Recovery Beyond the Pandemic:
Paving the Way Towards a Future-Ready Philippines

A Proposed Legislative Agenda for the 19th Congress

Senate Economic Planning Office
July 2022

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FOREWORD

The previous Congresses saw the passage of laws that sought to enhance the investment climate of the country, accelerate inclusive economic growth, ensure a robust flow of revenues for improved government services, and strengthen the social contract with the Filipino people. The past 18th Congress was devoted to passing public health and economic relief and recovery measures to ease the effects of the global health emergency, especially on the most vulnerable.

The 19th Congress now finds itself at a pivotal moment: addressing the social and economic scarring left by the pandemic while confronting the defining issues and emerging risks of our time such as climate change, natural resource crisis, emergence of infectious diseases and outbreaks, digital equity, rising commodity prices, inflation and debt, a generation of lost potential, and erosion of social cohesion. The challenge thus remains -- how can the government work toward a more inclusive and resilient future where economic prosperity is founded on equitable socio-economic development and a healthy, safe, and secure environment?

In line with our mandate to provide technical advisory support to the Members of the Senate in their task to enact relevant and timely legislation, the Senate Economic Planning Office (SEPO) humbly presents to the Honorable Senators a proposed legislative agenda for the 19th Congress entitled "Recovery Beyond the Pandemic: Paving the Way Towards a Future-Ready Philippines." This report is a product of desk review of critical socio-economic, environmental, and political issues informed by consultations with experts from the public and private sectors. It is our endeavor that the priority measures suggested in this report will contribute to the parliamentary work of the Honorable Senators as they shape their respective legislative agenda for a sustainable post-pandemic recovery.

The hard work and dedication of SEPO officers and staff in this collaborative undertaking is highly appreciated.

RONALD R. GOLDING
Director General

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ADE	average daily expenditure
AFP	Armed Forces of the Philippines
ALOS	average length of stay
AMLC	Anti-Money Laundering Council
ARBs	Agrarian Reform Beneficiaries
ASEAN	Association of Southeast Asian Nations
ASF	African Swine Fever
AusAID	Australian Agency for International Development
BAP	Bankers Association of the Philippines
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BFAR	Bureau of Fisheries and Aquatic Resources
BHWs	Barangay Health Workers
BJMP	Bureau of Jail Management and Penology
BLGF	Bureau of Local Government Finance
BOT	Build-Operate-Transfer
BSP	*Bangko Sentral ng Pilipinas*
BTr	Bureau of the Treasury
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon
CARP	Comprehensive Agrarian Reform Program
CATV	Cable Television
CEFA	Cold Examination Facility in Agriculture
CIS	Collective Investment Schemes
CMTA	Customs Modernization and Tariff Act
CO	Capital Outlays
COMELEC	Commission on Elections
COVID-19	Coronavirus Disease 2019
CPI	Corruption Perceptions Index
CPP-NPA	Communist Party of the Philippines-New People's Army
CREA	Centre for Research on Energy and Clean Air
CREATE	Corporate Recovery and Tax Incentives for Enterprises
CTG	communist terrorist group
CTRP	Comprehensive Tax Reform Program
DA	Department of Agriculture
DBCC	Development Budget Coordination Committee
DBP	Development Bank of the Philippines
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DHSUD	Department of Human Settlements and Urban Development
DICT	Department of Information and Communications Technology
DMW	Department of Migrant Workers
DOF	Department of Finance
DOH	Department of Health

DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DOT	Department of Tourism
DSWD	Department of Social Welfare and Development
DTH	direct-to-home
DTI	Department of Trade and Industry
ECQ	Enhanced Community Quarantine
EdCom 2	Second Congressional Commission on Education
EO	Executive Order
EPEB	Environmental Protection and Enforcement Bureau
EPI	Environmental Performance Index
EPRA	Extended Producer Responsibility Act
EPRI	Employee Pension and Retirement Income
FBI	Federal Bureau of Investigation
FDI	Foreign Direct Investments
FIRe	Fourth Industrial Revolution
FOI	Freedom of Information
FTAA	Financial or Technical Assistance Agreement
GAA	General Appropriations Act
GCG	Governance Commission for GOCCs
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GHG	greenhouse gas
GMRC	Good Manners and Right Conduct
GNI	Gross National Income
GOCCs	Government-Owned and -Controlled Corporations
GSIS	Government Service Insurance System
GTI	Global Terrorism Index
GVA	gross value added
HCI	Human Capital Index
HEIs	Higher Education Institutions
IC	Insurance Commission
ICM	Integrated Coastal Management
ICSC	Institute for Climate and Sustainable Cities
ICT	Information and Communications Technology
ID	identification
IFC	International Finance Corporation
IGFTs	Inter-Governmental Fiscal Transfers
IHL	International Humanitarian Law
ILO	International Labour Organization
ISIL	Islamic State of Iraq and the Levant
IMF	International Monetary Fund
IRA	Internal Revenue Allotment
IRM	Interim Reimbursement Mechanism

ISPs	Internet Service Providers
ITA	Internet Transactions Act
IT-BPM	Information Technology and Business Process Management
ITU	International Telecommunication Union
IWRM	Integrated Water Resources Management
K to 12	Kindergarten to Grade 12
LBP	Land Bank of the Philippines
LDF	Local Development Fund
LE	List of Establishments
LFS	Labor Force Survey
LGC	Local Government Code
LGUs	Local Government Units
LHBs	Local Housing Boards
LIBOR	London Inter-Bank Offered Rate
LPD	livestock, poultry and dairy
MARINA	Maritime Industry Authority
Mbps	megabits per second
MOOE	Maintenance and Other Operating Expenses
MPS	Multi-member Plurality System
MPSA	Mineral Production Sharing Agreement
MSBs	money services businesses
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
MUP	Military and Uniformed Personnel
MVUC	Motor Vehicles User's Charge
NBI	National Bureau of Investigation
NBP	National Bilibid Prison
NCDs	non-communicable diseases
NDC	Nationally Determined Contribution
NDRRMC	National Disaster Risk Reduction and Management Council
NEDA	National Economic and Development Authority
NEP	National Evaluation Policy
NG	National Government
NGAs	national government agencies
NHIP	National Health Insurance Program
NO_2	nitrous dioxide
NPL	non-performing loan
NQI	National Quality Infrastructure
NRI	Network Readiness Index
NSWMC	National Solid Waste Management Commission
NTA	National Tax Allotment
NTC	National Telecommunications Commission
NTDP	National Tourism Development Plan
OBI	Open Budget Index
ODA	Official Development Assistance

OESPA	Office of Ethical Standards and Public Accountability
OFWs	Overseas Filipino Workers
OOP	out-of-pocket
OSR	own-source revenues
P3	*Pondo sa Pagbabago at Pag-asenso*
PACC	Presidential Anti-Corruption Commission
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PCC	Philippine Competition Commission
PCIC	Philippine Crop Insurance Corporation
PDIC	Philippine Deposit Insurance Corporation
PDP	Philippine Development Plan
PERA	Personal Equity Retirement Account
PFIs	private financial institutions
PFM	Public Financial Management
PhilHealth	Philippine Health Insurance Corporation
PIDS	Philippine Institute for Development Studies
PIFITA	Passive Income and Financial Intermediary Taxation Act
PISA	Programme for International Student Assessment
PM2.5	Particulate Matter 2.5
pmp	per million population
PNP	Philippine National Police
POGO	Philippine Offshore Gaming Operations
PPA	Philippine Ports Authority
PPP	Public-Private Partnership
PSA	Philippine Statistics Authority
PSEI	Philippine Stock Exchange Index
PSF	People's Survival Fund
R&D	research and development
RA	Republic Act
RCEF	Rice Competitiveness Enhancement Fund
RCEP	Regional Comprehensive Economic Partnership
RPC	Revised Penal Code
RPT	Real Property Tax
RTL	Rice Tariffication Law
SB Corp.	Small Business Corporation
SDGs	Sustainable Development Goals
SEC	Securities and Exchange Commission
SEPO	Senate Economic Planning Office
STRIDE	Science, Technology, Research and Innovation for Development
SUCs	State Universities and Colleges
TDGVA	Tourism Direct Gross Value Added
TESDA	Technical Education and Skills Development Authority
TIEZA	Tourism Infrastructure and Enterprise Zone Authority
TIMSS	Trends in International Mathematics and Science Study
TRAIN	Tax Reform for Acceleration and Inclusion

TVET	Technical and Vocational Education and Training
UHC	Universal Health Care
ULE	Updating of the List of Establishments
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
UP-MSI	University of the Philippines Marine Science Institute
USA	United States of America
USAID	United States Agency for International Development
WB	World Bank
WFH	work-from-home
WGI	Worldwide Governance Indicators
WHO	World Health Organization
WRI	World Resources Institute
VASPs	Value-Added Service Providers
VAT	value-added tax

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OVERVIEW

The Philippines appears to have weathered what is arguably the most serious crisis it has faced in recent history. After suffering from the staggering health and economic impact of the Coronavirus Disease 2019 (COVID-19) pandemic, the country seems to have regained its footing, with the domestic economy expanding by 5.5 percent in 2021 and 7.8 percent in the first semester of 2022. While there is still no certainty on whether the worst of the pandemic is over, forecasts show that with further easing of restrictions and the resumption of more productive activities, the country is poised for a robust economic growth at least in the near term.

Past reform efforts of the Legislature rendered it possible for the country to somewhat withstand unprecedented events, but the latest crisis is a sobering and urgent reminder that there is still much work to be done. The pandemic has laid bare the vulnerability of Filipinos to shocks and highlighted the glaring weaknesses in the country's economic, social and governance systems. It exacerbated pre-existing inequalities and reversed in an instant some of the hard-won development gains that took decades to achieve. Even up to now, the extent and depth of the scars left by the pandemic are yet to be determined.

Clearly, the government needs to get its affairs in order and ensure that the country is better positioned to cope with the next crisis, when it strikes, which it certainly will. In fact, even as the Philippines grapples with the throes of recovery from the COVID-19 pandemic, it is facing multiple threats on various fronts. Apart from the danger of new, emerging and reemerging infectious diseases, rising inflation, elevated fiscal and financial risks, geopolitical conflicts, natural disasters, and climate change acceleration loom large on the horizon. That these are set against the backdrop of increasing global interconnectedness and in the course of the Fourth Industrial Revolution (FIRe) make the situation even more challenging.

It thus falls upon the Members of the Senate of the 19th Congress to build the best line of defense for the country against future shocks of any kind. The Senate must step up its efforts towards future preparedness and see to it that vital policy and structural reforms are pursued not only to mitigate the risks but also to seize the opportunities that the new normal and the unknown future bring.

This proposed legislative agenda aims to support the fast-tracking of current recovery efforts and more importantly, the decisive move towards an inclusive, sustainable and more importantly, future-ready Philippines. Future readiness means being resilient and being able to adapt and respond to current and future disruptions. It requires a forward-looking lens and entails the strengthening of the country's internal capabilities and the realignment of its resources to stay on top of any challenge. Prepared by the Senate Economic Planning Office (SEPO), this legislative agenda outlines the following six key strategies and the corresponding reform proposals that the Members of the Senate of the 19th Congress may consider as priority to improve the country's future preparedness:

1. Fortifying macroeconomic stability
2. Enhancing competitiveness and resiliency of growth sectors

3. Strengthening digital connectivity
4. Ensuring responsive basic and social services
5. Securing the future through environment and climate change action
6. Uniting the nation through transparent, responsive and adaptive governance

The discussion of each strategy includes a situational assessment to provide relevant policy contexts. The list of reform measures that follows is by no means exhaustive and contains only those that the SEPO deems as the most essential and most urgent based on desk reviews and consultations with various national government agencies (NGAs) and other stakeholders on their priority legislative measures.

It has been said that change favors the prepared. As the country recovers from the devastating impact of the pandemic, it must also brace itself for the next wave of disruption. The Philippines can no longer afford to be caught ill-equipped to respond to the uncertainties of the future and the inevitable changes coming its way. Future readiness with an all-of-government and all-of-society approach must hence be at the center of the Senate's policy agenda.

Chapter 1

FORTIFYING MACROECONOMIC STABILITY

The Philippines was in a relatively stable economic footing prior to the onset of the pandemic owing to the fiscal and macroprudential reforms done over the past successive administrations. The domestic economy was growing by an average of 6.6 percent for the period 2016-2019, driven largely by strong consumer demand which accounts for close to 70 percent of the Gross Domestic Product (GDP). Except for a temporary spike in 2018,[1] inflation was broadly manageable during the said period and remained within the 2 percent to 4 percent target range. The National Government's (NG) fiscal position was sound with the fiscal deficit staying below or close to the benchmark ratio of 3 percent of GDP.[2] The NG debt-to-GDP ratio is on a downward trajectory and stood at a record-low of 39.6 percent in 2019. The country's financial sector likewise enjoyed strong capital and foreign exchange buffers with international reserves exceeding the recommended levels.

Two years into the pandemic, this fairly rosy picture has been altered. The government's finances are no longer as strong with the fiscal deficit widening to 8.6 percent of the GDP in 2021, the highest since 1986. The deficit improved to 6.5 percent of GDP in the first semester of 2022 but was still more than double in the pre-pandemic years. Meanwhile, the NG debt-to-GDP ratio has risen to 62.1 percent in the first half of 2022, exceeding the 60 percent threshold set by the international community for emerging markets. Commodity prices have gone up, driven by supply constraints due to the ongoing Russia-Ukraine conflict. As a response to the increasing prices and the weakening currency, the Bangko Sentral ng Pilipinas (BSP) has implemented three policy rate hikes, for a total of 125 basis points this year, but the 6.4 percent inflation recorded in July 2022 ramps up the pressure for monetary authorities to further raise the interest rates. This could potentially impact on consumption and investment spending and may hurt the economy which has already suffered a two-year setback, notwithstanding the 7.8 percent GDP growth rate it recorded in the first semester of 2022.

While current conditions remain benign, it would do well for the government to begin rebuilding and fortifying the country's macroeconomic fundamentals. This is crucial not only to meet current demands but also to mitigate the negative impact of any future shock. Having enough fiscal space afforded the government budgetary room to provide economic stimulus and expand its social protection programs during the pandemic. Financial institutions were also able to manage their liquidity positions due to adequate capitalization and provisioning coverage. Maintaining more than enough level of foreign exchange likewise made the financial sector less vulnerable to sudden capital flow reversals, exchange rate risks, and external debt distress, among others. In light of the daunting challenges that the economy is facing, reforms that seek to strengthen the stability of the fiscal and financial sectors to spur growth and guard against shocks must continually be considered.

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[1] In 2018, inflation hit 5.2 percent on account of the rise in international oil prices, disruption of rice inventories, as well as, to some extent, demand factors associated with overheating risks.

[2] Fiscal position is the difference between government revenues and expenditures. Posting a fiscal deficit means that government is spending more than what it has collected in revenue, in which case, the shortfall would have to be borrowed (i.e., deficit financing). The deficit-to-GDP ratio gives us the size of the deficit relative to the size of the economy. In the same way, the debt-to-GDP ratio gives us the size of government debt relative to the size of the economy. Both indicators are used to gauge the country's capacity to pay off its debt.

A. *Ensuring Fiscal Sustainability*

1.1 Over the years, the government has been embarking on a fiscal consolidation strategy that aims to raise revenues, improves spending quality and efficiency, manages the deficit, and sustains the debt levels. Some of the more recent measures that were passed into law are the Tax Reform for Acceleration and Inclusion (TRAIN) Law (Republic Act No. 10963) which was approved in 2017, Tax Amnesty laws (RA No. 11213 in 2018 and RA No. 11569 in 2021), the Tobacco Tax Law of 2019 (RA No. 11346), the Strengthening of the Country's Gross International Reserves (RA No. 11526) which was passed in 2019, the Philippine Offshore Gaming Operations (POGO) Law (RA No. 11590) and the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act (RA No. 11534) which were both enacted in 2021. However, continuing reforms are necessary to address lingering issues especially those made worse by the COVID-19 pandemic, as well as to cope with the rapidly revolving economic landscape.

1.2 Strengthening domestic resource mobilization is a key challenge. More revenues are needed to shore up recovery and sufficiently fund the country's development objectives, including the attainment of the Sustainable Development Goals (SDG).[3] In 2019, total revenues of the NG amounted to PhP3.1 trillion, of which, 90 percent are from tax revenues. The tax effort (measured by the tax collection-to-GDP ratio) reached 14.5 percent but this dropped to 14.0 percent in 2020 when the economy fell into a recession, and then slightly increased to 14.1 percent in the following year. Tax collection for the first semester of 2022 was more encouraging at 14.9 percent of the GDP, exceeding the Department of Finance's (DOF) conservative goal of 14.2 percent for the year (Table 1). To sustain this momentum, the government must widen the tax base by plugging existing loopholes in the tax system and exploring new or underutilized sources of tax revenues. The movement of tax administration towards the digital frontier must likewise be accelerated to ease both administrative and compliance burden and to improve taxpayers' trust and confidence in government.

Table 1. *Fiscal Performance, 2019-First Semester 2022*

In PhP billion *or as otherwise indicated*	2019	2020	2021	2022 Jan.-Jun.
Revenue	3,137.5	2,856.0	3,005.5	1,727.5
Ratio to GDP (in %)	*16.1*	*15.9*	*15.5*	*16.7*
Tax Revenue	2,827.7	2,504.4	2,742.7	1,541.2
Ratio to GDP (in %)	*14.5*	*14.0*	*14.1*	*14.9*
Expenditure	3,797.7	4,227.4	4,675.6	2,401.7
Ratio to GDP (in %)	*19.5*	*23.5*	*24.1*	*23.3*
Deficit	660.2	1,371.4	1,670.1	674.2
Ratio to GDP (in %)	*3.4*	*7.6*	*8.6*	*6.5*
NG Debt	7,731.3	9,795.0	11,728.5	12,791.8
Ratio to GDP (in %)	*39.6*	*54.6*	*60.4*	*62.1*

Note: Adapted from the Bureau of the Treasury (BTr) Cash Operations Report, various years
Source: DOF

[3] The Philippines is one of the 193 countries of the United Nations (UN) which has committed to achieve the 17 Sustainable Development Goals (SDGs) and their 169 targets by 2030. Adopted in 2015, the SDGs is a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

Reforms should be carefully designed so as not to undermine recovery and keep equity in check. With an eye to the future, reforms should also take into account how the tax system could promote the adoption of more inclusive and sustainable consumption and production patterns.

1.3 Effective expenditure management is the other component of fiscal consolidation. Poor public fund management may compromise macroeconomic stability and undermine the ability of the government to deliver critical goods and services to its constituents. During the pandemic for instance, the government provided COVID-19 stimulus packages and increased its spending by 11.0 percent in 2020 and by 10.6 percent in 2021. While this helped blunt the impact of the crisis for the vulnerable households and firms, the implementation of the relief package was hounded by delays. Moreover, even as concerns were raised against the adequacy of the fiscal support relative to the need, allegations of corruption marred the procurement of some government supplies.

1.4 Even prior to the pandemic, the low level of public spending for social services (i.e., education and public health) was already an issue.[4] There are two parts to the problem of low public spending—one would be the lower-than-ideal level of appropriation and the other is poor budget execution such that there is deviation between the programmed budget and actual spending. Reform measures that address the latter have been introduced; these include the one-year validity of appropriations as well as early procurement-short-of-awarding. Nonetheless, NGAs need to further improve their absorptive capacities and reforms must be institutionalized to address the spending bottlenecks. For example, reform in public procurement processes is a work in progress as there remain issues regarding international competitive bidding, restrictions on the participation of wholly-owned foreign suppliers, lack of an institutionalized mechanism for reporting fraudulent/corrupt practices, and weak control and audit systems.

1.5 Moreover, the resource-generating and spending capacities of local government units (LGUs) should be enhanced to reduce their dependence on the national government. The low level of revenue collection at the subnational level is partly attributed to weak tax administration and to the lack of an accurate database for taxpayer registration (including cadastral information for real estate taxes). In 2020, fund transfers to LGUs accounted for 19.6 percent of total public spending while the internal revenue allotment (IRA) constituted an average of around 60 percent of LGU income. With the implementation of the Mandanas-Garcia ruling beginning 2022, LGUs will see bigger budgets, but there are concerns on whether they can easily absorb a significant increase in revenues (World Bank, 2021) given their utilization rates of the Local Development Funds (LDF).

