined maximum sustainable yields have not been enforced. Enforcing and managing fishing efforts have also been poorly implemented, and this has often been blamed on the lack of resources. Overall, governance and bureaucratic weaknesses further undermine the effective management of the fisheries sector.

Conflicting, costly and inefficient rice marketing policies. The government policy of "stabilizing" the price of rice, both for producers and consumers, has been proven to be very costly and difficult to implement efficiently and effectively. The National Food Authority (NFA) implements the price stabilization mandate by maintaining a high farmgate buying price for palay to ensure a reasonable return for farmers while also selling rice at low prices to ensure that affordability for poor consumers. Maintaining this policy has been very costly for the government, with the NFA contributing PhP27.03 billion to the consolidated public sector deficit in 2009 alone. Despite these massive expenses, NFA's ability to influence the price of palay for the majority of rice farmers has been negligible. At the same time, the NFA's program to distribute cheap rice to poor consumers has been hampered by poor targeting, substantial leakages and corruption. With government's resources already spread quite thin, there has been a longstanding concern that the NFA's current operations are far too costly and inefficient and that massive policy and institutional reforms need to take place immediately.

Climate-related risks pose significant threats to agriculture. Historically, the agriculture and fisheries sector has always been particularly vulnerable to extreme weather conditions such as droughts, typhoons and floods as well as the periodic occurrences of phenomena such as El Niño and La Niña. The frequency and intensity of these weather related threats are likely to increase as the country begins to feel the effects of climate change. In the wake of these developments, more R & D efforts must be oriented to improve climate change resiliency for the agriculture and fisheries. There is also a need to strengthen and improve the implementation of the country's current agriculture and fisheries insurance system.

Institutional and governance weaknesses in the agriculture bureaucracy. The full and proper implementation of agricultural policy in the Philippines is further hampered by various institutional weaknesses in the agriculture bureaucracy. The structure of the agriculture bureaucracy in the country is filled with numerous, fractured, poorly-coordinated agencies with overlapping and duplicate functions all competing for a share of an already limited budget. On top of these, the effectiveness of the institutions is further hindered by issues such as overcentralization, politicization of the bureaucracy and corruption.

Directions for Reforms

Institute reforms in the NFA. There is an urgent need to review the mandate and operations of the National Food Authority (NFA) and introduce reforms that would both stem the financial hemorrhage and improve operational effectiveness of the agency. One such alternative would entail the separation of the regulatory and commercial functions of the NFA, effectively creating two distinct agencies. Under this scheme, the current price intervention policy ("buy low, sell high") of the NFA would also be dropped and other measures (such as conditional cash transfers) could be put in place to address the needs of the poorest consumers.

Provide stronger congressional oversight with regard to the implementation of AFMA, the Fisheries Code and the CARPER*.* Congress has already put in place critical legislations which should have had significant positive impacts on agriculture and fisheries. However, numerous factors such as the lack of resources, misplaced priorities, absence of political will, poor enforcement of regulations and outright corruption has hindered the implementation of these laws. Congress should exercise its oversight function to ensure that important legislation such as the AFMA and the Fisheries Code receive the necessary financial resources and are implemented properly.

Pass a national land use act. Enacting a national land use act would be of great benefit to agriculture as this would help ensure optimal, equitable and sustainable allocation and use of land and natural resources, protection of prime agricultural lands from being exploited for other purposes, and guarantee long-term food security for the country. Such a law would also be vital in resolving land use policy conflicts.

Fixing the agriculture and fisheries extension system. The extension system serves as the vital link between the R&D system and the farmers and fisherfolk in the field. Strengthening this institution would not only ensure that the agricultural technology developed in the laboratories are understood, adopted and appropriately utilized by the intended beneficiaries but also that the researchers are better informed of the needs of their clients to enable them to conduct more relevant research. Increasing allocated resources for extension as provided for in the AFMA is crucial.

Complete the implementation of land reform in the country. Improving the access to land for the rural poor is beneficial not only from an equity perspective but also in terms of economic efficiency. Developing countries with high land inequality are generally expected to have lower long-term income growth rates. There is also ample evidence that the Philippines' land reform efforts have been successful in raising rural sector incomes. However, the slow pace of completing land reform threatens to undermine these potential gains. The passage of the law extending the implementation of CARP (with some reforms) should be seen as an opportunity to finally complete the land redistribution process. In addition to this, the government should also be open to using alternative schemes to facilitate land redistribution. Although politically difficult to adopt, the implementation of a progressive agricultural land tax policy could be a cost-effective way to limit land ownership concentration while raising government revenues in the process.

Tougher anti-smuggling mechanisms are needed to protect local agricultural producers. Congress should also enact amendments to the Tariff and Customs Code to strengthen the current anti-smuggling mechanisms in order to guarantee that local agricultural producers are protected. Improved biosafety and phytosanitary protocols are also essential in this regard.

Gender

Gender mainstreaming is central in promoting human development. This requires recognizing the important role of women in nation building in general, and in attaining the MDGs in particular. In the global scene, the Philippines' gender equality indicators score favorably. In the 2009 Human Development Report of the United Nations Development Programme (UNDP), the Philippines ranks 86 out of 155 countries in the Gender Development Index (GDI). The country also did well in the Global Gender Gap Index (GGI) of the WEF[48], where it holds the distinction of being one of only two Asian nations (the other being Sri Lanka) among the top 20, and is among only 12 in the world who have closed the gender gap in both education and health.

[48] The World Economic Forum is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agenda.

However, the Philippines seems to be losing ground in its quest for deleting gender disparity. Its GGI ranking in 2009 slipped from No. 6 to No. 9 out of 134 countries. WEF noted that this is because of a drop in women's labor force participation as well as in perceived wage inequality between women and men employed in similar positions (SEPO, 2009).

Table 15. Philippines' Ranking in HDI, GDI and GEM, 1995-2007

Year	HDI Rank	GDI Rank	GEM Rank
1995	100	64	28
1997	98	81	35
1999	77	65	45
2001	70	62	46
2003	85	66	35
2005	90	77	45
2007	105	86	59

Source: UNDP Human Development Reports, various years
Note: HDI -- human development index; GDI -- gender development index; GEM -- gender empowerment measure
Note: The passage of Republic Act 7192 or the Women in Development and Nation Building Act in 1992 affirms the indispensable role of women in all aspects of national development and ensures the fundamental equality before the law of women and men. It mandated the National Economic and Development Authority and National Commission on the Role of Filipino Women to assess the extent to which government agencies' programs, activities and projects (PAPs) integrate women in the development process and of the impact of PAPs on women.

The Gender and Development (GAD) Budget, which was institutionalized through the 1995 General Appropriations Act became the implementing tool of Women Involved in Nation Building (WIN) Act of 1992. The Philippine Plan for Gender and Development operates within the framework of gender equality and women empowerment. Every year hence, all government agencies are required to allocate 5 percent of their budget to be used for gender-responsive programs, projects and activities.

However, the GAD budget fell short of the required minimum of 5 percent of annual appropriations. GAD allocations throughout the past years were erratic. The NCRFW reported that from 2004 to 2007, the national agencies' GAD budgets decreased by more than 75 percent, from PhP3.93 billion to PhP0.95 billion. In that period, the national GAD budget made up less than 1 percent of total appropriations (amounts are based on the agencies' submission to DBM), from 0.63 percent in 2004 to 0.15 percent in 2007. In 2008, GAD allocation further contracted to 0.09 percent. Overall, for the period 1995 to 2008, there was not even a single year when GAD allocation reached 5 percent of the national budget (SEPO, 2009).