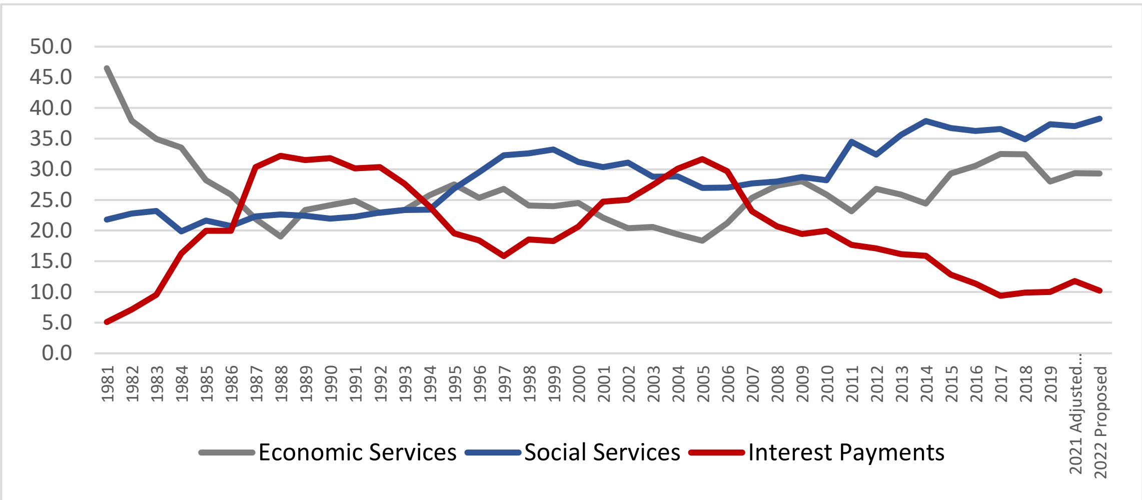
1.6 The right mix of tax and spending policies is crucial to reduce the record-high fiscal deficit and the sharp increase in the debt level. The fiscal deficit reached PhP1.7 trillion in 2021, equivalent to 8.6 percent of the GDP while in just a span of two years, NG debt grew by more than half (54.1%) from 2019 to 2021. It must be noted though that the country's debt level was already on an upward trajectory even before the pandemic, climbing from PhP6.6 trillion in 2016 to PhP8.2 trillion in 2019

[4] For instance, public spending on health remained below the benchmark figure of 5 percent of GDP. Likewise, a study by Abrigo (2021) highlighted that public spending on education lags regional peers and that there is room to improve schooling quality by identifying and scaling cost-effective education interventions that would better translate resource inputs (public spending) to desired education outcomes (better student performance in standardized testing).

or a 24.5 percent growth. This was attributed by the government to the increased spending for its Build, Build, Build infrastructure program. Latest figures for the first semester of 2022 show that the debt-to-GDP ratio has already gone up to 62.1 percent, exceeding the 60.0 percent debt-to GDP ratio that is used as an international benchmark to gauge the sustainability of a country's debt level for emerging countries.

1.7 Keeping the debt at a high level makes the economy more vulnerable to shocks. Debt servicing could take up a bigger share of public expenditure and could crowd out spending on social and economic services. This was the case in the late 1980s up to the early 1990s, and then again in the early 2000s (Figure 1). While the situation now may be different, elevated debt levels could likewise have implications on the creditworthiness of the government and could therefore lead to higher borrowing costs. This highlights the importance of pushing through with the planned fiscal consolidation program so that the debt level would remain at sustainable levels.

Figure 1. *Spending on Interest Payments, Social and Economic Services Ratio to Total Expenditure (in %)*



Note: Adapted from Budget of Expenditures and Sources of Financing (BESF), various years

Direction for Reforms

Adopt a single valuation base for taxes on real property and a uniform valuation standard. This proposed measure is the third package of the government's Comprehensive Tax Reform Program (CTRP). It seeks to address the problem of outdated schedule of (land) market values, which prevent LGUs from raising sufficient levels of their own-source revenues. Adopting a single valuation base and a uniform valuation standard would help LGUs maximize their own revenue collection, and in turn, promote genuine local autonomy.

Simplify the tax system applicable to financial products and services. Known as the proposed Passive Income and Financial Intermediary Taxation Act (PIFITA), this measure is the fourth package of the government's CTRP. It aims to simplify the current tax system on financial products and services which has been described as complicated, susceptible to arbitrage, costly and inequitable. Such conditions impede the attainment of financial inclusion and hampers the development of the country's financial market. Simplifying the tax system will make it more progressive and will reduce compliance costs. It will make the financial products and services accessible and inclusive thereby broadening and deepening the country's capital market.

Adopt a legal framework for taxing digital transactions. The lockdowns triggered by the COVID-19 pandemic have resulted in more people moving towards the digital economy. This shift poses a challenge in the areas of direct taxation and tax administration given the intangible nature of digital transactions. The proposed measure seeks equal tax treatment for traditional (i.e., brick and mortar) and digital enterprises by clarifying the imposition of value-added tax (VAT) on digital transactions and services—thereby generating revenues from new sources.

Amend the Motor Vehicle User's Charge (MVUC) Law. The MVUC Law (RA No. 8794) mandates the collection of a road user's tax, the proceeds of which are earmarked for the maintenance of roads and for air pollution control. It is a specific tax levied for each unit of motor vehicle. and the rate varies depending on the type and weight of the vehicle and whether it is for hire, or for private or government use. The rate has not been adjusted to inflation since 2004, thus eroding the revenue value. The use of multiple rates also makes the tax system complex. The proposal aims to impose a unitary rate based on the weight for all vehicles and seeks to merge various road funds with the general fund to improve transparency and linkage with the National Budget.

Rationalize the mining fiscal regime. This proposed measure aims to increase government revenues from mining and encourage full public disclosure and scrutiny of the extractives industry by rationalizing and instituting a single fiscal regime applicable to all mineral agreements. Currently, the mining industry is under two fiscal regimes: Mineral Production Sharing Agreement (MPSA) and Financial or Technical Assistance Agreement (FTAA). This has resulted in an uneven playing field as different tax treatments are granted under each agreement. The reform proposal also includes the imposition of a royalty rate for all large-scale mining operations and an export tax on the gross value of mineral ore to encourage downstream and proper valuation of minerals.

Impose an excise tax on single-use plastic bags. Despite the passage of regulatory measures on solid waste disposal, plastic pollution remains a huge challenge. The consumption of single-use plastic, in particular, poses significant negative externalities. Plastic pollution exacerbates the climate crisis that often disproportionately affects the poor and the vulnerable. Imposing a tax on plastic bags is expected to drive demand away from such items and result in the increased use of more durable and/or more sustainable alternatives. Aside from protecting the environment, this measure would generate additional revenues for the government. The proposal, however, needs to be balanced in a way that also addresses the possible additional burden that it would pose to consumers and businesses.

Impose corrective taxes particularly for alcopops, cigarettes, e-cigarettes, sweetened beverages, and non-nutritious food. There is a need to influence consumer behavior to deter over-consumption of these products as studies show that excessive intake of such has adverse health and social outcomes. Aside from its health objectives, this proposed measure would also boost the revenue collections of the government.

Pass the Budget Modernization Bill. This proposed measure seeks to address the gaps in the country's public financial management (PFM) system and strengthen its adherence to international standards and best practices. It aims to institutionalize reforms encompassing the whole budget process (from planning, execution and oversight), enforce fiscal responsibility and strengthen transparency and accountability. Such framework is expected to reinforce the link among budget planning, execution and performance management, and ensure adequate safeguards in managing public finances.

Reform the pension system of the military and uniformed personnel (MUP). Currently, the pension system of the MUP is non-contributory and as such, the national government fully subsidizes their retirement and pension benefits. According to the Development Budget Coordination Committee (DBCC), the actual spending for MUP pension has already exceeded the expenditures for the Capital Outlays (CO) and the Maintenance and Other Operating Expenses (MOOE) of the military and uniformed services. Based on an actuarial study by the Government Service Insurance System (GSIS), an annual appropriation of PhP848.4 billion for the next 20 years will be needed to finance the MUP pension system. This poses a significant fiscal burden and sustainability risk. Reforming the MUP pension system will ensure the government's fiscal stability without undermining the provision of fair retirement benefits for the nation's primary defenders.

Pursue the rightsizing of the bureaucracy. This proposed measure primarily aims to enhance the government's institutional capacity and service delivery. Rightsizing seeks to make the bureaucracy more effective and efficient by reviewing which government bodies have redundant, duplicating or overlapping functions, which have outlived their purpose, and which units need to be created or strengthened. Rightsizing the bureaucracy will free up resources and provide room for other productive programs and projects of the government. Personnel who will be affected by the reform should be provided options such as early retirement schemes with the appropriate incentives, retooling, reappointment to government service, reemployment, or job referrals, among others.

B. Enhancing the Stability of the Financial Sector

1.8 As with the fiscal sector, the government also successfully passed several landmark laws beginning in the 2000s that accelerated the growth of the financial markets, either by improving the regulatory environment which raised business and consumer confidence or by opening the sector to foreign competition. Some of these important laws include the following: General Banking Law of 2000; Special Purpose Vehicle Act of 2002 and its extension; Securitization Act of 2004; Personal Equity and Retirement Account (PERA) Act of 2008; Real Estate Investment Trust Act of 2009; Financial Rehabilitation and Insolvency Act of 2010; Full Entry of Foreign Banks in the Country in 2014; National Payments Systems Act, and the Foreign Investments Act of 2022, among others. These reforms accelerated the development of the country's financial sector while also building up its resilience as demonstrated during the height of the COVID-19 pandemic.

1.9 <u>*Banks.*</u> The banking sector continues to exhibit a strong performance as shown by its declining non-performing loan (NPL) ratios and stable capital buffers which remained above the standards set by the BSP and the Bank of International Settlements. As of May 2022, the banking system's gross NPL ratio was at 3.75 percent, lower than the 4.49 percent recorded for the same period in 2021 but still high compared to the pre-pandemic NPL ratio of 2.2 percent in February 2020. Similarly, the banking sector's capital adequacy ratio was at 16.66 percent in December 2021 which is far above the 10 percent threshold set by the BSP and the international standard of 8.0 percent.

1.10 *Bonds.* In the case of the local currency bond market, there was a marked increase in the stock of local currency government bonds which rose to US$140.24 billion in 2020 and to US$158.95 billion in 2021 from only US$101.49 billion in 2019. This is to be expected as the government had to significantly increase its debt issuance to fund additional social spending in the face of shrinking tax revenues during the pandemic. In contrast, the stock of local currency corporate bonds settled at US$27.87 billion in 2021 which was lower than the US$29.7 billion in 2019 and US$3.57 billion in 2020.

1.11 *Equity.* As of July 17, 2022, the Philippine Stock Exchange Index (PSEI) settled at 6,286.24 index points which is way above the 4,778.76 index points reached when the strict lockdowns were first imposed in Metro Manila and nearby provinces. Unfortunately, the ongoing policy normalization in the United States of America (USA) which is driving funds out of emerging economies like the Philippines, together with its poor economic outlook due to the impact of rising inflation on domestic consumption, has dampened investors' interest especially among foreign investors.

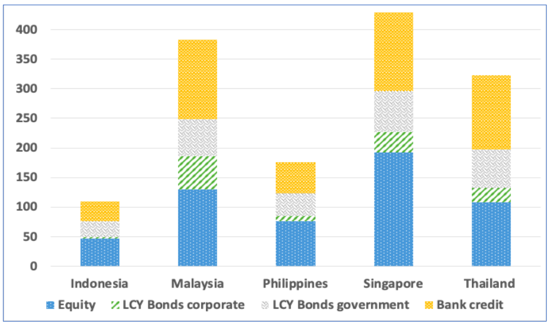
1.12 In 2020, the total assets of the Philippine financial sector covering both banks and non-bank financial institutions grew by 6.0 percent, from PhP23.1 trillion in 2019 to PhP24.5 trillion. Such growth, amid the country's worst economic performance since 1947, speaks well of the sector's resiliency that took decades to build. Nevertheless, while the sector managed to expand by 6.7 percent in 2021, this is a considerable drop from its average annual growth rate of 17.4 percent for the period 2010-2019.

1.13 Furthermore, the size of the country's financial sector relative to GDP remains small vis-à-vis its regional peers. In 2020, the size of the Philippine financial sector relative to GDP is around 175 percent,[5] a far fourth compared to the regional leader that is Singapore, whose financial sector is equivalent to 429 percent of its GDP (Figure 2).

1.14 The country's local currency bond (debt) market likewise remains shallow as it continues to be dominated by government bonds. Of the PhP9.8 trillion local currency bond market as of end-2021, 82.8 percent (equivalent to PhP8.1 trillion) are in government bonds while the remaining (PhP1.4 trillion) are accounted for by corporate bonds (Figure 3). Moreover, market capitalization of the county's listed domestic companies is the lowest among its regional peers (Table 2).

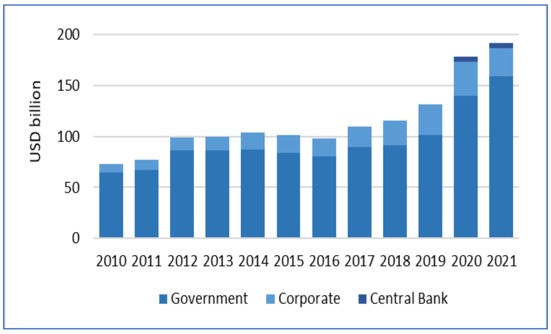
[5] The financial sector encompasses the equity, local currency bonds, and bank credit segments of the Philippine finance sector.

Figure 2. *Size of Financial Market (as % of GDP), 2020*



Note: Adapted from the Asian Bond Online, ADB

Figure 3. *Local Currency Bonds Outstanding (in US$ billion, 2010 to 2021)*



Note: Adapted from the Asian Bond Online, ADB

Table 2. *Market Capitalization of Listed Domestic Companies (in US$ billion), 2000 to 2020*

Country	2000	2005	2010	2015	2020
Indonesia	26.8	81.4	360.3	353.2	496.0
Malaysia	113.1	180.5	408.6	382.9	436.5
Philippines	25.9	39.8	157.3	238.8	272.7
Thailand	29.2	81.4	277.7	348.8	543.1
Singapore	152.8	257.3	647.2	639.9	652.6

Note: Adapted from World Development Indicators by World Bank

1.15 A key challenge for policymakers is how to further develop the financial sector after reverting to its pre-pandemic growth path. Economic literature provides that a well-developed and resilient financial sector can strengthen monetary policy transmission (to fulfill its core mandate of maintaining price stability) and can help reduce vulnerabilities from exchange rate shocks and sudden reversals of capital flow. This is especially relevant now as inflationary pressures are on an uptick and there is increasing volatility and uncertainty in global financial markets.

1.16 As the government tries to sustain its expenditure level in support of economic recovery, a deep financial market could provide an alternative source of financing. For the private sector, a well-developed financial market could likewise provide alternative investing (i.e., saving) opportunities that can offer better returns (vis-à-vis bank deposits for instance). Given a wide range of investment products and instruments, investors can diversify their portfolios and thereby better manage risks.

1.17 The underlying problem of poor liquidity in the local bond and equity markets may be attributed to the relatively small number of listed companies, the insufficient number of large investors and a corresponding small number of issues, and low retail participation. The proposed PIFITA (as referred to in the previous section) could help address the issue pertaining to poor liquidity and low retail participation.

1.18 Though the government sees the digital transformation of the financial system as a means of building resilience against shocks and achieving financial inclusion, the increased adoption of digital payments has also brought a rise in highly sophisticated financial cybercrimes. Various studies have shown that the Philippines is highly susceptible to crimes involving digital technology. According to the 2021 Internet Crime Report published by the US Federal Bureau of Investigation (FBI), the

Philippines is in the top 20 countries that reported the greatest number of cybercrime victims.[6] The Bankers Association of the Philippines (BAP) has estimated that around PhP1 billion was lost in 2020 due to financial cybercrimes. In a study by global security firm Kaspersky, at 9.9 percent of the population, the Philippines ranked highest among the six major Association of Southeast Asian Nations (ASEAN) countries most exposed to phishing attacks on financial transactions.

1.19 In the case of money services businesses (MSBs), the Anti-Money Laundering Council (AMLC) reports that more than 50 percent of financial transactions related to online exploitation of minors were coursed through the said sector. This is most unfortunate given that the non-bank financial institutions like MSBs also play a crucial role in improving financial access to residents found in areas not served by banks. As of the third quarter of 2021, there are 7,573 MSBs offices (including head offices and branches) operating in the country, a jump of 4.0 percent from 7,280 in the same quarter of 2020. In terms of access, this makes it the third biggest provider of financial services after pawnshops and banks.

1.20 It is imperative that the government implement crucial reforms that ensure an enabling environment for the ongoing digital payments transformation by safeguarding public confidence in the financial system. By ensuring rogue elements are effectively punished and regulatory loopholes are closed, then the country will fully maximize its potential for financial inclusion and futureproofing.

Direction for Reforms

Amend the Bank Secrecy Law. The Philippines is now the only country in the world that maintains absolute secrecy for bank deposits. The country's AMLC, in a report published by the US State Department, identified the strict confidentiality imposed by the current Bank Secrecy Law (RA No. 1405) as a hindrance in its investigations of possible money laundering. The International Monetary Fund (IMF) likewise warned that such strict Bank Secrecy Law—covering both local and foreign currency deposits—limits effective prudential supervision thus compromising financial stability and financial integrity. Proposed amendments to the existing law would grant the BSP full and direct access to depositor information and share the same information with the Philippine Deposit Insurance Corporation (PDIC), Securities and Exchange Commission (SEC), the Department of Justice (DOJ), and of the trial courts so long as such data sharing are necessary in the prevention and prosecution of a crime.

Enact the proposed Digital Payments Act. Mobility restrictions imposed during the COVID-19 pandemic drove more people to use online payments for their transactions. Based on BSP data, in terms of volume, the share of digital payments to total retail payments rose to 30.3 percent in 2021 from only 20.1 percent in 2020. In terms of value, the share of digital payments to total retail payments was at 44.1 percent in 2021, a huge jump from 26.8 percent in 2020. The BSP has noted that this huge increase was driven by the 170.2 percent growth in business payments of salaries and wages and the 268.6 percent growth in peer-to-peer remittances or account-to-account electronic transfers. The proposed measure seeks to accelerate this shift by compelling LGUs to issue ordinances requiring merchants to have a digital payment system as condition for approval or renewal of their business permits. Pursuant to Executive Order (EO)

[6] Top 20 countries by number of total victims as compared to the USA.

No. 170 (Series of 2022) which requires the adoption of digital payments for all government disbursements and collections, government agencies are enjoined to prioritize the use of digital payments in their financial transactions. At a time when the government is hard-pressed to reduce expenses, it is also projected to generate savings every year once it fully shifts towards the use of digital payments.

Enact the proposed Financial Accounts Regulation Act. As more Filipinos rapidly embrace digital technology for their financial transactions, they are also more susceptible to cybercrimes particularly phishing activities which is the practice of sending emails purporting to be from reputable companies to induce victims to reveal their personal information. This proposed measure aims to address this by criminalizing the acts of money mules and social engineering schemes (e.g., phishing, vishing and other similar activities). It will authorize the BSP to investigate violations and apply for warrants and orders mentioned in the Cybercrime Prevention Act of 2012 (RA No. 10175). It will also allow the BSP to seek the assistance of the cybercrime units of the National Bureau of Investigation (NBI) and of the Philippine National Police (PNP) in the investigation and prosecution of these crimes.

Pass the Protecting the Integrity of Currencies Used in the Philippines Bill. Despite the BSP's high success rate in the filing of criminal charges against those involved in spreading counterfeit currencies in the market—with almost 100 percent conviction rate, the penalties provided under the Revised Penal Code (RPC) is no longer commensurate to the crime as this has not been adjusted to inflation. The proposed measure will address this by raising the penalties for the following crimes: currency counterfeiting; currency mutilation; reproduction and/or use of facsimiles of legal tender currency; and printing, reproducing, or publishing false or fictitious instruments making it appear like currency.

Enact a law regulating money service businesses (MSBs). Due to the rising profile of non-bank institutions like MSBs in the delivery of financial services to remote areas not traditionally served by bank institutions, there is an urgent need to introduce a specific legal framework governing the industry which will cover all firms engaged in remittances, money transfers and foreign exchange dealerships. The measure empowers the BSP's regulatory and supervisory powers which shall include licensing, regulation, supervision and examination of MSBs, ensuring the implementation of which are aligned with international best practices. This will also address regulatory gaps that may have allowed financial crime syndicates to use local MSBs in facilitating the proceeds of their money laundering activities as what happened during the 2016 Bangladesh Central Bank heist. Moreover, an AMLC report finds that 60.2 percent of transactions related to sex exploitation of children during the pandemic coursed through MSBs while 35.2 percent flowed through banks.

Enact the proposed Collective Investment Schemes (CIS) Act. With the new administration pushing for the passage of the PIFITA in the 19th Congress, this proposed measure will complement such reform as this creates a unified regulatory framework governing CIS products like mutual funds, unit investment trust funds and variable unit-linked insurance which are gaining popularity among investors. Despite the rapid growth in total value of assets under the industry—now at PhP1.65 trillion in 2020 from only PhP912.7 billion in 2015, the regulatory environment remains fragmented with the BSP, SEC and Insurance Commission (IC) issuing its own set of regulations for each CIS product. As the Philippines signed the ASEAN CIS Framework in May 2021 which allows foreign companies to offer CIS products in the local market, this measure will protect the interests of local investors as they are likely to be flooded by more CIS offerings with the entry of new players.

Review the implementation of the Personal Equity Retirement Account (PERA) Act. The PERA Act was geared towards promoting a voluntary retirement saving account for employees by providing annual tax incentives. More than ten years after its passage, there are only 4,379 PERA contributors with total savings amounting to only PhP265.5 million as of end-February 2022. This is a far cry from the target of five million contributors by 2025. The low subscription is attributed to the low level of financial literacy among Filipinos and their limited access to traditional bank branches. Congress may revisit the law and review its implementation to address concerns regarding low subscription rates, and may come up with possible amendments. Other proposals that encourage private individuals to save more for their retirement may also be explored.