Direction for Reforms

Pass the marital infidelity bill. While the implementation of Magna Carta of Women is a positive proactive policy intervention to promote women's welfare, it does not outrightly eliminate discriminatory provisions in the Revised Penal Code. The crimes of adultery and concubinage are two of these. The marital infidelity bill intends to eliminate the double standard between husband and wife so that the fundamental equality of men and women before the law will be promoted. This bill specifically proposes to penalize marital infidelity by amending the crimes of adultery and concubinage under the Revised Penal Code without prejudice to the women.

Pass the anti-prostitution bill. Studies showed that poverty is generally the main driver of prostitution. At present, the Revised Penal Code, particularly the provision on anti-vagrancy, assigns to the prostitutes, often women and children, the criminal liability when they should be considered as the victims. An anti-prostitution law should decriminalize prostitution and instead impose greater penalties on the perpetrators such as the business and buyers of prostitution as they consist the demand side to this system of exploitation. The law should also provide protective measures and support services for all victims-survivors of prostitution, especially women and children.

Fully implement the Magna Carta of Women (RA No. 9710). The Magna Carta of Women, which was passed in 2009, elevated the GAD Budget as a key institutional mechanism to adopt gender mainstreaming as a strategy to promote the welfare of women. It addresses the issue of weak institutional set up among National Commission on the Role of Filipino Women (NCRFW), National Economic Development Authority (NEDA) and the Department of Budget and Management (DBM). The new law also calls for the integration of GAD in all levels of development planning, maintenance of sex-disaggregated database, and involvement of other government agencies apart from NEDA and DBM. In addition, this new law requires monitoring and evaluation of GAD programs through annual audit by COA. The successful implementation of this law will provide women opportunities to reap the full benefits of programs and projects funded by the GAD budget.

Labor and Employment

Employment is considered to be one of the major routes out of poverty because labor power is often the only factor of production that the poor possess. The Philippines track record in generating employment generation, however, has been generally weak given its rapidly increasing labor force. The 2004-2010 MTPDP targeted 6-10 million jobs to be created during the said period but this goal was not met and only 4.7 million new jobs were created. As a result, unemployment remains to be a perennial problem, with the unemployment rate reaching 7.5 percent or over 2.8 million unemployed by the end 2009. The unemployment rate during that year is the second highest in East Asia, next to Indonesia. The underemployment rate,[49] which is a more serious problem and is particularly prevalent in rural agriculture and the informal sector, is even higher at 19.2 percent.

[49] The underemployed are those employed persons who desire to have additional hours of work in their present job or to have a new job with longer working hours

Table 16. Comparative Unemployment Rates,
Selected Asian Countries, 2009 *(in %)*

Country	2008	2009
Philippines	7.4	7.5
Indonesia	9.1	8.4
Malaysia	3.2	3.3
Taiwan	3.9	4.1
Singapore	2.1	2.2
South Korea	3.3	3.2
Vietnam	4.3	4.7
Thailand	1.4	1.4
Brunei	4.0	3.7

Source: Bureau of Labor and Employment Statistics, Department of Labor and Employment

The lack of productive employment in the country has forced Filipinos to seek employment opportunities overseas. From 2000 to 2009, OFW deployment increased at an average growth rate of 4.6 percent, the highest being in 2007 where deployment peaked at 1.3 million deployed sea-based and land-based OFWs. Despite the global financial crisis, OFW deployment remained high. Studies have shown, however, that the diaspora has had alarming social and economic costs.

Direction for Reforms

Enact laws that hinge on improving the investment climate to generate jobs. Congress should enact laws that can stimulate capital-building and infrastructure, and improve the level of governance as these concerns directly impact job generation. Providing channels for technology capacity building and skills upgrading will likewise have a positive impact on the capacity of the economy to generate more jobs.

Pass a "kasambahay" bill. Domestic workers are important members of the household. However, the nature of their work makes them particularly vulnerable to human rights abuses. They are often underpaid and lack social security benefits. Domestic work has no minimum age requirement, and the terms of reference and working hours are unclear. There is hence a need to pass a law that will set the minimum monthly salary and benefits that should be received by domestic workers, as well as the minimum standards of documentary and physical requirements that should be met both by the employer and the employee such as contracts, work tenure and benefits.