Chapter 2

ENHANCING COMPETITIVENESS AND RESILIENCY OF GROWTH SECTORS

The COVID-19 pandemic dramatically affected trade and investment. The ensuing mobility restrictions prevented traders from completing their shipments, creating a domino effect which adversely impacted global value chains. This exposed supply chain vulnerabilities, particularly in sourcing essential goods (e.g., personal protective equipment) whose prices surged at the onset of the pandemic. External trade registered a 15.1 percent decline in 2020 pulled by lower consumer demand as economic activities virtually came to a halt.

Foreign direct investments (FDI) were also not spared, plunging by 21.3 percent in the same period. The uncertainty surrounding the pandemic ultimately reduced business confidence which prompted investors to either postpone or cancel their investments altogether. The decline in FDI only worsened the already low level of investment in the country and exposed the underlying structural issues which persisted even before the COVID-19 pandemic.

The COVID-19 pandemic likewise highlighted that the country's so-called growth sectors are disproportionately vulnerable to negative economic shocks. These include micro, small and medium enterprises (MSMEs) particularly in the services, agri-business, tourism and other sectors as many were unprepared or ill-equipped for the unforeseen disruptions and unprecedented challenges that arose. These smaller firms and enterprises typically have lesser resources at their disposal and have relatively weaker market positions which make them more vulnerable to disruptions. The lack of additional resilience that comes from operating at a scale and a diversified and responsive model had made it more difficult for smaller firms to pivot during the pandemic. These growth sectors are now faced with the dual problem of swiftly navigating the economic consequences of the COVID-19 pandemic while striving to evolve into more productive, competitive, climate-smart and sustainable sectors.

Undeniably, the impact of the pandemic reinforces the need for the government to refocus its policy reforms, strategies and interventions. Given the importance of generating economic activity and employment, supporting the aforementioned growth sectors is critical to raising productivity, expanding economic opportunities, increasing producers' real income and improving overall welfare towards achieving the country's strategic objective of sustainable and inclusive development.

A. Invigorating Trade and Investments

2.1 The country's share of gross capital formation (i.e., investment) to GDP has rapidly grown in the last decade. However, foreign investment flows to the country continue to pale in comparison with its peers (Table 3). The recent passage of the amendments to the Foreign Investment Act (RA No. 11647), the Retail Trade Liberalization Act (RA No. 11595), and the Public Service Act (RA No. 11659) which eased the restrictions on foreign investments, is expected to enhance the country's standing as an investment destination.

Table 3. *Average Annual Share of Gross Capital Formation to GDP and Growth*

	Average 2000-2010		Average 2011-2019	
	Share (%)	Growth (%)	Share (%)	Growth (%)
Indonesia	25.7	6.7	34.1	5.8
Malaysia	23.0	6.0	24.6	4.7
Philippines	18.4	7.2	23.0	9.9
Singapore	25.5	8.3	27.1	3.2
Thailand	25.0	7.1	24.6	3.0
Vietnam	34.7	11.5	27.2	6.1

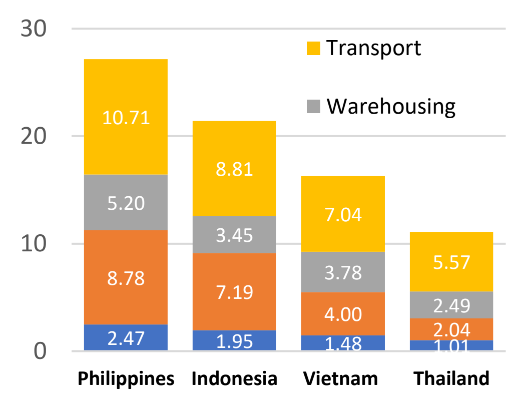
Note: Adapted from ADB Key Indicators database by ADB

2.2 It bears emphasizing though that openness to foreign investment does not necessarily translate to attracting the right kind of investment, nor does it automatically bring local industry development, technological upgrading and job creation. FDI can only be a robust engine of growth if the host country has the sufficient threshold stock of infrastructure, human capital and strong institutions. Hence, the government should ensure the creation of an enabling environment that would pave the way for productive foreign investments and encourage expansion of the same. It must implement measures that would address lingering concerns particularly on logistics, infrastructure and connectivity.

2.3 One of the most often cited constraints to growth is the country's inadequate and inefficient infrastructure which drives up operating and logistics costs. Survey data from the Department of Trade and Industry (DTI) show that the share of logistics cost over sales is highest in the Philippines compared to selected ASEAN economies (Figure 4). The pandemic further raised these costs when it caused a global shortage in cargo vessels that brought shipping prices to record-highs. Without a dedicated international shipping line, traders are at the mercy of foreign shippers who must accept their pricing schemes. This underscores how susceptible Philippine trade is to logistical disruptions which effectively reduces its price competitiveness.

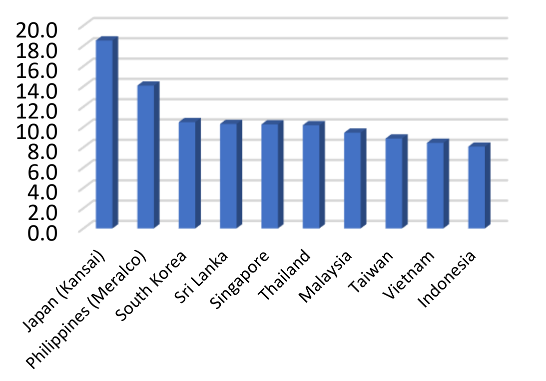
2.4 In addition, restrictions on foreign investment and high capital requirement resulted in low levels of competition in the energy and information and communications technology (ICT) sector. Despite reforms introduced in the energy sector in the early 2000s, energy prices in the Philippines continue to be among the highest in Asia (Figure 5). So too are the cost of ICT services (Table 4).

Figure 2. *Logistics Cost over Sales, by Component (in %)*



Note: Adapted from *"An Assessment of Logistics Performance of Manufacturing Firms in the Philippines"* Policy Brief by the DTI, 2018

Figure 3. *Average Retail Electricity Tariff– All Customers (USc/kWh ex VAT) 2018*



Note: Adapted from Regional/Global Comparison of Retail Electricity Tariffs by International Energy Consultants, 2018

Table 4. *ICT Prices, in PPP US$, 2021*

Country	Fixed Broadband	Data-only Mobile Broadband	Mobile Cellular Low-Usage	Mobile Data & Voice (High Consumption)	Mobile Data & Voice (Low Consumption)
Brunei	57.62	14.78	14.04	32.51	14.04
Cambodia	42.35	8.47	17.25	41.08	18.07
Indonesia	66.33	7.47	16.61	22.01	12.06
Myanmar	46.01	6.21	3.36	12.13	4.25
Malaysia	51.00	21.31	23.14	27.71	23.14
Philippines	83.59	14.71	17.22	23.62	23.62
Singapore	45.46	12.60	17.45	17.45	17.45
Thailand	50.47	20.14	8.80	42.79	28.94
Vietnam	22.16	3.08	11.80	18.46	11.57

Note: Adapted from International Telecommunication Union (ITU) ICT Price Baskets, historical data series, March 2022 release

2.5 On the infrastructure side, problems in various stages of project development cycle have been pervasive despite the passage of the Build-Operate-Transfer (BOT) Law. Conflicting interests between the government and the private sector as well as weak absorptive and technical capacity of implementing agencies have caused significant delays in the implementation of key infrastructure projects and hampered the growth of the Public-Private Partnerships (PPP) Program. In addition, flexibility is also be constrained by the non-coverage of other PPP modalities (e.g., joint ventures) under the BOT Law.

2.6 Another challenge facing Philippine industries is the weak culture of innovation which limits enterprises' capacity to adapt to the rapid development of technology and advances in research and development (R&D). In the 2019 Global Competitiveness Report, the Philippines ranked 72nd out of 141 economies (4th out of the six ASEAN economies) in the pillar for Innovation Capability, an indicator that captures the quantity and quality of formal R&D and the extent to which a country's environment encourages creativity, diversity and collaboration (Table 5).

Table 5. *Ranking in Innovation Capability Pillar of Global Competitiveness Report 2019*

Country	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Innovation capability (out of 141)	74	30	72	13	50	76
R&D expenditure (% of GDP)	0.1	1.3	0.1	2.2	0.8	0.4
International co-inventions, per million population (pmp)	0.03	1.89	0.06	26.31	0.37	0.12
Patent applications, pmp	0.07	6.30	0.36	118.66	0.97	0.21
Research institutions prominence (out of 141)	45	38	72	21	43	58

Note: Table 5 shows the ranking in Innovation Capability Pillar, one of the 12 main drivers for productivity or pillars identified by the Global Competitiveness Index (GCI) 4.0 framework (from Global Competitiveness Report, 2019).

2.7 The implementation of the Philippine Innovation Act (RA No. 11293) is envisioned to strengthen the country's culture of innovation through cohesion in governance and the formulation of a national innovation agenda and strategy. Likewise, the financial support provided under the law (i.e., Innovation Fund and Innovation Development Credit and Financing) would also help address funding concerns which have constrained firms from pursuing innovative solutions. With the framework for innovation policy established, the focus now shifts to enacting complementary policies which would facilitate the utilization and adoption of technology to improve competitiveness.

2.8 The disruptions caused by the pandemic accelerated the shift to digitalization. While the transition increased convenience among users, it exposed the twin problems in regulation and connectivity. In 2020, the DTI reported a quadruple increase in complaints related to online transactions (e.g., deceptive sellers, non-delivery and overpriced items) indicating gaps in the regulatory framework. Meanwhile, the shift also exposed the widening digital divide linked to inequality in internet access. In the latest Inclusive Internet Index, the country was ranked last among selected ASEAN economies as it registered subpar performance in the availability, affordability and readiness categories. With the digital economy poised to drive growth in the post-pandemic era, it is imperative for the government to address these problems and empower consumers and businesses to participate online.

Direction for Reforms

Strengthen PPP for infrastructure development. To augment the government's limited fiscal space in addressing the country's infrastructure backlog, measures that incentivize PPPs as well as those that strengthen such partnerships should be a priority. Two notable features would be to require full public disclosure of all PPP transactions, projects and contracts, and mandate the inclusion of alternative dispute resolution mechanisms in all PPP contracts. To foster competitiveness and enhance transparency especially regarding unsolicited proposals, it is proposed that the challenge period be extended to a maximum of six months from the current sixty working days. Another option would be to allow implementing agencies to convert unsolicited proposal into a solicited project and offer it as basis for competitive bidding, subject to reimbursement of project development cost.

Amend the Philippine Ports Authority (PPA) Charter. Inefficiencies in the port sector have resulted in prohibitive cost of shipping, adversely affecting the country's competitiveness in terms of trading across borders. Port administration is highly centralized, with the PPA as the central authority. The PPA has been mandated by Presidential Decree No. 857 to regulate, develop and own ports. While some port authorities are independent, they provide limited competition to the PPA's control over ports. The PPA regulates and approves tariffs, a share of which is paid to the PPA as mandated by law. There arises a conflict of interest. This proposed measure seeks to address the conflicting role of the PPA as regulator and as developer and competitor in trade and port services.

Streamline the legal framework for Philippine shipping lines. Another way to ease logistic costs is to facilitate competition in the sector. In response to the container crisis, the Maritime Industry Authority (MARINA) allowed certain local shipping lines to serve international routes. However, the permit issued to the first Philippine shipping line to go international was limited to only six months. This uncertainty may disincentivize companies from making investments to build up their capacity and to eventually expand their operations to international markets. As such, a legal framework which would simplify registration and allow shipping lines to serve domestic and international routes concurrently should be established.

Fortify the country's innovation ecosystem. Measures that strengthen the national innovation strategy (as embodied in the Philippine Innovation Act) must be actively pursued. This may include amendments to the Intellectual Property Code of the Philippines geared towards nourishing creativity and reinforcing intellectual property rights. Indeed, investors may put in more proprietary technology and procedures when they feel that they have greater control over protection of the proprietary content transferred and greater freedom in its use. Restrictions such as forced sharing through mandatory joint ventures, local content or performance criteria reduce the incentive for investors to apply new technologies and could hinder the country's integration to global sourcing networks. The proposed Science for Change Bill is expected to systematically promote science and technology through the expansion of various Department of Science and Technology (DOST) programs and the adoption of technologies by government instrumentalities.

Pass a National Quality Infrastructure (NQI) Law. A good national quality infrastructure benefits the economy via three channels: (1) it increases market access as domestic standards are aligned with international standards. Thus, it increases investment opportunities and product diversification; (2) it improves firms' productivity as it improves working methods and processes. Thus, it reduces the cost of doing business and trade as well as further promotes the culture of innovation; and (3) it enhances consumer welfare as certification standards and procedures are aligned with international standards on health and safety as well as compliant with environmental regulations. Such measure would be most beneficial to MSMEs as well as to exporters.

Ratify the Regional Comprehensive Economic Partnership (RCEP) Agreement. Aside from enhanced market access, the RCEP Agreement also provides a framework to strengthen the innovation environment in the region. Under the Agreement, technological protection and enforcement of intellectual property rights would be harmonized in the region. Moreover, the Philippines would also improve its commitments on R&D services, assuring potential investors of market access in the sector. The Agreement is already in force for most of the participating countries, except for the Philippines which is still completing its domestic ratification process. Its delayed participation, however, presents risks to the country's competitiveness since other member-states would now be able to trade under harmonized rules and preferential access. This emphasizes the need for stronger public-private collaboration to address recurring concerns on trade liberalization. In view of future trade agreements, the treaty-making process may be reviewed to strengthen consultation mechanisms and resolve procedural bottlenecks.

Enable timely responses to supply chain disruptions. Expediting the procedure to temporarily modify tariff rates on essential goods during national emergencies should be explored. Lower tariffs would facilitate the entry of essential goods and cushion any price increases by augmenting domestic supply. In addition, the expansion of eligible goods for relief consignment may also be considered to cover essential goods purchased in response to national emergencies. Both measures may be pursued through amendments in the Customs Modernization and Tariff Act (CMTA). Another possible reason behind shortages is the existence of cartels which manipulate commodity prices. As such, increasing the enforcement powers of the Philippine Competition Commission (PCC) to conduct dawn raids without court orders would discourage firms from engaging in uncompetitive prices which ultimately harm consumers.

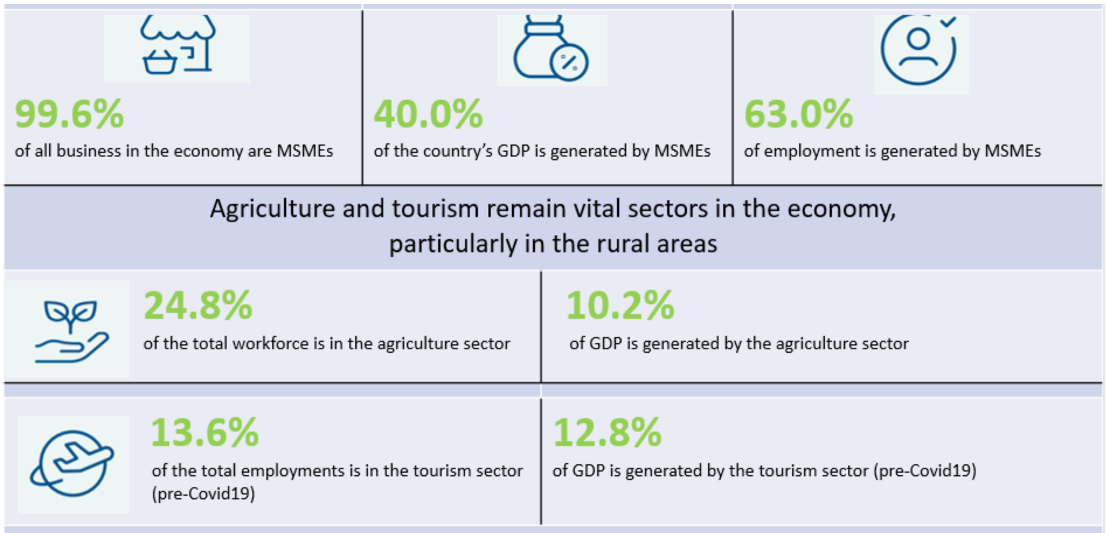
Enact the proposed Internet Transactions Act (ITA). This proposed measure seeks to regulate online businesses and to respond to emerging e-commerce concerns. The E-commerce Bureau envisioned under this measure is expected to facilitate the resolution of complaints, identify regulatory gaps, and formulate policies for the development of e-commerce.

Bridge the digital divide. The future of the Philippines digital economy will hinge on the accessibility and reliability of internet connection in the country. As such, proposed legislative measures to improve connectivity and address inequality in internet access such as the Open Access in Data Transmission Act, Spectrum Management Act, Better Internet Act, and Rural-Wired Connectivity Act must be pursued.

B. Expanding Access of MSMEs to Financing and Opportunities

2.9 The COVID-19 pandemic has greatly impacted businesses especially MSMEs which comprise the majority (99.6%) of all businesses in the country (Figure 6). Business establishments and the consuming public grappled with the restrictions imposed during lockdowns which resulted in a sharp decline in incomes and lower customer demand. Also, the disruptions in the supply chain have badly impaired the production capacity of MSMEs. In terms of employment, 1.24 million persons were affected.

Figure 4. *Importance of MSMEs, Agriculture and Tourism Industries in the Economy*



Note: Adapted from Philippine Statistics Authority (PSA)

2.10 An Asian Development Bank (ADB) study showed that on the average, 73.1 percent of MSMEs were forced to close their businesses a few weeks after the COVID-19 outbreak and during the period when lockdown measures were implemented. This was more pronounced for small firms (76.4%) and those in services (72.7%). More than 98.4 percent of all the business establishments that had to close shop during the pandemic were MSMEs. Establishments in wholesale and retail trade (40.31%), repair of motor vehicles and motorcycles (19.96%), accommodation and food services including tourism (10.29%), and manufacturing were the most badly affected and had to permanently or temporarily close. By 2021, around 259,232 MSMEs had to permanently shut down operations while 56,792 had to temporarily close shop.

2.11 Nonetheless, some gainers were noted during the pandemic. The same ADB study showed that on the average, 2.3 percent of MSMEs reported no change in the business environment after the outbreak while some groups of MSMEs (average 9.3%) reported a better business environment compared to the pre-pandemic, especially in microenterprises (14.5%) and agriculture (20.7%), due to the increased demand from households and firms for essential goods, services, and healthcare.

2.12 The COVID-19 pandemic has exacerbated the challenges being faced by MSMEs primarily on accessing finance, technological disruptions and climate change (Table 6). The limitations of being smaller in size also made MSMEs even more vulnerable to the effects of the pandemic.

Table 6. *Number of Establishments and Employees Affected by Closures during the Pandemic, 2021*

Type of Establishments	Number of Establishments		Total Employment*	
	Permanently Closed	Temporarily Closed	Permanently Closed	Temporarily Closed
TOTAL	**259,456**	**61,698**	**1,044,336**	**412,841**
Micro (with Total Employment of 1 to 9)	246,861	49,767	656,580	146,750
Small (with Total Employment of 10 to 99)	12,115	6,771	223,713	143,062
Medium (with Total Employment of 100 to 199)	256	254	33,947	34,645
Large (with Total Employment of 200 and over)	224	158	130,096	88,384
Blank (no info on Employment)		4,748**		no info

Note: Adapted from PSA 2021 Updating of the List of Establishments (ULE) Preliminary Results

* Employment data is based on the establishments record in the List of Establishments (LE).

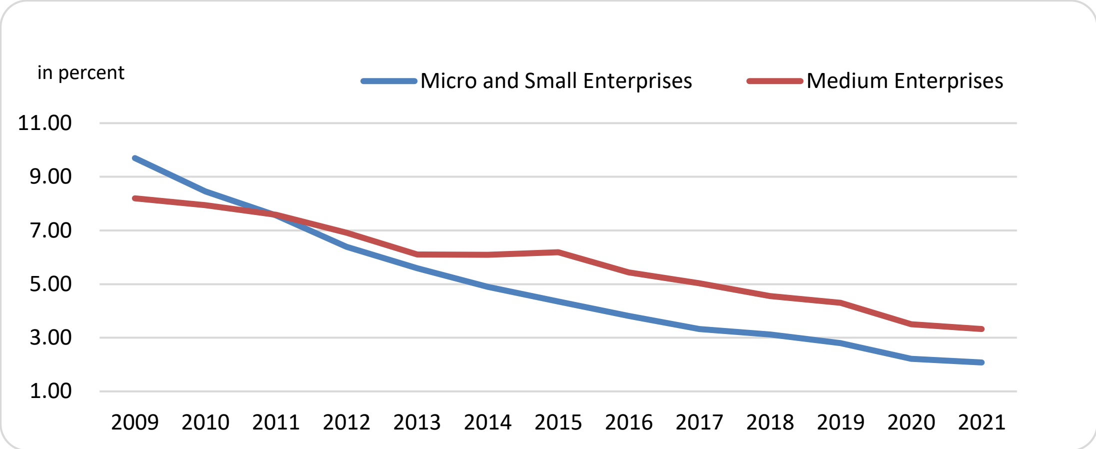
** Establishments which are newly listed in the 2021 LE but with Temporarily Closed Status, no previous record, information on employment not available.

2.13 The provision on mandatory allocation of credit resources to MSMEs under the Magna Carta for MSMEs (RA No. 9501) has already exceeded its validity period of 10 years as the provision took effect in 2008. The said provision mandated all lending institutions as defined under BSP rules, whether public or private, to set aside at least 8 percent for micro and small enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for MSME credit. To date, access to finance remains a primary constraint to MSMEs' growth. The share of loans to micro and small enterprises (MSEs) to the total bank loan portfolio is far below the 8 percent minimum compliance rate set under RA No. 9501.[7] Though total borrowings of MSEs have grown from PhP167.65 billion in 2009 to PhP233.66 billion in 2018, its share to total

[7] RA No. 9501 prescribes banks to set aside 8 percent of their total loanable funds for micro and small firms while 2 percent should be allocated for medium-sized companies.

borrowings has gone down from 9.7 percent to 3.12 percent in in the same period. Meanwhile, lending to medium enterprises continue to meet the minimum requirement of two percent, but the rate has decreased from 8.20 percent in 2009 to 4.55 percent in 2018 (Figure 7). It has been observed that banks generally prefer to just pay the penalty rather than take the risks associated with lending to MSMEs. Moreover, the updated Philippine Development Plan (PDP) reported that startups, MSMEs and cooperatives have difficulty accessing finance due to lack of collateral and inability to comply with documentary loan requirements of formal lending institutions.

Figure 5. *Compliance of Banks with Magna Carta for MSMEs*



Note: Adapted from Mandated Credit statistics of BSP

Direction for Reforms

Amend the Magna Carta for MSMEs. Amending the Magna Carta for MSMEs aims to address the inherent risks and challenges in MSMEs financing. The amendment should consider the following: (1) extending the mandatory allocation of credit resources to MSMEs for another 10 years; (2) providing incentives to compliant banks and imposing penalties on under- and non-compliant lending institutions; (3) creating a fund to be used for calamity-stricken MSMEs; (4) lending to MSMEs using a targeted approach by type of banks, including a spatial element in the lending framework; (5) strengthening the institutional infrastructure, including monitoring and evaluation of MSMEs' financial resilience and stability, as well as developing a credit risk database on the credit behavior of potential borrowers; and (6) adopting a standard business loan application process.

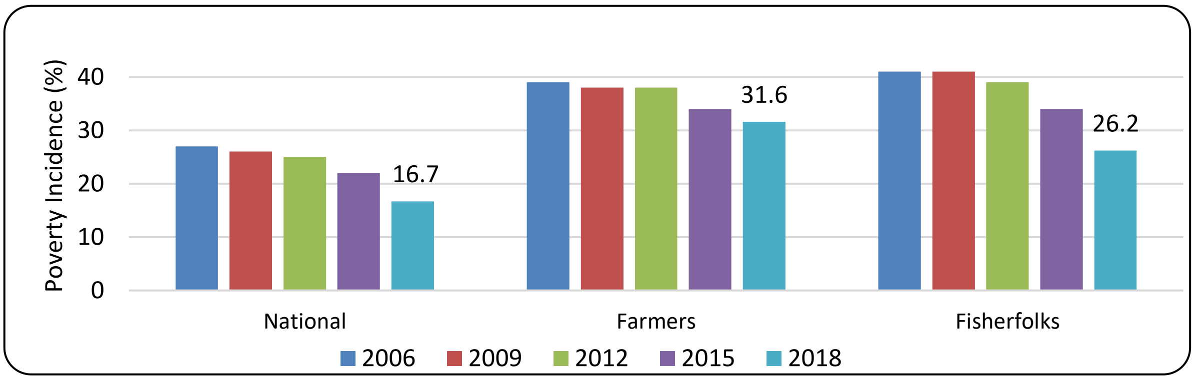
Institutionalize the Pondo sa Pagbabago at Pag-asenso (P3) Program. The proposed institutionalization of the P3 Program includes an expansion of coverage and scope of this program currently implemented by the Small Business Corporation (SB Corp.), an attached agency under the DTI. The program provides an affordable and cost-efficient financing to micro-enterprises (e.g., market vendors, *sari-sari* stores, stall owners, among others) that are members of cooperatives, microfinance institutions and associations in unserved and unbankable areas of the country. The institutionalization of the P3 Program will also pave the way for making beneficiaries become part of the formal economy as they will be required to register their businesses. An evaluation of the P3 Program during or after implementation should be conducted to assess its effectiveness.

Amend the Go Negosyo Act (RA No. 10644) to help expand the markets of MSMEs. The proposed amendment aims to expand the scope of services provided to the *Negosyo* Centers and transforming them to Rural Export Centers. The motivation for this is two-fold: (1) rural businesses are often located too far from the trading and commercial centers and major transportation hubs such as international airports and seaports; and (2) because of their location, rural businesses face higher barriers in terms of accessing the international markets to export products or services. The additional menu of services that the proposed Rural Export Centers could provide are: (1) in-depth, customized and actionable market research services; (2) strategic planning and export support services; (3) inclusion of rural business in trade shows and trade missions; and (4) one-stop shops for rural businesses to coordinate with relevant government agencies and institutions. The MSME Development Council will also be tasked to set up and maintain a website that will serve as a platform for business promotion, particularly showcasing the best practices for other rural businesses to learn from and will contain a directory of all existing Rural Export Centers.

C. Fostering Greater Resilience in the Agriculture Sector

2.14 The importance of agriculture sector to the economy has been declining through the decades. In 1950, the share of agriculture to GDP was at 27.4 percent; by 2021 it fell to a mere 9.6 percent. It is quite ironic that while nearly one-fourth of the total employment or 9.75 million workers are in agriculture, farmers (31.6%) and fisherfolk (26.2%) are among the poorest in the country, majority of whom live in high-risk areas that are vulnerable to natural hazards and other disasters (Figure 8).

Figure 6. *Philippine Poverty Incidence, 2006 to 2018*



Note: Adapted from PSA poverty statistics

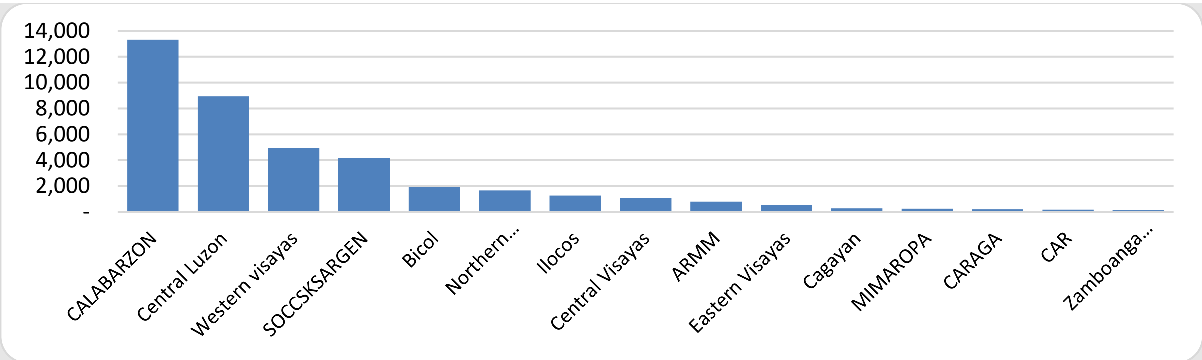
2.15 The sector is wrought with many challenges. In 2019, the African Swine Fever (ASF) outbreak affected the livestock industry particularly the prices of pork which consequently pulled up the prices of other meat products. The said price increases figured in the food inflation during the year and in the following year as well. Food inflation was one of the reasons for the acceleration of prices of all major commodities in 2021, driven as well by higher prices in transport, alcoholic beverages, tobacco, housing, water, electricity, gas and other fuels.

2.16 The agricultural sector is highly vulnerable to climate-induced disasters such as typhoons, floods and drought, as well as pest infestations and diseases. From 1995 to 2018, the sector incurred production losses and damages to infrastructure at an average of PhP24.0 billion per year (Department of Agriculture, 2018). In terms of safety nets against these incidents, however, the

Philippine Crop Insurance Corporation (PCIC) was able to cater to only 15.5 percent of farmers and fisherfolk in 2018. Institutional capacity and low capitalization of the PCIC hinder any attempt to increase its penetration rate as it would affect the amount of insurance coverage, which may become inadequate to cover production costs.

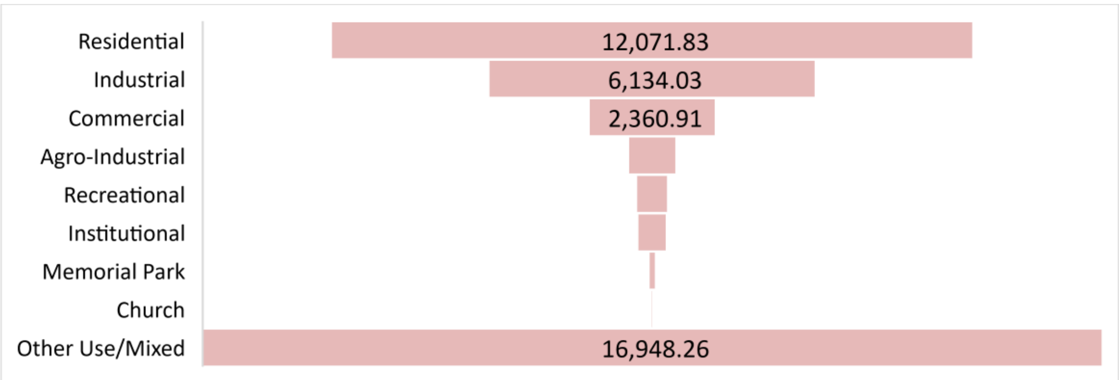
2.17 Competing land use for agriculture, commercial, housing and forestry, among others pose a threat to food security. The Philippines has a total land area of 30 million hectares, of which 15.8 million are classified as forestlands and 14.2 million are alienable and disposable lands. Given the limited supply of land, and the ever-increasing population, which is currently around 111 million, land use conflict is expected to intensify in the country. It is feared that the country's less than 10 million hectares of agricultural land is in danger of being converted into other purposes if urbanization is allowed to proceed in an unfettered way. Agriculture and human settlements also threaten to eat up what should be protected as forest lands. From 1992 to 2019, around 39,589 hectares of agricultural land have been approved for land use conversion, with more than half (56.24%) of the conversion happening in the regions of Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON) and Central Luzon (Figure 9). The main reason for the conversion of land is for residential (30.49%) and industrial (15.49%) purposes (Figure 10).

Figure 7. *Applications of Agricultural Land Approved for Land Use Conversion, by Region, 1992 to 2019*



Note: Adapted from Department of Agrarian Reform (DAR), 2020

Figure 8. *Applications of Agricultural Land Approved for Land Use Conversion, by Purpose, 1992 to 2019*



Note: Adapted from DAR, 2020

2.18 The passage of the Rice Tariffication Law (RTL) was a massive policy shift that was expected to benefit rice farmers and rice-eating consumers. Initial impact shows that liberalized rice trade brought down the retail price of regular-milled rice by an average of 4.29 percent or PhP1.73 per kilogram from the start of RTL implementation in April 2019 to December 2021. Consequently, the average inflation of rice for the bottom 30 percent income households declined by more than 150 percent from an average 3.3 percent in 2014 to 2018 (pre-RTL) to 1.90 percent in 2019 to 2021 (post-RTL). As expected, opening the rice market to importation reduced farmgate prices of *palay* by almost PhP2.00/kg from an average of PhP18.58 pre-RTL to an average of PhP16.60 post-RTL. It bears noting however that any reduction in farmgate prices, no matter how apparently small, could have an impact on the incomes of small rice farmers who have been wallowing in poverty since time immemorial.

2.19 Transforming the sector will require policies beyond its business-as-usual paradigm towards sustainability and greater resiliency. This includes the need to: (1) secure and protect prime agricultural land for food production; (2) shift from traditional agricultural financing to innovative financing and risk management instruments; (3) provide guarantee on food safety; and (4) increase investment (at least 1% of the GDP) in research and technology development and transfer of smart technologies towards higher total factor productivity. Moreover, evaluation of programs should also be conducted to assess whether the government is spending wisely on the right interventions and to allow for policy and program improvements.

Direction for Reforms

Enact the proposed Philippine Livestock Development Act. This proposed measure seeks to strengthen the livestock industry and promote its development, protection and regulation. Its coverage would include dairy products, native animals and poultry. It is also proposed that a Livestock Development Fund would be established to secure yearly government support. Specifically, the measure intends to include: (1) rationalization of livestock, poultry and dairy (LPD) support functions by creating two agencies, the Philippine Livestock and Poultry Authority and Bureau of Animal Safety and Regulations; (2) formulation of the Philippine LPD Value Chain Development Roadmap; (3) earmarking of tariff revenues for livestock, poultry and dairy for productivity and competitiveness of the sector; (4) earmarking of tariff revenues for corn and feed wheat for improvement and competitiveness of the sector; (5) exemption from taxes and duties of LPD farm inputs, veterinary and other supplies, equipment, machineries and breeders; and (6) activation of animal and livestock emergency response task force during pest and diseases-related emergencies. This measure is expected to improve availability and affordability of nutritious and safe LPD products for Filipinos who spend 9 percent of their total household budget on LPD products. Further, it will utilize a holistic value chain approach to the development and competitiveness of the local LPD.

Establish a Cold Examination Facility in Agriculture (CEFA) in major ports of the country. Part of the campaign against ASF is the harmonization of CEFA Quarantine Policies and Process. The CEFA will serve as the first border inspection facility of imported agricultural products to ensure compliance with national standards and regulations. It will enable immediate detection of infected agricultural commodities at the port of entry, preventing possible spread to the country. Contents of identified high risk containerized agricultural shipments will undergo 100 percent inspection with emphasis on the prerequisites of importation such as quarantine documentation, inspection and clearance before customs release.

Legislate a National Land Use Act. This proposed measure aims to address policy gaps, harmonize existing land use policies, and address competing uses of limited land resources. Ideally, this measure shall protect prime agricultural lands through proper and rational delineation, classification or reclassification, allocation, establishment, utilization and management. It should harmonize and strengthen the enforcement of land use policies on the conversion and reclassification of agricultural lands to non-agricultural use. In addition, the measure should also include key provisions on: (1) ensuring protection or sustainability of key production areas or employment activities, particularly those in the rural areas either for food production or for other economically important commodities; (2) promotion of integrated and connected urban areas, with affordable housing and conducive to commercial and industrial activities; and (3) protection of critical areas and other vital natural resources.

Reorganize the PCIC and increase its authorized capital stock. This proposed measure aims to increase the organizational capacity and expand the coverage of the PCIC in providing insurance protection to farmers against losses arising from natural calamities, pest infestations and other events in the most cost-efficient manner. At the same time, the PCIC shall be developed into a credible agency for risk mitigation and resilience. An additional related measure would be to introduce an innovative index-based insurance program which would be useful in rapidly assessing damage to agricultural areas, administering policy coverage, and in reducing administrative costs and time spent in the approval and payouts of indemnity claims.

Pass a New Emancipation Act. Amid the unfolding crisis and the impact of the pandemic, this proposed measure will free agrarian reform beneficiaries (ARBs) from the debt burden of having to pay for agricultural lands awarded to them under the Comprehensive Agrarian Reform Program (CARP). All unpaid amortization and interest of ARBs shall be condoned. ARBs who are still to receive their awarded lands under the CARP shall have no obligation to pay any amortization. The Department of Agrarian Reform (DAR) estimated around 655,197 ARBs covering an area of 1.18 million hectares that would benefit from this. The amount is inclusive of PhP5.13 billion awarded lands with an area of 229,000 hectares for 151,958 ARBs without repayment and the PhP43.77 billion not yet classified as agrarian reform receivables covering an area of 770,000 hectares with around 391,741 ARBs.

Conduct a formative evaluation of the RTL. To determine the initial impact of the law to rice farmers and the consumers, a formative evaluation on the implementation of the RTL should be conducted. The evaluation will also examine the implementation of the Rice Competitiveness Enhancement Fund (RCEF) as to whether it has served its purpose or not. The evidence that will be generated from the evaluation will serve as basis for policy-making decisions in terms of improving RTL with the end view of attaining the purpose it was intended to achieve.

D. Rebuilding the Tourism Sector for Future Shocks

2.20 The country's tourism sector contributed an average of 9.5 percent of GDP in pre-pandemic times (2010-2019), generating some PhP312 billion in inbound tourism expenditures for the country. Approximately 8.3 million travelers visited the Philippines in 2019, and 5.7 million Filipinos are employed in the sector. During the onslaught of the pandemic, the contribution of the sector to the country’s GDP significantly dropped from 12.8 percent of GDP in 2019 to 5.4 percent in 2020 as travel restrictions and quarantine protocols were imposed that resulted in abrupt travel disruptions and a significant reduction in tourist arrivals (Table 7).

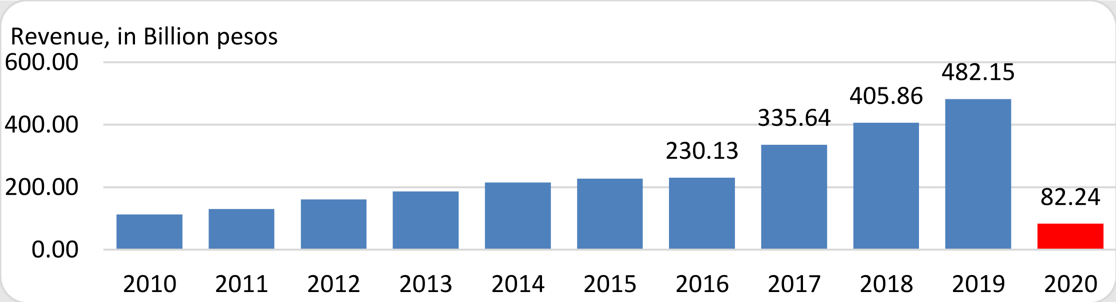
Table 7. *Key Indicators of Tourism Industry, 2010 to 2020*

Year	TDGVA (PhP billion)	GDP (PhP billion)	Share (%)	Inbound Tourism Expenditure (PhP billion)	Exports (PhP billion)	Share (%)	Tourism Employment ('000 pax)	Total Employment ('000 pax)	Share (%)
2010	586.90	9,399.45	6.2	136.76	3,090.05	4.4	4,126	36,047	11.4
2011	694.48	10,144.66	6.8	159.96	2,952.65	5.4	4,266	36,614	11.7
2012	851.87	11,060.59	7.7	196.99	3,038.02	6.5	4,561	37,600	12.1
2013	974.30	12,050.59	8.1	227.34	3,154.53	7.2	4,709	38,118	12.4
2014	1,169.22	13,206.83	8.9	279.36	3,612.66	7.7	4,819	38,092	12.7
2015	1,380.04	13,944.16	9.9	309.23	3,793.93	8.2	4,971	38,741	12.8
2016	1,575.42	15,132.38	10.4	314.61	4,036.26	7.8	5,224	40,837	12.8
2017	1,944.19	16,556.65	11.7	452.63	4,892.87	9.3	5,268	40,335	13.1
2018	2,238.96	18,265.19	12.3	445.58	5,518.57	8.1	5,365	41,157	13.0
2019	2,507.49	19,517.86	12.8	600.08	5,539.74	10.8	5,719	41,938	13.6
2020	973.31	17,938.58	5.4	132.58	4,518.39	2.9	4,681	39,379	11.9

Note: Table 7 shows the key indicators of tourism industry. The contribution of the tourism industry in the economy is measured by the share of Tourism Direct Gross Value Added (TDGVA) to the GDP. TDGVA refers to the part of GVA generated by tourism industries and other industries of the economy that directly serve visitors in response to internal tourism consumption. Inbound tourism comprises the activities of a non-resident visitor within the country of reference on an inbound tourism trip (from Philippine Tourism Satellite Accounts by PSA, 2020).

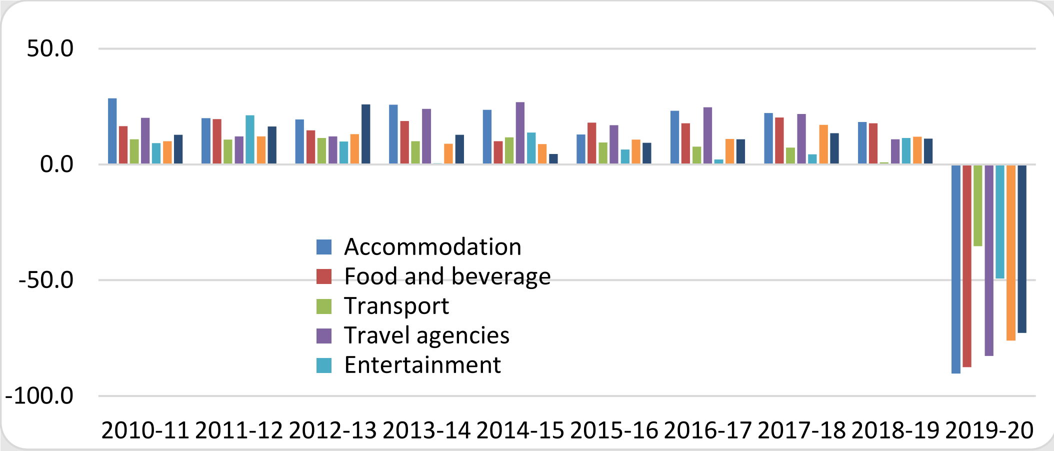
2.21 Industries under the tourism sector such as accommodation, adventure tourism and recreation, attractions, events and conferences, food and beverage, tourism services, transportation, and travel trade, among others, were consequently affected because of the imposition of travel restrictions and quarantine protocols. According to the Updated Tourism Response and Recovery Plan of the Department of Tourism (DOT), visitor spending in 2020 was estimated at PhP82.24 billion, a massive 82.94 percent decrease from PhP482.15 billion in 2019 (Figure 11). Tourist arrivals also significantly dropped by 82.05 percent with only 1,482,535 visitors in 2020 compared to 8,260,913 in 2019. This resulted in a decline in employment from 5.72 million in 2019 to 4.68 million jobs in 2020 (Table 7). Inbound tourism expenditure fell by PhP467.49 billion while Tourism Direct Gross Value Added (TDGVA) in tourism significantly declined by PhP1,534.18 billion in 2020.