Enact a Magna Carta for workers in the informal employment. Based on the 2008 Labor Force Survey, workers in the informal economy constitute 14.8 million of the Filipino workforce. Its share in total employment is estimated to be 43.5 percent. Despite their contribution to the economy, informal workers are not recognized as legitimate. Because they are outside the regulatory coverage of the government, they lack social protection and their working conditions are often precarious. They are unorganized and underrepresented in relevant policymaking bodies. The passage of a Magna Carta for informal workers will recognize the real economic value of their work and provide standard registration and accreditation.

Pass a Magna Carta for seafarers. Filipino seafarers dominate the supply of manpower in the maritime industry, accounting for as much as 20 percent of the world's total supply of seafarers onboard. However, occupational safety provisions for the protection of Filipino seafarers, which are scattered in various laws, including the Labor Code and Migrant Workers Act, do not suffice to address the circumstances that currently beset seafarers. The Migrant Workers Act of 1995 was crafted to address the situations faced by overseas landbased workers only. A law that will specifically address the plight of the seafarers is yet to be passed.

Review and amend the Labor Code of the Philippines. With the continuous evolution of the economic environment, some of the provisions of the Labor Code have already become obsolete. There is hence a need to conduct a thorough review of the provisions in the Labor Code to reflect the current realities of the market and to ensure the balance between the interests of business and labor.

Managing the Environment

The country's increasing vulnerability to the negative effects of climate change has once again highlighted the degraded state of the Philippine environment and shows how the continued exploitation of the country's natural resources severely undermines the ability of ordinary Filipinos (especially the poor and the marginalized) to withstand and recover from the impact of natural disasters. Environmental degradation has long been identified as one of the leading reasons for the persistence of poverty and underdevelopment in the Philippines. The historical mismanagement of the country's environment and natural resources over the last 50 years has resulted in poor living conditions that heavily impact on the physical health and well being of ordinary Filipinos, and significantly limit their ability to improve their quality of life. It may therefore be assumed that the government's attempts to address poverty and underdevelopment will be more successful when they are integrated with policies and programs that directly address the root causes of environmental degradation in the country.

State of the Philippine Environment

According to the Food and Agriculture Organization (FAO), the Philippines is considered to be one of the most severely deforested countries in the tropics, and is among the countries with the lowest per capita forest cover in the Asia-Pacific region. Latest data from the Forestry Management Bureau (FMB) showed that as of 2003, the Philippines had only 7.2 million hectares of forested land left or only 23.9 percent of the country's original 27 million hectares of forested land. Deforestation is expected to have serious repercussions on the availability and quality of water resources in the Philippines where water scarcity is already becoming a problem. As it is, 15 percent of all households remain without access to clean and potable water (NEDA, 2005). This situation is expected to deteriorate further as population growth results in an increasing demand for water resources. With an annual growth rate of 2.04 percent, the Philippine population is expected to reach 100 million by 2014 (NSO, 2000). Rising temperatures associated with climate change, coupled with the effects of rapid population growth and the severe deforestation of the country's critical watershed areas, have already reduced the availability of groundwater significantly. Acute water shortages have already been recorded during the dry season, especially in densely populated urban areas such as Metro Manila, Metro Cebu, and Baguio City. A study by the Japan International Cooperation Agency (JICA) and the National Water Resources Board (NWRB) has estimated that all major cities in the Philippines will experience water shortage by 2025 unless drastic reforestation and water conservation measures are adopted and implemented immediately.