Figure 9. *Estimated Visitor Receipt, 2010 to 2020*



Note: Visitor receipt is computed using the Visitor Arrivals, Average Length of Stay (ALOS) and Average Daily Expenditure (ADE). Visitor Receipt is converted into Philippine Peso using the 2020 Monthly Exchange Rate by the BSP (from Updated Tourism Response and Recovery Plan by DOT).

Figure 10. *Growth Rate of Tourism Industries, at Current Prices, 2000 to 2020*



Note: Adapted from Philippine Tourism Satellite Accounts, PSA, 2020

2.22 The devastating effect of the COVID-19 pandemic to the tourism sector added pressure in achieving some of the SDGs. Considering that tourism has been a vehicle for empowerment and generating income, particularly for women, rural communities, indigenous peoples and marginalized populations, the crisis in tourism made it more difficult to attain SDG 5 (gender equality) and SDG 10 (reduction of inequalities within and among countries). Magavkar et al. (2020) estimates that women account for 54 percent of COVID-19-induced job losses globally, with women's jobs being almost twice as vulnerable to the pandemic compared to men's jobs. Most of these are being offered by travel and tourism, and food and beverage as well as retail sales which are major employers of women.

2.23 The gaping digital divide in the country hinders the tourism sector's recovery efforts. Enhanced digital connectivity is crucial for the efficient delivery of the various tourism services, operations, and processes—from bookings and reservations of hotels and resorts to the different travel. However, the use of digital technologies from marketing and communications to continuous customer service is still below international standard. The struggle to find a decent internet connection or of the lack of internet provider is a major pain point for tourists in the country and hampers the growth of tourism industries in many islands and remote areas of the country.

2.24 Promotion of farm and agricultural tourism (agri-tourism) could help in providing food sufficiency and additional income and employment for farmers and fisherfolk. According to the Southeast Asian Regional Center for Graduate Study and Research in Agriculture, farm tourism opens possibilities at the grassroots level for diversification of income for small-scale farmers while promoting sustainable agricultural systems and community involvement and participation. Demand for farm tourism is prominent as people's interest peaked during the onslaught of COVID-19 pandemic. However, challenges such as the lack of entrepreneurial and marketing skills of farmers and farm owners, education and training, and poor consistency in the quality of farm tourism sites and products need to be addressed to compete with other ASEAN countries offering the same.

2.25 Skills gaps and competitiveness of tourism workers need to be addressed. Data show that jobs in the various tourism industries total 5.7 million, reaching the target set in the National Tourism Development Plan (NTDP) for 2019 (Table 8). Tourism employment, however, went down in 2020, short by 1.3 million from its initial 6.0 million target. During the onslaught of the pandemic, the DOT estimated that 4.8 million jobs out of the 5.7 million were affected due to closure or suspension of operations of tourism businesses, most especially hotels, travel agencies, tour operations and transport services (Table 9). Accordingly, the International Labour Organization (ILO) estimated that the country's job losses and reduction in average working hours in 2020 were among the largest in Asia and the Pacific.

Table 8. *NTDP Targets and Accomplishments (Employment)*

Indicators	Targets		Accomplishments	
	2019	2020	2019	2020
Employment (million people)	5.8	6.0	5.7	4.7
Share to Total Employment (%)	13.6	13.8	13.6	11.9

Note: Adapted from NTDP 2016-2022 by DOT

Table 9. *Estimated Tourism Workers Affected by the Enhanced Community Quarantine (ECQ), 2020*

Tourism Characteristic Industries	Tourism Workers (in '000 persons)			Share (in %)
	Formal	Informal	Total	
Accommodation and Food and Beverage	760	823	1,583	33.05
Passenger Transport	901	976	1,877	39.19
Travel agencies and other reservation services	19	20	39	0.81
Cultural, Sports and Recreation	165	179	344	7.18
Retail trade on tourism-characteristic goods	127	137	264	5.51
Other tourism characteristic industry	314	341	655	13.68
Others (mfg. prof, scientific, education, human health)	13	14	27	0.56
Total	2,299	2,490	4,789	100.00

Note: Adapted from Philippine Tourism Human Capital Development Plan 2021-2025 by DOT

Direction for Reforms

Amend the Tourism Act of 2009 (RA No. 9593). To address the unemployment and the need for competitiveness in the sector, an amendment to the Tourism Act of 2009 is proposed to establish a National Tourism Training and Manpower Program. The Program will consist of short courses focused on non-managerial skills such as frontline service, tour guiding, customer service, as well as back-end services. Funding for this measure will be sourced from 40 percent of the Tourism Infrastructure and Enterprise Zone Authority's (TIEZA) financial earnings from travel tax collection; and is intended to extend tourism training to Filipinos in the bottom 20 percent of the economic strata and raise the overall quality of tourism service in the country to meet global standards. This proposed measure is in line with the DOT's Philippine Tourism Human Capital Development Plan which identifies three key areas that require human capital program intervention: (1) Critical Skills Development (pre-employment and long-term workforce plan to address job mismatch); (2) Capability Development of Existing Tourism Professionals, including retooling, upskilling and digital literacy training; and (3) Entrepreneurship Proficiencies Development for MSMEs.

Amend the Farm Tourism Development Act of 2016 (RA No. 10816) for stronger government-academe-industry linkages. RA No. 10816 provides a framework for developing and promoting farm tourism activities that attract visitors and tourists to farm areas for production, educational and recreational purposes. The proposed amendments include increasing digital visibility by mandating broadcasting networks to air episodes regarding farm and agri-tourism programs and activities on DOT and Department of Agriculture's (DA) social media pages. To increase its quality and competitiveness, provisions on safety standards and protocols and disaster risk assessment may also be added in the event pandemics, outbreaks and disasters happen. Annual mapping of farm tourism camps may be considered for proper monitoring and evaluation of the farm tourism camps in the country. The law may also be revisited to strengthen its Institutional and Human Resource Development that would provide entrepreneurial, marketing and digital literacy skills to farmers and farm owners. The proposed amendments to the law would take advantage of the growing potential of Philippine agri-tourism and make it timely and aligned with the demands of the new normal.

Institutionalize Sustainable Coastal Tourism. Tourism can be both a threat and an opportunity for islands, coasts and beaches. A primary example for this is Boracay Island which was hounded by decades of environmental issues and degradation such as coliform bacteria, coral reefs deterioration and algal blooms—all mainly attributed to inadequate septic and sewage systems and the exploitation of coastal resources by business and hotel owners in the island. Rehabilitation was done, but similar problems are being faced by other popular beach destinations such as Palawan, Panglao, Siargao, among others. This proposed measure shall adopt integrated coastal management plans for sustainable development in these areas. Furthermore, a National Council for Sustainable Coastal Tourism will be created for policymaking, standard-setting, planning, coordinating, enforcing, monitoring, and will serve as the advisory body of the government on sustainable coastal tourism. This shall also consider consultations with the academe and research institutions on the proper mapping and exploitation of marine species. It shall also include the Bureau of Fisheries and Aquatic Resources (BFAR) and University of the Philippines Marine Science Institute (UP-MSI) in providing R&D about marine species that may be exploited for tourism purposes and how to handle cases where such species are involved. Such measure would provide a more inclusive collaboration and a science-based approach to conservation and protection of the country’s coastal tourism. In the long run, it will promote a sustainable coastal management practice; healthy coastal ecosystems; a safe and secure recreational environment through the management of coastal hazards, such as erosion, storms and floods; beach restoration efforts that maintain the recreational and attractive values of beaches; and sound policies for wildlife and habitat protection.

Institutionalize the development and promotion of green corridors. This proposed measure aims to develop and promote “green corridors” in the country in order to maintain regional biodiversity, improve environmental quality, offer economic resilience opportunities, protect heritage and culture, and support the jumpstart of the economy in the new normal. In developing green corridors, a bottom-up or participatory approach will be used in identifying tourism areas and will include the production of pre-registration procedures and cashless transactions in tourism establishments. Establishing tourism circuits, which has been one of the DOT’s programs for local tourism, may be included in the proposed measure for proper assessment and inclusion of tourism sites and attractions. This would improve visitor experience through new experiences including cultural heritage and expressions and creative industries.

E. Revolutionizing the Way Industries Operate and Grow

2.26 The Philippines marked the past decade with a robust economic growth performance, with GDP growing at an annual average rate of over 8 percent from 2010 to 2019. A buoyant industry sector, mainly composed of mining and quarrying, construction, manufacturing and electricity, gas and water that is rapidly catching up, supported the economy. The average growth of industry stood at 6.8 percent from 2010 to 2019, dropping significantly in 2020 to -13.9 percent, then recovering in 2021 to 10.0 percent. The contribution of the industry sector to the GDP slightly declined by 2.0 percentage points at 28.6 percent in 2019 to 2020 from 30.9 percent in 2010 to 2019. The unprecedented pandemic highlighted opportunities and challenges to build resilience, mitigate risk, and enable inclusive growth to 8.76 million persons in the industry sector (roughly one-fifth of total employment of the Philippines).

2.27 The urgency of revolutionizing industries, particularly on building resiliency, requires digital transformation, technology and innovative ways of doing business against the backdrop of the "new normal". However, according to the World Economic Forum (2018), the country has a low level of readiness for future production. It is characterized by weak performance in terms of technology and innovation, human capital, and institutional framework, among others. In addition, research from the United States Agency for International Development–Science, Technology, Research and Innovation for Development (USAID-STRIDE, 2019) finds that the country's innovation ecosystem suffers in three main areas, namely: (1) education and human capital (e.g., reducing barriers to participation); (2) research and knowledge (e.g., research and development investments and mechanisms); and (3) enabling environment (e.g., burdensome procurement regulations). Further, the country landed 6th among eight ASEAN member-states and 83rd out of 130 countries in the Network Readiness Index (NRI) in 2021 (Table 10). The level of technology (access, content and future technologies) is poor, and this is a major issue for the country as this is essential to build industries' sustainability and scalability and be more proactive in addressing current and future threats.

Table 10. *Network Readiness Index (NRI) of Selected ASEAN Member-States, 2021*

Country	Overall Rank and Score		Pillars Score			
	NRI score	NRI rank	Technology	People	Governance	Impact
Singapore	80.01	7	75.80	74.75	84.74	84.77
Malaysia	61.26	38	56.01	57.20	68.47	63.35
Thailand	55.31	54	51.04	50.89	60.98	58.33
Vietnam	51.08	63	46.15	44.26	52.59	61.30
Indonesia	50.37	66	50.07	44.69	55.02	51.70
Philippines	45.27	83	32.87	43.53	46.21	58.45
Cambodia	36.39	106	32.62	32.62	34.17	46.14
Laos	35.64	110	35.68	35.88	25.42	45.57

Note: NRI maps the network-based readiness landscape of 130 participating countries based on their performance in four different pillars, namely, Technology, People, Governance and Impact. Each pillar is composed of three sub-pillars such as Access, Content and Future Technologies for Technology; Individuals, Businesses and Governments for People; Trust, Regulation and Inclusion for Governance; and Economy, Quality of Life and SDG Contribution for Impact (from "Benchmarking the Future of the Network Economy" by Portulans Institute).

Direction for Reforms

Enact a National Quality Infrastructure (NQI) Law. As industries are encouraged to innovate and participate in the global market, they need to comply with international quality standards. The proposed measure shall integrate standardization, metrology, testing analysis, quality management, certification and accreditation to gain access to more local and global markets. It will raise quality consciousness of both suppliers and consumers, as NQI institutions introduce, promote and maintain a culture of safety and quality of goods produced. It shall ensure that goods and services emanating from or traded to the country are designed, manufactured and supplied in a manner that matches the needs, expectations and requirements of the purchasers and consumers, as well as those of the regulatory authorities in the domestic and export markets.

Institutionalize an Upskilling and Reskilling Program. This proposed measure aims to put in place a coherent, integrated and holistic system of technical skills and competency-based development program to future-proof Filipino workers. This reform measure seeks to equip the country's workforce with technical skills and competencies that are relevant in the FIRe. It also aims to professionalize and promote a culture of innovation in skills and competency-based development training, improve access and strengthen linkage of employment opportunities with skills training and workforce development, and encourage private sector recognition and participation in career development. The measure provides for inclusivity in the governance of future skills training, particularly for disadvantaged and vulnerable groups, women, older persons, persons with disabilities and indigenous peoples. An appropriate body such as a National Future Skills Council shall be created to generate and scale up action in all levels and areas of education, training, research and development towards promoting innovation in workforce employability.

Pass the Provincial Science and Technology Office Bill. This proposed measure seeks to strengthen the existing Provincial Centers for Science and Technology under RA No. 6959 by converting them into an office so that the development and transfer of technologies in the rural areas can be vigorously pursued and implemented.

Update the law governing warehouse receipts. This proposed measure aims to revise the more than a century-old Warehouse Receipts Law (RA No. 2137) in order to establish a modern legal framework in the country that shall facilitate trade, commerce and other related purposes. This legislative measure is important as it seeks to establish a central electronic registry for all warehouse receipts and a system that is more secure, transparent, reliable and promotes ease of doing business. It shall provide government authorities with timely and accurate information about the aggregate stock of goods in the country.

Chapter 3

STRENGTHENING DIGITAL CONNECTIVITY

Digital connectivity has emerged as a key pathway to quickly recover from the adverse consequences of the COVID-19 pandemic and prepare for future threats. It has a catalytic role in spurring economic growth, creating jobs, and reducing poverty. Even before the pandemic, adapting to and maximizing the use of digital networks was already an essential strategy for economies to achieve more equitable growth and further development goals. For instance, a 2018 International Telecommunication Union (ITU) study showed that for low-income countries, every 1 percent increase in mobile broadband penetration yields a 0.20 percent increase in GDP. Internet speed has also been shown to be important, as a 2013 Ericsson study found that introducing a 0.5 megabits per second (Mbps) broadband connection into a household in less developed countries can lead to an increase in household income by up to US$800 per year.

However, nearly 53 percent of individuals and 60 percent of the 23 million households in the Philippines are still without internet connection. The country ranks low in digital transformation, at sixth out of the eight Southeast Asian countries in the 2022 Inclusive Internet Index (Table 11). In terms of speed, the country lags behind its regional peers with the average download speed at 52.16 Mbps compared with the average speed of 197.97 Mbps in Singapore and 187.80 Mbps in Thailand as of March 2022. Despite the slow speed and poor performance, the average cost of fixed broadband in the country is also very expensive, equivalent to about 11.6 percent of Gross National Income (GNI) per capita while mobile broadband is at 2 percent of GNI per capita. The Philippines' persistent problems of poor quality and high pricing of telecommunications services have been linked to a weak regulatory framework, lack of competition among industry players, and inadequate ICT infrastructure.

In today's world, this predicament implies reduced economic opportunities and competitiveness, exclusion from vital health information and resources, deprivation of education benefits, difficulties in accessing essential public services, and poor social interactions, among others. The digital divide, if not addressed, may even deepen inequalities, and may hamper the country's efforts to emerge stronger in the new normal. The government should, hence, develop and place digital strategies at the heart of its policy agenda.

Aside from households and enterprises, the public sector also needs to take advantage of modern digital networks to improve operations and bring its services closer to the people. The adoption of an electronic government (e-government) is necessary for higher levels of efficiency, effectiveness, transparency, accountability and inclusiveness for the delivery of government services, decision-making processes and information exchange between the government and the public.

Moreover, digital connectivity has become an even more important component in enabling various economic sectors to rebuild, adapt and thrive in a post-pandemic future. Increased digitalization, which promotes resource efficiency, will likewise accelerate the transformation of sectors towards a green economy. Interventions to help revitalize these sectors and make them competitive and resilient by utilizing digital technologies to their full extent will be dependent on accessible, fast, affordable and secure internet services for all.

Table 11. *Inclusive Internet Index and Broadband and Mobile Speed in Southeast Asian Countries, 2022*

Country	Inclusive Internet Index					Speed (Mbps)	
	Overall Index	Availability	Affordability	Relevance	Readiness	Fixed Broadband	Mobile
Singapore	86.1	89.9	78.3	81.3	72.3	197.97	67.99
Malaysia	78.1	71.4	88.8	89.0	81.6	84.61	25.87
Thailand	76.5	78.0	77.2	72.3	62.2	187.8	33.49
Indonesia	74.7	52.8	82.1	83.8	76.3	21.23	17.7
Vietnam	74.7	67.0	87.4	86.3	64.1	67.96	33.9
Philippines	**72.3**	**69.4**	**78.7**	**81.7**	**58.1**	**52.16**	**19.38**
Myanmar	63.8	69.8	75.0	60.5	71.3	16.86	24.06
Cambodia	61.4	55.9	75.0	57.8	50.1	19.33	16.12

Note: Score 0-100 where 100 is the most inclusive internet environment (from World Bank Sixth Edition of the Inclusive Internet Index, 2022).

3.1 Low competition and regulatory constraints persist in the telecommunications market. Restrictions on investment and competition in the telecommunications market have hindered efforts to improve the digital infrastructure in the country. This includes the restrictions on foreign ownership and a cap on the rate of return. Furthermore, the requirement for a Congressional franchise to build a network disincentivizes small, community-based players from participating in the broadband networks. In terms of the regulatory constraints, the country's Radio Control Law of 1931 (RA No. 3846) which governs the spectrum allocation is already outdated. This has resulted in the inadequate infrastructure, especially outside of the capital and city centers, tedious, inefficient and costly rollout of broadband networks. The need for a more "open access" policy in regulating the sector is critical in ensuring that market players compete based on services and innovation and not on exclusive ownership of networks. Currently, the assignments of spectrum have been subsisting until annulled, revoked or suspended by the National Telecommunications Commission (NTC) or by the expiration or termination of the assignee's corporate existence. This has led to a regulatory regime where mergers and acquisitions have resulted in the hoarding of critical frequencies, especially those required for mobile telephony and data. This has brought about a lack of competition in the telecommunications sector which is currently dominated by few industries.

3.2 The lack of comprehensive law to protect and promote cybersecurity is a major concern in the Philippines. While the benefits of digitalization are plentiful, there is also a need to secure networks from malicious and dangerous activities. With the digital transformation, cyber-attacks and systems failures have become a serious national security threat. Cyberattacks on critical infrastructure undermine national security and impact economic activity. A 2018 study by Frost & Sullivan commissioned by Microsoft found that potential economic loss in the Philippines due to cyberattacks can reach US$3.5 billion or 1.1 percent of the country's total GDP. The adaption of digital services has exposed users to misuse of personal and confidential data which makes them vulnerable to leakage. Therefore, reinforcing appropriate policy measures, including preventive and higher surveillance and monitoring measures, to fight increasing cyber threats and attacks are critical to realize the full potential of digitalization.

3.3 According to the Global Findex Database, almost all Filipinos prefer to use cash to pay their utility bills through bill payment services providers. Only 18 percent pay utility bills through their bank accounts or mobile money accounts in 2020. Meanwhile, the BSP reported that seven in 10 adult Filipinos are financially excluded.[8] A significant gap in account penetration is seen in socioeconomic class and employment status. Only 27 percent of those in the lower class (E) have an account, compared to 72 percent among the upper class (ABC1). Employed individuals are twice as likely (39%) to own an account than those who are unemployed (19%). Digital financial inclusion offers an opportunity to reach the unserved and underserved populations who are otherwise excluded from the formal financial system. The government should therefore institute national policies and a broad range of initiatives to develop the country's digital infrastructure and guarantee that Filipinos have access to welfare-enhancing and digitally enabled financial products and services in line with their needs and capabilities.

Direction for Reforms

Pass the Open Access in Data Transmission Act. This proposed measure aims to bridge the broadband infrastructure gap in the Philippines by encouraging the entry of more players in the data transmission and broadband services, thus fostering better competition in this sector. It would do this by lowering the barriers to entry and simplifying the licensing process for broadband network providers by removing the cumbersome and costly requirements needed to enter the market. It would encourage infrastructure-sharing and coordinating network rollout with other sectors which should result in more and better broadband infrastructure in the country.

Enact a law that will improve spectrum management. The proposed Philippine Spectrum Management Act aims to introduce transparency, equity and competition in radio spectrum management. Under this legislative proposal, a Radio Frequency Consultative Committee will be created composed of the Department of Information and Communications Technology (DICT), NTC, PCC, other government agencies, the private sector and civil society, which shall be responsible for the spectrum allocation and assignment. The measure seeks to promote competition in the sector by allowing the NTC to recall any spectrum assignment *motu propio* or upon petition of any person, mandating the periodic review of spectrum assignments to ensure optimal use, limiting the assignment of spectrum to five years, preventing the sale of any spectrum license, and disallowing the accumulation of spectrum in one entity or group of entities with a material interest in each other, among other measures.

Enact a Cable Television (CATV)–Direct-to-Home (DTH) Industry Development Law. The main objective of this proposed measure is to institutionalize the governance of the CATV and DTH or Satellite TV service. The regulatory requirements for deployment of internet networks will be streamlined by defining CATV services to include provision of internet and ICT services, and DTH services, including internet as "not public utilities," and not to be construed as mass media, telecommunications or broadcast services. It will facilitate faster and efficient network deployment and encourage the entry of new and small players. This will ultimately help bring more and better internet services to the more people.

[8] Financial exclusion estimate is based on the share of Filipino adult population who do not own a transaction account for storing, sending and receiving of funds.

Promote the development of satellite-based technologies. The Satellite-Based Technologies Promotion Bill aims to ease regulatory requirements for use of satellite internet. The bill will allow Value-Added Service Providers (VASPs) and Internet Service Providers (ISPs) to use satellite internet without need for a Congressional telecommunications franchise, or a Certificate of Public Convenience and Necessity. Government organizations, public and non-profit private educational institutions, and volunteer organizations engaged in education, environmental protection, and climate and disaster risk management will be allowed to own and operate satellite internet through an administrative process. The DICT would also be mandated to work with other government agencies, such as the Philippine Space Agency, to encourage commercial development of technologies complementary to satellite internet and to issue rules and regulations on development and use of satellite technology.

Accelerate the establishment of wired internet in rural areas. The Rural-Wired Development Bill shall address the internet accessibility in rural areas and promote digital equality by incentivizing small players to expand their wired internet services in rural areas. The bill defines a small player as an entity not servicing greater than 10,000 subscribers nationwide. It seeks to incentivize small players that deploy wired internet through tax credits from three to five years. This measure envisions to bring the benefits of the internet to areas that are potentially ignored by the bigger players in the sector.

Legislate the proposed Better Internet Act/Faster Internet Service Act. This proposed measure seeks to improve internet services in the country by requiring ISPs to expand their coverage and set a minimum internet connection speed. It will mandate ISPs to provide their subscribers 80 percent of their advertised speed available at 80 percent of the time. The NTC will be mandated to measure, monitor and publish broadband quality of service and conduct a periodic review to adjust minimum standard speed in order to provide consumers with internet speed at par or above ASEAN average. The DICT will be required to maintain the National ICT Assets Index and to regularly conduct the National ICT Household Survey, as well as review and update ICT policy and guidelines.

Enact the proposed Cybersecurity and Infrastructure Protection Act. This proposed measure aims to introduce a framework to protect the rights and interest of the people in cyberspace. It shall create the Cybersecurity and Infrastructure Protection Commission to establish cybersecurity standards in the country. It will create a National Cybersecurity Plan and Framework and a National Cybersecurity Protocol during cybersecurity incidents or threats. Additionally, it will also fund and initiate capacity building and development programs and research and development activities aimed at improving the country's cybersecurity.

Ensure and improve security in internet transactions. The proposed Internet Transactions Act aims to ensure fair and transparent business practices (e.g., information disclosure, protection of data privacy and product safety) in the e-commerce industry. It will promote a minimum standard of security for e-commerce stakeholders by adopting and implementing minimum information security standards for e-commerce platforms. The measure also intends to improve privacy protection for users of e-commerce.

Strengthen the adoption of digital payments. The proposed Digital Payments Act aims to provide an enabling environment to accelerate the adoption of digital payments and to serve as an impetus to shift to digital and cashless payments and reap the benefits of digitalization. It will promote the use of digital payment services by government and the private sector. It aims to do this by mandating NGAs, LGUs and government-owned and -controlled corporations (GOCCs) to utilize safe and efficient electronic or digital means of receiving payment for taxes, fees, tolls, imposts and other revenues and for the payment of goods, services and other disbursements. For the private sector, it aims to accelerate the adoption of digital payment capabilities of businesses or merchants either through the provision of incentives or by making it a condition for approval or renewal of business permits.

Provide a framework for e-government services and processes. The enactment of an E-Government Law would set a time frame for the public sector's full digital transformation, requiring government agencies, offices, instrumentalities, corporations and units to adopt and implement a digitalization strategy. Its objective is to transform the government into a digital platform that provides transparent and accountable governance, efficient operations, direct citizen engagement, and innovation; and to enhance the National Government Portal, which will house all the government's online information and public services. It will mandate the DICT to establish an E-Government Master Plan that would be updated regularly and integrate cybersecurity measures.

Chapter 4

LEAVING NO ONE BEHIND: ENSURING RESPONSIVE BASIC AND SOCIAL SERVICES

The COVID-19 pandemic exposed the fragility of the Philippines' socio-economic fundamentals. It magnified the weaknesses of the country's health systems. It disrupted jobs, incomes and livelihoods of Filipinos in the country and abroad. It plunged 3.9 million more Filipinos into poverty. It exacerbated food insecurity for many families. It affected access to housing, healthcare and education. Prolonged school closures increased learning poverty. The pandemic compounded the risks faced by communities vulnerable to environmental degradation, disasters and climate change. It made the attainment of the SDGs more elusive.

In 2015, the Philippines adopted the goals of eradicating extreme poverty, ensuring healthy lives, achieving inclusive and quality education, promoting full employment, decent work, and social protection, making human settlements inclusive, resilient and sustainable, protecting and conserving life on land and water, and taking urgent action to combat climate change—towards a life of dignity for all.

In pursuit of these goals, Congress has enacted vital pieces of legislation to universalize access to healthcare, higher education and training; harness innovation for economic growth; create an inclusive labor market; promote green jobs and just transition; institutionalize the conditional cash transfer *Pantawid Pamilyang Pilipino* Program (4Ps); scale up health and nutrition programs for children; facilitate the provision of resilient housing; respond to the pandemic and deliver socio-economic relief to the most vulnerable; and protect the welfare of migrant workers.

Yet, over two years since the onset of the pandemic, getting back on track and addressing the deep-seated socio-economic inequality remains a challenge.

Moreover, navigating the landscape of rapid digital transformation and the inevitable transition to a green economy[9] requires a human capital that is future-ready and resilient. The country must therefore rise beyond recovery, enable and maximize opportunities for everyone, and manage emerging threats to protect the most vulnerable, leaving no one behind.

Poverty in Context

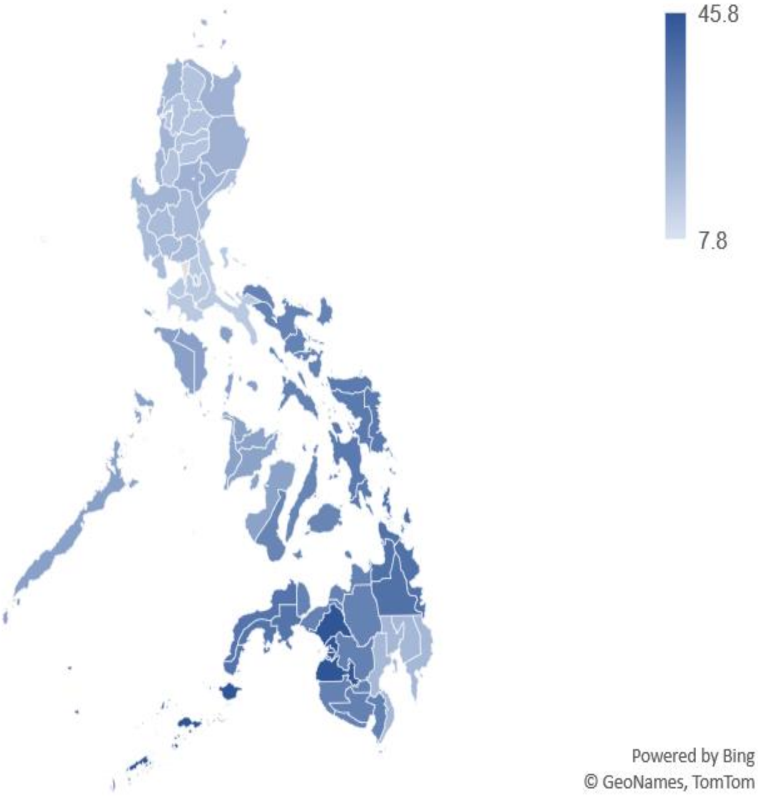
The Philippine full-year poverty rate fell to a record-low 16.7 percent in 2018 from 23.3 percent in 2015, accelerating progress toward the SDG target of reducing by half the proportion of Filipinos living in poverty by 2030. This also exceeded the 17.3 percent to 19.3 percent target set by the PDP 2017-2022 for 2018.

But the pandemic has reversed this trend, pushing an additional 3.9 million Filipinos into poverty compared to the first half of 2018. The PSA reported that poverty incidence among the population increased to 23.7 percent during the first semester of 2021 from 21.1 percent in the same period of 2018. Among the population, one in 10 Filipinos lived below the food threshold.

[9] A green economy is defined as low carbon, resource efficient and socially inclusive.

Poverty is characterized by large regional disparities. Despite a 17.4 percent decrease in poverty incidence among population in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) in 2021, it still has the highest poverty rate of 45.8 percent (Figure 13).

Figure 11. *Poverty Incidence among Population, by Region, 2021 First Semester*



Note: Poverty incidence is the proportion of families/individuals with per capita income/expenditure less than the per capita poverty threshold to the total number of families/individuals. Adapted from the 2021 First Semester Poverty Statistics by PSA.

Poverty is mainly rural, with about seven out of 10 poor families living in rural areas and approximately 46.3 percent of poor families relying on agriculture, forestry and fishing, and mining and quarrying industries for their livelihood in 2018, according to the Philippine Institute for Development Studies (PIDS). These are the same sectors most vulnerable to climate and environmental stresses which drive people deeper into poverty with every disaster.

The agriculture sector accounted for 63 percent or PhP290 billion of the PhP463 billion total damages incurred by the country due to natural extreme events and disasters from 2010 to 2019. Hence, without an integrated strategy to reduce the risks in climate-sensitive sectors, poverty levels will persist.

Understanding that poverty is multidimensional and complex—from education to income, healthcare, housing, employment, access to resources, social exclusion, and peace and security—is key to addressing it.

Human Capital at the Crossroads

The World Bank, in its Human Capital Index (HCI), estimates that Filipinos born in 2020, given the prevailing education and health outcomes in the country, can expect to be 52 percent as productive as future workers as they could be if they enjoyed complete education and full health (Table 12). This is worse than its 2018 level and lower than the global average of 56 percent. Compared to its ASEAN neighbors, the Philippines trails behind Singapore, Vietnam, Brunei, Malaysia, Thailand and Indonesia.

Table 12. *Human Capital Index of ASEAN Member-States, 2018-2020*

AMS	2018	2020	Difference
Brunei	--	0.63	
Cambodia	0.49	0.49	0.00
Indonesia	0.54	0.54	0.00
Lao PDR	0.46	0.46	0.00
Malaysia	0.63	0.61	-0.02
Myanmar	0.47	0.48	0.01
Philippines	0.55	0.52	-0.03
Singapore	0.89	0.88	-0.01
Thailand	0.62	0.61	-0.01
Vietnam	0.69	0.69	0.00

Note: The HCI is designed to capture the amount of human capital a child born today could expect to attain by the age of 18. The HCI has three components: survival, expected years of learning-adjusted school, and health. Adapted from World Bank Human Capital Index 2020 Update by World Bank.

In the face of unprecedented threats of the COVID-19 and climate crisis to the human well-being, investments and policies in education, health, and social protection are crucial not just to reverse losses but pave the way for a future where Filipino children reach their full potential.

Sectoral Assessment

A. Achieving Universal Quality Education

4.1 Education plays an important role in the country's economic and social policies because of its potential to promote progress both at the individual and country level. Education moves people out of poverty and breaks the cycle of intergenerational poverty among families.

On equitable access

4.2 The Philippines has had historically high access in basic education and higher education even when compared with other ASEAN countries (Table 13). However, enrollment decreased during the first year of the pandemic and is only now catching up to pre-pandemic levels.

4.3 As a preventive move against COVID-19, the Philippines shifted away from face-to-face instruction and toward other modes of instruction, including: (1) modular distance learning (print and digital); (2) online distance learning; (3) blended learning; (4) radio and television; and (5) homeschooling.

Table 13. *Selected Education Indicators, Reference Year 2019*

ASEAN	Government expenditure on education, all levels, total (% of GDP)	Completion rate (%)			Achieving minimum proficiency (%)				Gross enrol-ment ratio pre-pri-mary (%)	TVET share of secon dary enrol-ment (%)	Gross enrol-ment ratio tertiary (%)
					End of primary		End of lower secondary				
		Pri-mary	Lower secon dary	Upper secon dary	Reading	Mathe matics	Reading	Mathe-matics			
Brunei	(2016) 4.43	nd	nd	nd	nd	nd	48	52	63	11	31
Cambodia	(2018) 2.16	74	46	22	11	19	8	10	25	nd	15
Indonesia	(2019) 2.84	97	87	59	nd	18	30	28	62	20	36
Lao PDR	(2020) 2.23	85	63	40	2	8	nd	nd	48	1	14
Malaysia	(2020) 3.92	10	97	62	58	64	54	59	98	10	43
Myanmar	(2019) 2.14	82	52	22	11	12	nd	nd	9	0.2	19
Philippines	(2020) 3.88	90	74	70	10	17	19	nd	105	10	35
Singapore	(2020) 2.51	nd	nd	nd	97	96	89	92	nd	nd	89
Thailand	(2019) 2.97	99	87	66	nd	nd	40	47	79	11	49
Vietnam	(2019) 4.06	98	87	56	82	92	86	81	96	nd	29

Note: nd is no data. United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics (UIS) expenditure (from UNESCO Global Education Monitoring Report by UNESCO, 2021)

4.4 A World Bank and Australian Agency for International Development (AusAID) study of the Philippine basic education sector during the pandemic revealed that a sizable proportion of households did not enroll their children due to a variety of concerns, such as the risks associated with the virus, the associated educational costs, and ineffective distance education. Moreover, a survey by the World Bank found out that the top three barriers to effective online learning are limited access to gadgets and the internet, the child's inability to focus on remote learning without adult supervision and insufficient internet load or mobile data allocation.

4.5 The difficulties in distance learning are more pronounced in poorer households where only 40 percent of households in the bottom quintile of the income distribution have access to the internet, which is required for online education. Although three-quarters of poor and near-poor households owned at least one smartphone, students from these households only spent an average of 37 minutes per school day studying online via a phone.

<u>On quality</u>

4.6 Quality of education at all levels leaves much to be desired. The quality of basic education as measured by performance in national achievement tests is low. The Philippines is one of the lowest performing countries according to results of international assessment tests like the 2018 Programme for International Student Assessment (PISA) and the 2019 Trends in International Mathematics and Science Study (TIMSS). Senior High School graduates are also not as employable as envisioned based on numerous studies by the PIDS with most employers citing concerns about their readiness for work. For higher education, higher education institutions (HEIs) are not teaching the right skills to their graduates as evidenced by the low passing rates in licensure exams. Even the country's best public and private universities are being outpaced by HEIs in other countries. Technical and vocational education and training (TVET) programs are also not as responsive to the needs of industry based on a PIDS study which found out that more than a quarter of vacancies across all sectors are hard to fill.

4.7 This is exacerbated by the shift to alternative delivery modes during the pandemic. According to the ADB, the Philippines has one of the highest learning losses in Southeast Asia due to school closures. The ADB estimates that the Philippines has lost more than 7 months of learning-adjusted schooling. United Nations Children's Fund (UNICEF) (2022) calculations show that only 10 percent of children in the Philippines can read a simple text as opposed to the regional average of 66 percent and the world average of 51 percent.

Boys left behind

4.8 Studies reveal a sharp disadvantage of boys in terms of school enrollment, performance and graduation rates. The disparity against boys in the Philippines is also evident in performance metrics across different grade levels in public schools, where females score better than boys in national achievement tests both in primary and secondary school levels and in every subject tested. The situation becomes worse as students move up the education ladder as more and more boys drop out. This gender disparity has already started to affect the labor sector as studies report that the wage gap has shifted in favor of women.

Jobs-skills mismatch

4.9 According to the ADB (2021), while the most popular TVET programs in recent years have reflected growing sectors of the Philippine economy, TVET outputs may not be as closely aligned with market demand as they appear to be. Many of the expected post-training occupations for TVET graduates are low-productivity, non-routine manual jobs. Moreover, training–job mismatches are common along with skill shortages and limited employability of TVET graduates. This led to a rising share of firms having difficulty finding workers and a decline in employer satisfaction as can be seen from recent rounds of Technical Education and Skills Development Authority's (TESDA) employer surveys.

4.10 TVET is not solely to blame as the higher education sector has been showing mixed results with regard to supplying the manpower needs of the economy. HEIs that do not produce the right kind of graduates contribute to the issue of mismatched skills. A 2021 PIDS study based on graduate tracer survey results found out that only 49 percent of graduates who completed courses that needed a professional license to practice their profession had jobs that match their degree. Additionally, a 2020 PIDS study found out that there is a shortage of data science and analytics competencies in the current workforce which is crucial with the advent of the FIRe and the demands of the pandemic.

4.11 The workforce seems to lack socio-emotional skills as more firms must train their workers in socio-emotional skills than in technical skills, underscoring the country's growing socio-emotional skills gap. Moreover, according to the UNICEF, the pandemic and its associated health containment measures, such as lockdowns and school closures, have had clear negative effects on the mental health of children and adolescents.

Direction for Reforms

Several major reforms have been done in the past years in education. These are the Kindergarten to Grade 12 (K to 12) Program (RA No. 10533), the Free Higher Education Act (RA No. 10931), the Unified Financial Assistance System for Tertiary Education Act (RA No. 10687), the Open Distance Learning Act (RA No. 10650), the Alternative Learning Systems Act (RA No. 11510) and the Ladderized Education Act (RA No. 10647). The effects of these reforms are not immediate, and it will take several years after they are fully implemented to determine their impact. Before further embarking on major changes, it would be prudent to assess whether these reforms are doing what they were intended to do. Relatedly, Congress has also approved the creation of the Second Congressional Commission on Education (EdCom 2), which would provide a comprehensive national assessment and evaluation of the performance of the Philippine education sector. This assessment will be crucial in crafting transformative, concrete and targeted reforms for the education sector.

Spend more for education. The 2018 PISA result shows that a country's spending on education per student is positively correlated with learning outcomes, proxied by average reading scores. This is expected since financial resources are required to have good teachers, a conducive learning environment, a reliable learning assessment system, and innovative technologies for learning. However, the Philippines' spending per student is among the lowest globally. An earlier study by the World Bank and AusAID showed that it would take more than 6 percent of GDP to implement a broad package of quality improvements. Additionally, geographical disparities in public basic education spending are quite large and are not strongly associated with levels of poverty. For example, Region 12 (South Cotabato, Cotabato, Sultan Kudarat, Sarangani and General Santos City or SOCCSKSARGEN) is one of the poorest regions in the Philippines but receives a budget for basic education that is below the national average. Despite the country's policy thrusts and national plans, spending for education has never reached 4 percent of GDP.

Pass a National Digital Transformation Act. COVID-19 has emphasized the need for digital competency as the whole education sector has shifted to alternative modes of learning. Even when face-to-face classes start to become the norm again, digital technologies facilitate learning by providing education access to those who might not be able to benefit from formal face-to-face education. Digital technology can also improve traditional teaching curricula and training programs. In order for the education sector to produce workers who are competitive in the new normal, it is essential that teachers acquire greater digital skills. This measure will include an ICT-Competency Framework for Teachers that would assist them in integrating and maximizing the use of ICT in their practice.

Pass an Enterprise-Based Education and Training to Employment Act. The *Tulong-Trabaho* Act (RA No. 11230), which was passed in 2019, aimed to improve the qualifications of the Filipino workforce to meet the challenges of rapidly evolving workplaces and work structures. The proposed Enterprise-Based Education and Training to Employment Act will further address the job-skill mismatch as it aims to strengthen private sector participation in TVET to make it more responsive to industry needs. This measure will establish a national enterprise-based training system and standards that is competency-based, including an on- and off-the-job training program, through the participation of employers, workers and the government.

Incorporate a holistic vision of social and emotional learning into the whole educational system. Emerging international evidence shows that socio-emotional skills are increasingly becoming crucial to the workplace. Even though studies show that primary school is the best period to build socio-emotional abilities, the elementary education curriculum only devotes a small amount of time to their development. A recent law passed is the Good Manners and Right Conduct (GMRC) and Values Education Act (RA No. 11476) where GMRC and values education are being required to be taught as a separate subject. This somewhat addresses the issue of social and emotional learning through values education. However, there is still less time allocated for music, arts, physical education and health when compared to the curricula of other comparable countries. Studies suggest that high-quality music and arts education can boost creativity, critical thinking, perseverance and motivation while physical education can support the development of social skills and self-esteem. In this regard, Congress may consider a measure mandating the Department of Education (DepEd) to strengthen the integration of social and emotional learning in the primary school curriculum. Other measures could include strengthening mental health services in basic education.

B. Promoting Resilient and People-Centered Health Systems

4.12 The right to health is a fundamental part of human rights. Moreover, improvements in the nutrition and healthcare of workers maximizes potential productivity which is crucial in lifting people out of extreme poverty. The last decade saw the government instituting several reforms and policies to improve access to quality healthcare for Filipinos.