The persistence of deforestation in the Philippines presents a number of serious challenges to the country's socioeconomic development, especially in the rural areas. The massive clearing of upland forest areas results in massive soil erosion that threatens agricultural productivity. During the rainy season, precious topsoil is carried away by rainwater and is deposited in rivers and streams along the way before finally ending up in the ocean. Rising soil deposits in rivers, streams and coastal areas increases siltation that negatively affects the biological health of these watercourses and reduces their overall quality and productivity. The deterioration of the country's watersheds and bodies of water is also compounded by an acute lack of sewage and wastewater facilities in the

Philippines. In the absence of these facilities, most wastewater from households and industries are untreated and flow directly into the country's rivers and lakes. As such, 180 of the country's 421 rivers (42.8 percent) are considered heavily polluted and are on the verge of being declared biologically dead according to the Department of Environment and Natural Resources (DENR).

The resulting loss of trees and topsoil from deforestation also means that rather than be absorbed by the ground and replenish the water table, rainwater instead flows down to the lowlands exposing residents to flashfloods during the rainy season. This is particularly worrisome given the fact that typhoons and other extreme weather phenomena are expected to increase in both frequency and intensity with the growing threat of climate change. Last year, typhoons *Ondoy* and *Pepeng* left 355 people dead, displaced 3.9 million people, and caused damages estimated at US$4.4 billion (2.6 percent of the country's gross domestic product) according to the World Bank. Typhoon Frank, which hit the country in June 2008, was similarly destructive, taking the lives of 622 people and causing US$260 million in damages. In February 2006, 10 straight days of heavy rain and a minor earthquake triggered a massive landslide in Guinsaugon, Southern Leyte, killing 1,126 people in one of the world's deadliest landslides ever.

Air pollution is also a serious problem in most major metropolitan areas in the Philippines despite the passage of Clean Air Act 11 years ago. While total suspended particulates (TSP) levels in the air have been going down since the passage of the Clean Air Act, they are still way above globally accepted TSP level of 90 micrograms per cubic meter (ug/Ncm). Data from the Environmental Management Bureau (EMB) showed that TSP levels in Metro Manila remain high at 131 ug/Ncm, with most of the pollution (84 percent) coming from motor vehicle emissions. Poor air quality has serious repercussions on the health and productivity of the population. A recent study by the World Bank has estimated that 14 people die each day from cardio-respiratory illnesses resulting from outdoor air pollution in Metro Manila.

Coastal marine resources in the Philippines are also under grave threat. Decades of pollution, unregulated resource exploitation, and the indiscriminate development of coastal areas have all contributed to the deteriorating health of the country's marine resources. Mangrove forests, which serve as buffers for storms and breeding grounds for fish and other animals have been depleted significantly. According to the World Bank, only 140,000 hectares (31 percent) of the country's original 448,000 hectares of mangrove forest remain. The deterioration of coastal marine resources will have significant negative impacts on the country if left unabated. Fifty-six percent of the Philippine population lives along or near the coastline. FAO has also estimated that 23 percent to 43 percent of an average Filipino's daily protein requirement comes from eating seafood.

The Philippines already has a number of critical laws that when implemented effectively, will provide the framework for improving the protection of the environment and the efficient and equitable management of the country's natural resources. The Renewable Energy Act of 2008 (RA No. 9729) and the Clean Air Act of 1999 (RA No. 8749) are both aimed to improve air quality and reduce the amount of carbon emissions released into the atmosphere. Both mandate the use of more efficient technologies for transportation and reduce the Philippines' reliance on imported carbon- based fossil fuels for power generation through the promotion and development of the country's extensive renewable energy resources. The Clean Water Act of 2004 (RA No. 9275) calls for the protection of domestic water resources from pollution and contamination by regulating the activities of industrial, agricultural, and domestic/household users, and prohibiting them from indiscriminately discharging their waste and other pollutants into bodies of water. Water pollution and other problems associated with inadequate garbage disposal (such as flooding) are also addressed by the Ecological Solid Waste Management Act of 2000 (RA No. 9003), which provides the legal framework for a systematic and comprehensive ecological solid waste management program.