4.13 Among the recent landmark policies are: the Bayanihan to Heal as One Act (RA No. 11469) and the subsequent Bayanihan to Recover as One Act (RA No. 11494); the Malasakit Center Act (RA No. 11463); and the Universal Health Care (UHC) Law (RA No. 11223). Other major health laws include the Responsible Parenthood and Reproductive Health Act (RA No. 10354), the Philippine Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) Policy Act (RA No. 11166), the First 1,000 Days Law (RA No. 11148), the National Integrated Cancer Control Act (RA No. 11215), the Philippine Mental Health Act (RA No. 11036), and the Expanded Maternity Leave Law (RA No. 11210), to name a few. In addition, tax laws such as the Sin Tax Reform Law (RA No. 10351) and TRAIN Law have also provided the government with much needed funding support for the health sector.

<u>Health outcomes</u>

4.14 The passage of the abovementioned laws appears to have contributed positively to the health outcomes of Filipinos, particularly on life expectancy, maternal mortality, childhood mortality and adolescent fertility (Table 14). However, when compared to its regional peers, the Philippines lags behind even before the pandemic (Table 15). The onset of the pandemic eroded many of these gains and laid bare the limited investment in healthcare infrastructure and a shortage of healthcare workers. The National Economic and Development Authority (NEDA) states that the long-run total cost of the pandemic and quarantines for present and future generations of Filipinos is estimated at PhP41.4 trillion (in net present value terms) and workers' productivity will also be lower due to untimely death and illness.

Table 14. *Selected Health SDG Indicators, Philippines (2010-2019)*

Year	Maternal mortality rate (per 100,000 live births)	Neonatal mortality rate (per 1,000 live births)	Mortality rate under-5 (per 1,000 live births)	Adolescent fertility rate (births per 1,000 females aged 15 to 19)
2010	144	15.0	31.7	56.2
2011	141	14.9	31.3	56.7
2012	139	14.8	31.0	57.3
2013	136	14.6	30.6	56.7
2014	131	14.6	30.2	56.0
2015	127	14.4	29.8	55.4
2016	124	14.3	29.3	54.8
2017	121	14.0	28.7	54.2
2018	-	13.6	28.0	54.8
2019	-	13.3	27.3	-

Note: Adapted from the Sustainable Development Goals Report by the United Nations

4.15 Filipinos suffer the triple burden of disease—high prevalence of communicable diseases (e.g., pneumonia, respiratory tuberculosis, acute respiratory infections), increasing non-communicable diseases (NCDs) or lifestyle-related conditions, and afflictions related to urbanization and industrialization. NCDs can develop as a result of the confluence of genetic, physiological, environmental and behavioral factors. Most NCDs, which are largely preventable, are associated with modifiable behavioral risk factors such as unhealthy diet, physical inactivity, exposure to smoke, excessive smoking and alcohol use, and obesity. In 2021, ischemic or coronary heart diseases, cerebrovascular diseases, COVID-19 virus, cancers and diabetes mellitus were the top causes of death in the Philippines. Some of these cases could have been adequately addressed if these were screened early. Dayrit et al. (2018) noted that the ability to pay (household income) is a determining factor in the care-seeking behavior of Filipinos. For the poor population, they usually opt for self-care, alternative medicines or traditional healing. Due to financial constraints, care-seeking is often delayed until the condition has worsened.

Table 15. *Selected Health SDG Indicators, ASEAN*

Country	Maternal mortality rate (per 100,000 live births)	Neonatal mortality rate (per 1,000 live births)	Mortality rate, under-5 (per 1,000 live births)	Incidence of tuberculosis (per 100,000 population)	New HIV infections (per 1,000 uninfected population)	Traffic deaths (per 100,000 population)	Life expectancy at birth (years)	Births attended by skilled health personnel (%)	Surviving infants who received 2 WHO-recommended vaccines (%)	UHC index of service coverage (worst 0-100 best)
	2017	**2019**	**2019**	**2019**	**2019**	**2019**	**2019**	**2017**	**2019**	**2017**
Brunei	31	6	11.4	64	-	7.5	74.3	100 c	97	81
Indonesia	177	12.4	23.9	312	-	11.3	71.3	90.9	85	57
Cambodia	160	14.5	26.6	287	0.1	19.6	70.1	89 a	84	60
Lao PDR	185	22	45.5	155	0.1	17.9	68.5	64.4	68	51
Myanmar	250	22.4	44.7	322	0.2	20.4	69.1	60.2 c	84	61
Malaysia	29	4.6	8.6	92	0.2	22.5	74.7	99.4 b	97	73
Philippines	121	13.3	27.3	554	0.1	12	70.4	84.4	65	61
Singapore	8	0.9	2.5	41	0	2.1	83.2	99.6	95	86
Thailand	37	5.3	9	150	0.1	32.2	77.7	99.1 c	96	80
Vietnam	43	10.5	19.9	176	0.1	30.6	73.7	93.8 a	89	75

Note: Adapted from Sustainable Development Goals Report by the United Nations. a 2014, b 2015, c2016, d 2019

Health service delivery

4.16 The COVID-19 pandemic placed enormous pressure on the country's already struggling healthcare system. It has exposed the inadequacy of the country's health facilities, medical supplies, instruments and equipment, and human resources at different levels of care. It has severely disrupted the production of essential medicines, medical supplies and equipment. Coupled with the global demand, this led to unprecedented shortages of vaccines, medicines, and other medical supplies and equipment. In particular, at the start of the pandemic, the Philippines encountered difficulties sourcing vaccines resulting in the delayed implementation of the vaccine program. This has revealed the country's dependency on imported raw materials, ingredients and even finished products, and the lack of capability to test viral diseases. Viral diseases have not only affected human health, but also of plants and animals affecting the country's food supplies. In particular, the outbreak of AFS in July 2019 severely affected the country's national domestic production, resulting in an estimated trade loss of about PhP1 billion.

4.17 At the height of the pandemic, hospitals grappled with the overwhelming surge in hospitalizations and new COVID-19 cases. Hospitals were overwhelmed due to the lack of appropriate facilities and equipment, lack of beds, and insufficient health personnel. As a result of the limited physical mobility and face-to-face transactions to curb the transmission of COVID-19, hospitals, clinics and various health institutions adopted e-Health technologies and applications. These include telemedicine, e-prescription, and online drug purchase, among others.

4.18 The delays in the country's COVID-19 response were blamed on the fragmentation of the health system. This fragmentation has impeded the harmonized and strategic delivery of health products and services and prevented functional complementation of health services offered by primary care providers, secondary and tertiary health facilities (Department of Health, 2018). In an effort to ensure the continuity and convergence of health services, the UHC Act provides for the organization of Health Care Provider Networks aimed at offering people-centered and comprehensive care in an integrated and coordinated manner. The pandemic has not only revealed the faults of the health system but also emphasized the need to accelerate the transition to universal health care.

Health workforce

4.19 According to the World Health Organization (WHO), the ideal or recommended ratio of doctors per 10,000 population is 10. However, the Philippines has only six per 10,000 doctors to population ratio in 2017. Most of its ASEAN neighbors fared better with Singapore having 22 doctors, while Thailand has nine and Vietnam eight doctors per 10,000 people (Table 16). Despite this shortage, the Philippines is considered to be one of the top exporters of doctors and nurses globally. On average (from 2016 to 2019), the country deployed around 16,000 nurses annually. The pandemic highlighted the shortage of health personnel in the country, resulting in the imposition of a deployment cap for healthcare workers. The high outflow of healthcare workers is due to low wages, overwork, contractualization and inadequate benefits. A study by iPrice Group found that Filipino registered nurses and medical technologists earn the least compared to countries in the region. Moreover, most physicians are concentrated in highly urbanized cities, independent component cities, and relatively rich provinces.

Table 16. *Health care worker to population ratio (per 10,000 people)*

Country	Nurses and Midwives	Physicians
	2019	2019
Cambodia	1.01	0.19 e
Indonesia	3.81	0.47
Lao PDR	0.72	3.73 b
Malaysia	3.48	1.54 d
Singapore	6.24 b	2.29 c
Philippines	5.44	0.6 b
Timor-Leste	1.76	0.77
Thailand	3.15	0.92
Vietnam	1.45 c	0.83 c
Myanmar	1.08	0.74

Note: Adapted from World Development Indicators, World Bank. b 2017, c 2016, d 2015, e 2014

4.20 At the local level, Barangay Health Workers (BHWs) serve as primary health care providers, community organizers and educators. They constitute a vital part of the community's efforts of providing quality health care and services. Given the scarcity of doctors and nurses in the rural areas, BHWs often serve as the first line of defense against illnesses, responders during accidents or calamities, and source of information on maternal, neonatal care and family planning. Based on PSA data, there are 235,653 active BHWs in the Philippines as of 2015. However, they are merely treated as volunteers entitled to meager incentives and benefits, with no security of tenure.

Health financing

4.21 Despite the national health insurance program, nearly half of health expenditures remain to be funded by out-of-pocket (OOP) payments. Household OOP spending on health even went up from 42 percent in 2019 to 44.7 percent in 2020. If more than 30 percent to 40 percent of total health spending is financed through OOP, it is likely that financial protection is a problem in the country (WHO, 2016), which may deter the poor's access to healthcare or lead to further impoverishment as they have less economic resources to spend on other basic necessities.

4.22 Moreover, allegations of irregularities in the Philippine Health Insurance Corporation (PhilHealth) pose actual financial[10] and reputational risks to the integrity of the social health insurance program and undermine the universal healthcare goals of achieving equity, quality, affordability and financial risk protection in the delivery of healthcare goods and services.

[10] PhilHealth Acting Senior Vice President Neri Santiago during the House of Representatives Committee on Good Government and Public Accountability's public hearing on September 3, 2021, claimed that the agency's actuarial life based on estimate may only last until 2027.

Direction for Reforms

Profound changes in the country's health system are sorely needed to address the urgent health problems of Filipinos. This entails significant investments in health infrastructure and facilities, integrated and resilient health systems, strengthened disease surveillance, well-trained human capital to deliver essential healthcare, and an inclusive and responsive social health insurance. As such, the following legislative measures are recommended:

Create a Center for Disease Control and Prevention. The Center for Global Development has forecasted a 47 percent to 57 percent chance of another global pandemic as deadly as COVID-19 in the next 25 years, thus highlighting the need to establish a Center for Disease Control and Prevention as the country's technical authority on forecasting, preventing, controlling and monitoring communicable and NCDs. This proposed measure hopes to adopt a framework that fosters a whole-of-system, whole-of-government, and a whole-of-society approach that would streamline science-based decision-making, especially during public health emergencies such as the COVID-19 pandemic.

Pass the Virology Science and Technology Institute of the Philippines Bill. Establishing virology research capabilities is crucial in preparing for the next pandemic as it plays a key role in the surveillance, diagnosis and monitoring of viral diseases. The proposed Institute, to be attached under the DOST, will serve as the principal laboratory of the country in providing quality virology laboratory investigations, research and technical coordination of the entire network of the virology laboratories in the Philippines. Among its responsibilities are to: (1) conduct scientific and technological R&D in the field of virology; (2) conduct product R&D in the areas of diagnostics, vaccines and therapeutics; and (3) develop an information system on virology science and technology. It is envisioned the Institute will enable the Philippines to develop and locally manufacture vaccines against highly pathogenic emerging viruses.

Review and amend the Magna Carta of Public Health Workers (RA No. 7305). The three-decade-old Magna Carta of Public Health Workers is severely lacking in ensuring that healthcare workers receive adequate and competitive compensation. In particular, the sources of funds for the payment of all the benefits are unclear. The law also stipulates that payment must be based on LGU capacity, which results in unequal compensation and benefits received, even among those of equal ranks. The law's intent was to empower health workers, but disparities in pay and benefits sowed discontent as demonstrated by the massive overseas migration of healthcare professionals. Improving their working conditions and establishing standardized and competitive compensation, benefits and incentives could encourage health workers to serve in the Philippines rather than go abroad. A comprehensive review of the law is necessary to identify and amend its obsolete and ineffective provisions as well as to cater to the present needs of healthcare workers.

Pass the Free Annual Medical Check-Up Bill. The UHC Law was enacted to institutionalize reforms that will assist LGUs in improving their health systems and fulfilling their mandates to provide quality healthcare (e.g., integration of local health systems and provision of grants including capital outlay, human resources for health, and health commodities). The law likewise expands access to health services by automatically enrolling all Filipinos in PhilHealth's National Health Insurance Program (NHIP). Congress should monitor the law's implementation to ensure strong primary health care that serves as a responsive first point of contact for communities. In support of universal healthcare, the proposed Free Annual

Medical Check-Up Act provides an opportunity for Filipinos to avail of preventive healthcare without incurring additional financial burden. The check-up will include basic diagnostic and laboratory tests, including chest x-ray, complete blood count and urinalysis.

Enact the proposed eHealth System and Services Act. To supplement healthcare delivery methods, the proposed eHealth System and Services Act aims to provide a policy framework and establish an ICT-enabled national health system in the Philippines. It leverages ICT to strengthen health systems and improve quality, safety, delivery and access to care. EHealth enables the diagnosis, consultation, treatment, education, care- and self-management of patients at distance from health providers, especially those in geographically isolated and disadvantaged areas. The measure seeks to institutionalize the system of providing eHealth services by regulating the practice of telemedicine and eHealth, setting the standards of practice, and implementing a mechanism for individuals and entities providing e-Health services. Investment on building access to health services is crucial for the realization and success of universal healthcare coverage to all Filipinos.

Enact a Magna Carta of Barangay Health Workers (BHWs). It is high time to revisit the 27-year-old BHWs' Benefits and Incentives Act of 1995 (RA No. 7883) to ensure the welfare of BHWs, who not only receive meager incentives and benefits, but also lack security of tenure. This will recognize the invaluable contribution of BHWs who provide the much-needed health care services at the grassroots level. This legislative proposal will professionalize and properly recognize BHWs as public health workers, providing them with standard pay rates, special risk allowances, insurance coverage, security of tenure and other benefits. The proposed measure shall also enhance their capacity in the delivery of health services and handling crisis situations through appropriate education and training programs.

Pass a bill promoting local manufacturing of essential medicines and health technologies. The pandemic has revealed the country's dependence on other countries for essential medicines, medical supplies and health technologies. It has highlighted the importance of the country having its own supply base of critical healthcare products. Supply chain planning and management should be strengthened in consultation with various stakeholders. The Pandemic Readiness and Protection Bill seeks to support the development of the local healthcare and manufacturing industry through the provision of adequate support and incentives to ensure availability and affordability of health products.

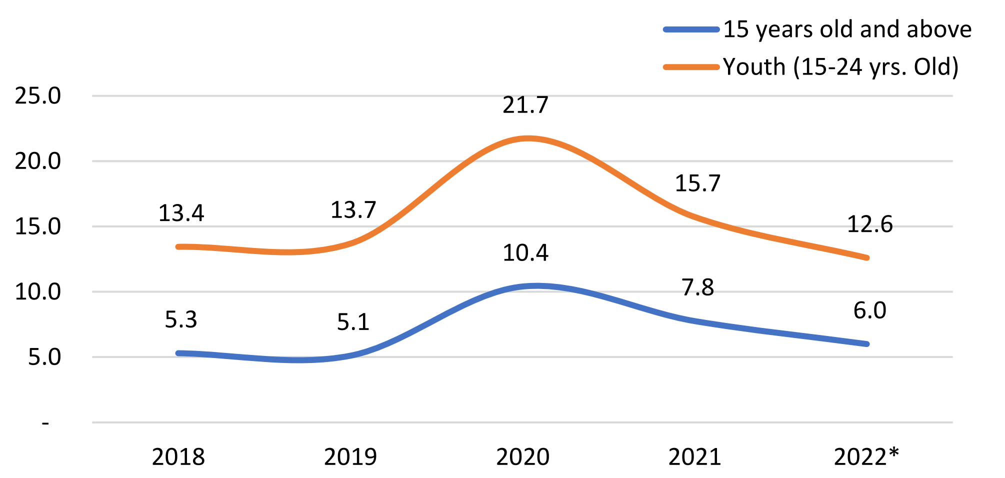
Ensure strict implementation of PhilHealth reforms. Congress has had investigations and deliberations on the allegations of corruption and inefficiency in the PhilHealth which was geared on ensuring its financial sustainability and capacity in order to effectively administer the NHIP. In the 18th Congress, the Senate Committee of the Whole recommended increased scrutiny of the operations of the PhilHealth, reorganization and contracting out certain segments for a far-more-efficient service, among other measures. Moving forward, Congress should look into whether and how these recommendations have been implemented by the bureaucracy. The Governance Commission for GOCCs (GCG) must be pushed to perform its mandate as a central advisory, monitoring and oversight body of the PhilHealth. The GCG must ensure a comprehensive reorganization of the PhilHealth and ensure that its personnel and officials are equipped with sufficient technical and financial expertise. The Joint Congressional Oversight Committee on Universal Health Care should likewise convene to conduct a systemic evaluation of the performance and accomplishments of the PhilHealth in realizing universal health care.

C. Adapting to the Future of Work

4.23 Employment is considered to be one of the major ways out of poverty since it is often the only factor of production that the poor possess. The government has been striving to generate more employment for Filipinos and improve their working conditions. Among the recent landmark legislations are the Department of Migrant Workers (DMW) Act (RA No. 11641), Labor Education Act (RA No. 11551), First Time Jobseekers Assistance Act (RA No. 11261), *Tulong-Trabaho* Act (RA No. 11230), Telecommuting Act (RA No. 11165), Philippine Qualifications Framework Act (RA No. 10968), and Anti-Age Discrimination in Employment Act (RA No. 10911).

4.24 Since 2005, the Philippines' unemployment rate has been on a downward trend. But this positive development was disrupted by the pandemic, which has significantly affected the labor market. This caused the country's unemployment rate to soar to 10.4 percent (equivalent to around 4.5 million unemployed individuals) in 2020 from the pre-pandemic level of 5.1 percent in 2019. With the gradual lifting of mobility restrictions, the unemployment rate dropped to 7.8 percent in 2021 and improved further to 6 percent from January to May 2022. Similarly, youth unemployment rate peaked at 21.7 percent in 2020 and eased eventually to 12.6 percent in 2022 (Figure 14). Yet with the changing employment landscape and employer demands on labor skills, retooling and upskilling are imperative.

Figure 12. *Unemployment Rates in the Philippines, 2018 to 2022*



Note: Unemployment rate measures the share of workers in the labor force who do not currently have a job but are actively looking for work.
Adapted from the Labor Force Survey, PSA
**Average of January to June 2022*

4.25 To curb the spread of the COVID-19 virus, the government has implemented strict quarantine restrictions, which resulted in the reduction of operations and even closure of many businesses. To cope with the ongoing health crisis and mobility restrictions, several companies, government offices, and organizations adopted alternative working arrangements such as reduced working days and hours, forced leave, and work-from-home (WFH) or telecommuting programs. In December 2018, the Telecommuting Act was institutionalized for employees in the private sector. However, public sector employees are similarly affected by the massive reforms in the work landscape.

Moreover, while telecommuting has provided employees with flexibility and convenience, it also imposed various challenges including increased electricity consumption, internet connectivity issues, and various work distractions. In addition, some information technology and business process management (IT-BPM)-registered business enterprises have decided to forego their tax incentives under the Special Economic Zone Act of 1995 to maintain the WFH arrangement for IT-BPM employees. In light of these, it is necessary to legislate various measures that would expand the coverage of the Telecommuting Act, alleviate employees' concerns and smoothen the transition to the new modes of work, and address the concerns of firms in special economic zones that opt to keep their WFH setup.

4.26 One of the country's SDG commitments is to achieve gender equality and women empowerment (Goal 5). Based on the Global Gender Gap Index 2021, the Philippines has performed well in promoting gender equality, ranking 17th out of 156 countries. However, compared to its ASEAN neighbors, the country lags behind in female-to-male labor force participation, unemployment, and in guaranteeing fundamental labor rights (Table 17).

4.27 The country has not fared well in terms of economic participation of women as evidenced by the huge gap in the labor force participation between male and female. For the past 10 years, the average labor force participation rate of females stood at 48.8 percent while males stood at 76.5 percent. This translates to a male-female gap of 27.7 percent. The huge gap has persisted despite improvements in education, health and the passage of various laws promoting gender equality. Moreover, female workers are considered to face greater employment challenges than males (ILO, 2020).

Table 17. *Selected Labor SDG Indicators*

Country	Ratio of female-to-male labor force participation rate (in %)	Unemployment rate (in %)	Fundamental labor rights are effectively guaranteed (worst 0–1 best)
	2019	2021	2020
Brunei Darussalam	77.17	7.41 a	-
Cambodia	87.75	0.50 b	0.49
Indonesia	65.49	3.83	0.61
Lao PDR	95.84	3.27 c	-
Malaysia	66.31	4.54 a	0.63
Myanmar	60.74	1.48 a	0.48
Philippines	64.34	7.79	0.43
Singapore	79.06	3.54	0.73
Thailand	78.07	1.10 a	0.58
Vietnam	88.5	2.38	0.62

Note: Adapted from the 2021 Sustainable Development Report, World Development Indicators. a 2020, b 2019, c 2017

Quality of employment

4.28 Prior to the pandemic, the underemployment rate has been on a downward trend from 18.3 percent in 2016 to 13.8 percent in 2019, but then it increased to 16.2 percent in 2020 due to the pandemic. It eventually improved to 14.6 percent from January to May 2022. Despite this progress, the quality of jobs remains a persistent challenge with the high proportion of unpaid family workers and self-employed individuals as well as those holding elementary occupations.