Direction for Reforms

Left unabated, the heavy impacts of environmental degradation will continue to limit whatever gains the government achieves in terms of socioeconomic development and poverty alleviation. As such, the following reforms are recommended:

Enact a national land use policy. Environmental stability can be significantly improved if the country will adopt a resource-based development framework that focuses on ecological stability and sustainability. The national land use bill will institutionalize land use and physical planning at the national and local levels, and promote responsible and equitable allocation and administration of land and its corresponding natural resources. Under the bill, critical areas (such as national parks, upland watershed areas, and strategic agricultural and fisheries zones) will be identified and set aside first to ensure the country's ecological integrity and guarantee food and water security for the population. Areas vulnerable to flooding, landslides and rising sea levels should also be identified and cordoned off.

Improve land registration and administration systems in the country. Aside from the national land use act, the passage of the land administration reform bill will significantly improve land administration in the country by integrating existing land administration laws and establishing a Land Administration Authority (LAA) that will consolidate the powers and functions of the Land Registration Authority, Land Management Bureau, and the National Mapping and Resource Information Agency.

Ensure that policies and programs are based on sound scientific data and techniques*.* The availability of accurate and timely scientific data is vital in helping countries plan for the future. However, the Philippine government's capacity to provide accurate and timely data has been severely constrained by a lack of budget that prevents the government from investing in methods and technologies that are needed by policymakers to make sound and informed decisions on the use and allocation of critical natural resources. For example, the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA) is burdened by antiquated methods and equipment that have been overtaken by more current technologies. PAGASA's inability to accurately predict localized weather patterns effectively limits the government's ability to adequately respond to the adverse effects of storms, droughts and other extreme weather phenomena on food and water security, and make the necessary preparations that will prevent the loss of human lives and limit damages to physical infrastructure. The DENR is likewise constrained by a similar lack of funding that prevents it from collecting and releasing critical environmental indicators such as forest cover, groundwater levels and fish stocks, among others, annually. As such, funding for new equipment and staff training in these agencies will need to be prioritized as soon as possible.

***Ensure the strict implementation of environmental laws**.* As discussed earlier, Congress has already passed an array of laws that can significantly improve the protection and management of the country's environment and natural resources. However, many of these laws (such as the Clean Air Act, Clean Water Act, Ecological Solid Waste Management Act, etc.) are not consistently and effectively implemented and enforced by the concerned national line agencies and LGUs. Antonio Oposa Jr., renowned environmental lawyer and 2009 Ramon Magsaysay Awardee, pointed out in an interview that "[the Philippines has] the most number of laws passed but in the matter of implementation much still has to be accomplished." To improve enforcement, Congress should use its oversight functions to regularly check up on national line agencies and ensure that the various environmental laws are really being implemented. Otherwise the valuable time, effort, and resources put into crafting these various laws will have been wasted.

***Formulate and implement an appropriate pricing and incentive system**.* Critical resources (such as groundwater) have been wasted over the years because their price does not reflect their true cost, resulting in their inefficient and careless utilization. As such, a framework of economic incentives, controls, and pricing mechanisms that promote the most efficient use of critical natural resources (such as land and water) needs to be formulated and implemented immediately. The environmental costs of resource extraction and pollution need to be considered in the equation to reflect the true price (or cost) of various critical environmental goods and services.

***Mobilize the stakeholders**.* Mobilize the direct and indirect resource users (i.e., LGUs, NGOs, local communities, etc.) by empowering them through capacity building and environmental education initiatives. The active participation and involvement of stakeholders addresses the lack of valuable manpower, especially in far-flung rural areas, helps establish transparency and accountability in environmental management, and promotes the efficient and equitable allocation of local natural resources.

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Senate Economic Planning Office
Room 513, Senate of the Philippines
Financial Center, Pasay City
Tel. Nos. 552-6601 local 4176, Telefax 552-6824
Email address: sepo@senate.gov.ph