4.29 Based on the 2021 Labor Force Survey (LFS), workers in the informal sector account for 37.8 percent of the labor force, or approximately 16.6 million individuals. Despite their economic contributions, informal workers receive little protection under the country's labor laws. In particular, they are exposed to unsafe working conditions, are not provided with adequate skills training, do not have security of tenure, have lower and irregular incomes, and lack collective bargaining and representation rights. The lack of access to decent work has forced many Filipinos to seek employment opportunities abroad. While overseas Filipino workers (OFWs) contribute significantly to the economy through remittances, various studies have shown that the diaspora has had alarming social and economic costs. From 2010 to 2019, the average annual deployment growth rate stood at 4.6 percent or about 1.9 million workers. However, as the pandemic slowed down global economic activity at an unprecedented scale, more than a million OFWs lost their jobs and returned home.

Impact of FIRe

4.30 The speed and extent of digitalization and automation under FIRe are changing and creating the demand for a range of skill sets. These highlight the need to guard against skill obsolescence, a situation where skills lose their relevance over time due to transformations in the world of work. Based on the Future of Jobs Report 2020, the increasing adoption and utilization of digital technologies are expected to redefine tasks, jobs and skills as soon as 2025. According to a 2021 McKinsey report, about 53 percent of companies consider reskilling their employees, 20 percent seek additional talents, 20 percent redeploy workers to new roles and six percent opt for outsourcing in order to address the skills gap brought by technological evolution and changes in business models. This underscores the need to build the skills and competencies of the Filipino workforce based on current circumstances, the skills set demanded by the industry and the necessary digital infrastructure in preparation for the future economy.

Growth of the gig economy

4.31 The pandemic has resulted in a shift to non-traditional ways of earning a living known as the "gig economy". It involves work done in digital labor platforms, which includes both web-based platforms (work is outsourced through an open call to a geographically dispersed crowd, e.g., virtual assistants, graphic designers) and location-based applications or apps (work is allocated to individuals in a specific geographic area, e.g., ride-sharing drivers and delivery riders). In 2019, Forbes ranked the Philippines as the 6th fastest growing market for the gig economy with 35 percent growth in earnings. However, these workers are vulnerable to abuse and exploitation, mainly due to the lack of law regulating the gig economy and prescribing the rights and protection of the workers. It is imperative to create a mantle of protection for gig economy workers and establish a framework that would ensure their advancement and competitiveness.

Direction for Reforms

Pass laws to strengthen telecommuting work arrangements. The lockdowns due to the COVID-19 pandemic fast-tracked the adoption of telecommuting modalities, which enabled business continuity while ensuring the safety of employees. As the world of work continues to evolve, the government should provide an enabling environment to sustain effective and flexible telecommuting work arrangements beyond the pandemic. As such, Congress should pass laws to: (1) expand the coverage of the Telecommuting Act to include employees in the public sector; (2) provide incentives for individuals on a WFH or telecommuting program; and (3) allow firms in economic zones to enjoy tax incentives even with WFH office arrangements, amending the Special Economic Zone Act of 1995.

Oversee the implementation of the Philippine Digital Workforce Competitiveness Act (RA No. 11927). The Philippine Digital Workforce Competitiveness Act, which lapsed into law on July 30, 2022, aims to improve the digital competence of all Filipino citizens of working age. It mandates the Department of Labor and Employment (DOLE) to conduct digital technology and digital skills mapping to identify available skills and competencies, skills gaps and training needs, workforce digital demographics, and the availability and access to digital platforms and needs. Pursuant to this law, PPPs are to be entered into to equip the workforce with the needed training, retooling and upskilling to meet the demand of businesses and the skills needed for FIRe, which will be crucial to post-pandemic recovery. Congress, in the exercise of its oversight function, should monitor the full implementation of this new law in order to enable the country in realizing the opportunities of the digital economy. The provision of channels and infrastructure for technological and digital innovations can help boost labor productivity and promote the ease of doing business. Access to digital technologies and skills can likewise empower women, especially those who are not in the labor force, by creating new employment and entrepreneurial opportunities.

Pass and monitor the implementation of laws supporting the growth of the gig economy and the protection of its workers. The rise of the gig economy in the country entails the need to ensure long-term viability of platforms and inclusive job opportunities, especially for those who are facing barriers to employment. Thus, there is a need to establish a balanced legal framework that would recognize platform-based jobs, monitor and regulate the gig-style labor arrangements, protect the well-being of workers, and develop and harness their skills for the economy. Congress should pass the Freelance Protection Bill which provides for the rights of freelancers and sets standards for freelance work. Congress should likewise evaluate the implementation of startup friendly laws such as the Magna Carta for MSMEs (RA No. 6977) and the Innovative Startup Act (RA No. 11337) to determine their effectiveness in supporting innovative new businesses and identify policy gaps.

Oversee the implementation of laws and fund strategic programs promoting the welfare of and expanding opportunities for OFWs. With the recent creation of the Department of Migrant Workers pursuant to RA No. 11641, hopes are high that this will allow for the efficient provision of integrated services to OFWs. To build on this move at the national level, the government should ensure that the OFW help desks as mandated by RA No. 10022, which amended the Migrant Workers and Overseas Filipinos Act of 1995, are duly established and operational in LGUs. OFW help desks could be established further down to the barangays to address the immediate concerns of the OFWs and their families and provide information on all aspects of overseas employment and government assistance in view of the prevailing uncertainties amid the pandemic. Moreover, the government's reintegration programs (i.e., enterprise creation, job placement, upskilling) should be strengthened and adequately resourced, taking into account returning OFWs' diverse needs, interests, competencies and aspirations. Fundamentally, the government should continue to invest in human capital development towards skills diversification and employment security of its workforce. It should foster an investment climate for the sustainable creation of good quality jobs and livelihoods. By doing so, Filipinos will be empowered to find jobs at home and only consider migration as a matter of choice rather than necessity.

Enact a Magna Carta of Workers in the Informal Economy. This legislative measure proposes the development of an integrated and coherent policy framework for the extension of social protection, the creation of a favorable regulatory environment, the protection of labor rights, the provision of support systems for entrepreneurship and skills development, and the strengthening of social dialogue to transition workers and economic units from the informal to the formal economy.

Enact a Magna Carta of Filipino Seafarers. Filipino seafarers dominate the supply of manpower in the global maritime industry. They provide valuable contributions to the economy through the remittances they send. However, occupational safety provisions for the protection of Filipino seafarers which are scattered in various laws, including the Labor Code of the Philippines (Presidential Decree No. 442, as amended) and Migrant Workers and Overseas Filipinos Act of 1995, do not suffice to meet and address the circumstances that currently beset seafarers. A Magna Carta of Filipino Seafarers can help improve Filipino seafarers' working conditions, terms of employment, career prospects, and provide opportunities to harness their potentials to the fullest. Among the salient features of the measure include the seafarers' rights to just terms and conditions of work, self-organization, educational advancement and training; rights against discrimination, all forms of harassment and bullying; and the provision of health protection and medical care.

D. Securing Adequate Housing

4.32 The COVID-19 pandemic has exacerbated a long-standing global housing crisis, as evidenced by the increasing inability of a large segment of the urban population to afford adequate housing. The housing sector was among the hardest-hit industries by the contagion. Construction works have stopped, the delivery of materials was suspended, and the buying and selling of properties have ceased. In fact, the Chamber of Real Estate and Builders' Associations, Inc. (CREBA), one of the largest associations of real estate, housing and infrastructure developers in the country, has estimated that it would take years before the housing and real estate sector can fully recover from the slump caused by the lockdowns. According to the Department of Human Settlements and Urban Development (DHSUD), the unmet housing need will reach 6.57 million housing units by 2022. This is projected to balloon to 22 million units by 2040.

4.33 The disparity between the cost of housing units and the ability of households to pay is a fundamental cause of the enormous housing supply-and-demand imbalance. The relatively low-income level of the majority of Filipinos, as a result of the country's limited economic opportunities, has a significant impact on their ability to acquire a decent dwelling for their family, leaving the majority of them with no choice but to reside in informal settlements. Even non-poor households are finding it difficult to afford the high real estate prices in the country's major cities and have begun to settle in these informal settlements.

4.34 A significant piece of recent legislation is the establishment of the DHSUD Act (RA No. 11201). This rationalized the structure and functions of the various housing and urban development agencies in light of the country's urbanization evolution, and it harmonized all housing and urban development plans, policies, programs and projects at all levels of government. A strong DHSUD addresses, among other things, housing affordability and accessibility, particularly for those threatened by persistent poverty, adverse environmental and climate change consequences, and social exclusion.

Direction for Reforms

Pass the National Land Use Act. The lack of a comprehensive land use policy has led to the irrational use of land resources such as the inappropriate use of hazard-prone areas for human settlements and the conversion of forested and agricultural lands for industrial, commercial and residential purposes. The proposed National Land Use Act, which has been under consideration by numerous Congresses, seeks to establish a national framework for the management and allocation of the country's natural resources, thereby minimizing conflicts and tensions caused by competing land uses and ensuring disaster-resilient housing and development planning. Moreover, a national land use policy should be established to promote urban concentration in identified settlement areas where urban growth and development would have a greater impact on job creation and poverty reduction while having a smaller impact on agricultural land conversion and forest land degradation.

Enact a law to institutionalize Local Housing Boards (LHBs) that provide a genuine representation of civil society and the community in public deliberation. The PDP 2017-2022 recommends the mandatory creation of LHBs in every city and first to third class municipality to ensure full cascading of government housing policies and programs to the local government. Likewise, the PIDS recommends strengthening the governance structure of LHBs for them to be an effective participatory governance platform as in many LGUs, the LHBs decision-making process is still dominated by the Sanggunian and the Mayor's office, with very little participation from affected communities and people’s organizations.

Pass a law that support rental housing. Studies point out the overemphasis on homeownership and the lack of support for rental housing. The government approach in the Philippines over the past several decades has been to increase homeownership among the poor through a variety of means, such as direct production of housing, provision of public funds for development, and end-user financing. Due to the substantial subsidies allotted to homeownership, this strategy has severely constrained the rental housing market and placed a tremendous strain on fiscal resources. A law is required to state explicitly that rental housing is an integral part of the housing sector and to promote a more balanced perspective on home ownership and renting. A law could establish the rights and responsibilities of landlords and tenants. In particular, the legal framework should be clear regarding: (1) rent setting and rent increase; (2) duration of contract; (3) conflict resolution procedures; and (4) stability and adaptability of legal provisions. A law could also provide rental housing incentives for landowners or subsidies to tenants.

E. Strengthening Social Protection Systems

4.35 The Philippines committed to implement nationally appropriate social protection systems and measures for all, including floors, under the SDGs. National social protection floors should cover at least the following social security guarantees, as determined at the national level:

a. Access to essential health care, including maternity care;
b. Basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
c. Basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and
d. Basic income security for older persons.

4.36 According to a 2018 review and assessment by the World Bank, the country's social protection system, which consists of labor market interventions, social insurance programs, and social assistance, is mature across all pillars, resilient to changes in administration, and characterized by a serious commitment based on the level of spending. The study, however, saw the need to improve the coherence of social protection programs, reduce overlaps and duplication, and address gaps in monitoring and evaluation systems. In 2019, at least 60 social protection programs are being implemented by about 20 NGAs and instrumentalities.

4.37 An estimated 16 million workers are informally employed and less likely to have access to social protection, making them vulnerable in times of shocks. At the height of the COVID-19 pandemic, informal workers, mostly found in the services sector, faced the brunt of the government-imposed lockdowns.

4.38 This year, soaring oil prices have been hurting the marginalized sectors in the public transport, and agriculture and fisheries, where fuel is a major operating cost. As of June 21, 2022, fuel prices have increased by PhP29.50 per liter for gasoline and PhP44.25 per liter for diesel since the start of the year. With no immediate end in sight in the geopolitical tensions and supply-side uncertainties that push the price of oil up, the prolonged spike will continue to erode the incomes of drivers and operators of public utility vehicles, small farmers and fisherfolk.

4.39 For the millions of OFWs who help keep the Philippine economy afloat with their remittances, access to social protection is also a major challenge magnified by the COVID-19 crisis. Due to the pandemic, at least 1.2 million OFWs returned to the country as of March 2022. Looking into the PSA 2018 National Migration Survey, the PIDS found that only 48.6 percent of OFWs had access to health insurance during their first job in the first country they went to while 53 percent had access to social insurance.

4.40 The need to create more fiscal space for social protection in the face of budgetary pressures has never been greater. The government should therefore explore all possible resources and strategies, including public expenditure re-prioritization, in order to provide the basic social protection guarantee for the vulnerable population.

Direction for Reforms

The pandemic highlighted the need to strengthen the government's social protection program while recognizing its tight fiscal position. Commitment towards inclusion, impact and sustainability is required now more than ever. As such, the following legislative measures are recommended:

Study a pension contribution subsidy for OFWs and informal sector workers. Policy options and strategies should be explored to expand the coverage of social security for OFWs and informal sector workers. Government subsidy for contributions should be studied, taking into account fiscal constraints, cost-effectiveness and financial sustainability. This pension contribution subsidy could be used to improve the incentives for businesses and workers to become formal. To advance the welfare of OFWs, the government should proactively pursue social security agreements or bilateral labor agreements with enforceable social protection provisions with countries of destination of OFWs. Congress, in exercise of its oversight function, should look into the implementation of laws that seek to create an enabling environment that will support the growth of enterprises, thereby increasing job opportunities in the formal sector, such as the Go *Negosyo* Act (RA No. 10644) and the Ease of Doing Business and Efficient Government Service Delivery Act of 2018 (RA No. 11032). The full implementation of these laws will facilitate the inclusion of more workers in the social insurance system.

Institutionalize fuel subsidy programs for marginalized sectors. The *Pantawid Pasada Program* is a fuel subsidy program for the public utility vehicle sector which has been rolled out during periods of unusually high and sustained oil price increases. This is a temporary relief measure aimed at cushioning operators of public utility vehicles from the effects of the rising oil prices while avoiding the need to increase the fares paid by commuters. Meanwhile, the DA in 2022 implemented a similar fuel subsidy program for farmers who use machinery for production and fishers who use motorized boats to mitigate the negative impacts of high fuel prices in ensuring food security. Institutionalizing these programs by way of legislation would help ensure budget allocation for adequate subsidies that will be given to the transport and agriculture sectors in times of unabated oil price hikes.

Pass an integrated and digital social protection information system bill. With the unprecedented expansion of the government's social protection mechanism due to the pandemic, developing an integrated and inter-operable social protection information system linked with the Philippine National Identification (ID) system will promote coherent, efficient and adaptive social protection delivery. It will enable better targeting and beneficiary identification and avoid duplication. It will facilitate the flow and management of information across relevant sectors—social protection, education, health, labor, agriculture, humanitarian and disaster risk management, among others. Such an information system, which will allow for improved monitoring and evaluation of the government's social protection programs and pave the way towards an integrated social protection system, should have a strong legal backing and a dedicated multi-year budget. Moreover, the government's ongoing efforts to shift to digital delivery mechanisms should be supported, while also ensuring that the non-digital delivery option is maintained to avoid exclusion of persons with limited internet access or digital skills. Cognizant of the increasing and inevitable shift to digital delivery on one hand and the lack of access of nearly 60 percent of Filipino households to the internet on the other, the government should work double time towards reducing the large digital divide.

Allocate budget for environmentally-oriented cash-for-work programs. As the marginalized population such as farmers, fisherfolk, indigenous peoples and informal workers often rely on degraded land and fragile ecosystems for their survival, social protection can be a powerful instrument for natural resource management, disaster risk reduction, and climate change adaptation. The Department of Social Welfare and Development (DSWD) has implemented a Risk Resiliency Program through the cash-for-work modality to increase the adaptive capacities of poor families in disaster-prone and affected communities. Short-term interventions provided immediate and temporary employment to build community resilience such as mangrove reforestation, planting native trees, and establishment of community food gardens. A synergistic approach to social protection that allows vulnerable communities to better manage their land and water resources for sustained socio-economic and environmental benefits such as this should be resourced, scaled up and institutionalized. While cash-for-work programs are funded under the budgets of the DSWD and the DOLE, their implementation should be explicitly aligned with the need to support environmental protection and management outcomes.

Chapter 5

SECURING THE FUTURE THROUGH ENVIRONMENT AND CLIMATE CHANGE ACTION

Environmental risks such as extreme weather events, climate action failure, human-made environmental damage, biodiversity loss and ecosystem collapse, and natural resource crises dominate the top high-likelihood, high-impact global risks, according to the World Economic Forum's Global Risks Report 2021.

These threats are a lived reality among Filipinos, especially those whose lives and livelihoods depend on ailing, fragile and climate-vulnerable ecosystems.

Compounding these threats is the prevailing COVID-19 crisis, which sounded the alarm over the inextricable link between healthy ecological systems and human well-being, and the future crises that lie ahead.

The pandemic offers an opportunity for Congress to shape the outlook of the future by ensuring a green and inclusive recovery that significantly and simultaneously improves environmental outcomes, human health, and social welfare, creates decent jobs, and enhances society's resilience to future shocks.

At this crucial juncture, continuing in the environmentally-blind and destructive "business-as-usual" direction that contributes to disease outbreaks, ecological decline, climate change, disaster risks, and socio-economic instability is no longer an option. The government should strive to build forward better, leverage nature-based solutions, and invest in a rapid and bold transition to a low carbon Philippine economy.

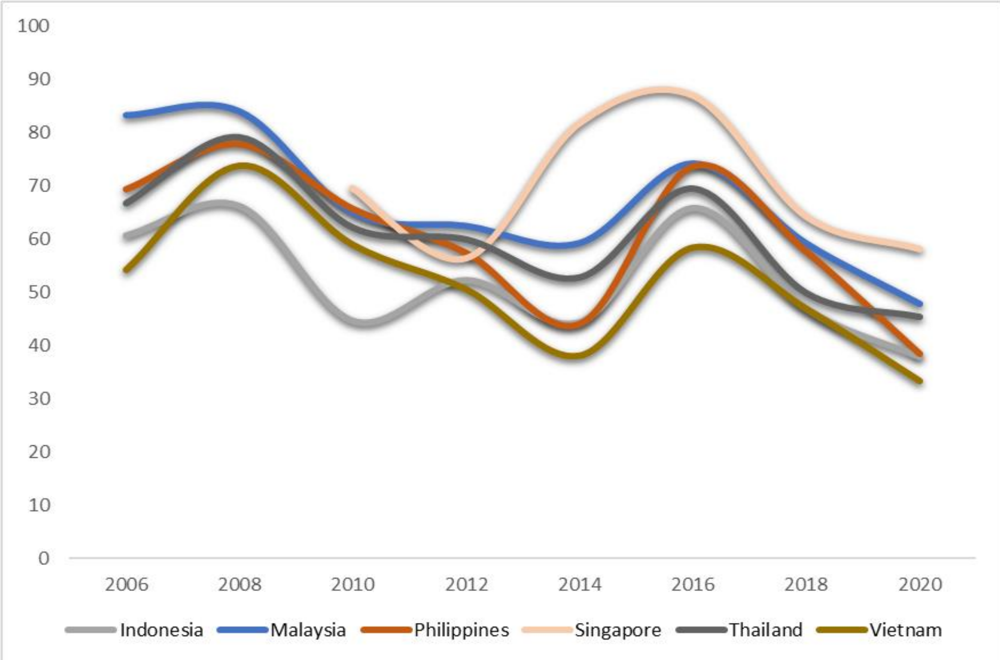
Pursuing synergies in environmental protection, climate action and recovery from the pandemic will pave the way for the country's transformation towards a secure and sustainable future for generations of Filipinos.

A. Restoring Ecological Balance and Advancing Sustainability

5.1 Natural capital consisting of forests, productive land, water, fish stocks, minerals and biodiversity are necessary to sustain life and economy. Agriculture, fisheries and forestry accounted for 9.6 percent of the country's GDP in 2021. According to the Department of Environment and Natural Resources (DENR), it is estimated that the country's coastal and marine ecosystems comprising seagrass beds, coral reefs, mangrove forests and diversity of marine species are worth at least PhP15.3 trillion. The country's rich natural resource base provides ecosystem goods and services on which Filipinos, especially vulnerable populations, depend for their food security, livelihood and well-being.

5.2 The Philippine environment, however, continues to be under threat due to unsustainable management of resources, weak enforcement of environmental laws, air and water pollution, and climate change. The drop of the country's global ranking in the 2020 Environmental Performance Index (EPI)—now 111th among 180 countries as compared to 82nd in 2018 and 50th in 2010—reveals the deteriorating state of environmental health and ecosystems vitality in the country. This depressing downward trend is also observed across countries in Southeast Asia (Figure 15).

Figure 13. *EPI Scores of Selected ASEAN Member-States, 2006 to 2020*



Note: The EPI uses 40 performance indicators that provides a gauge at a national scale of how close countries are to establish environmental policy targets. Adapted from EPI, Yale Center for Environmental Law and Policy.

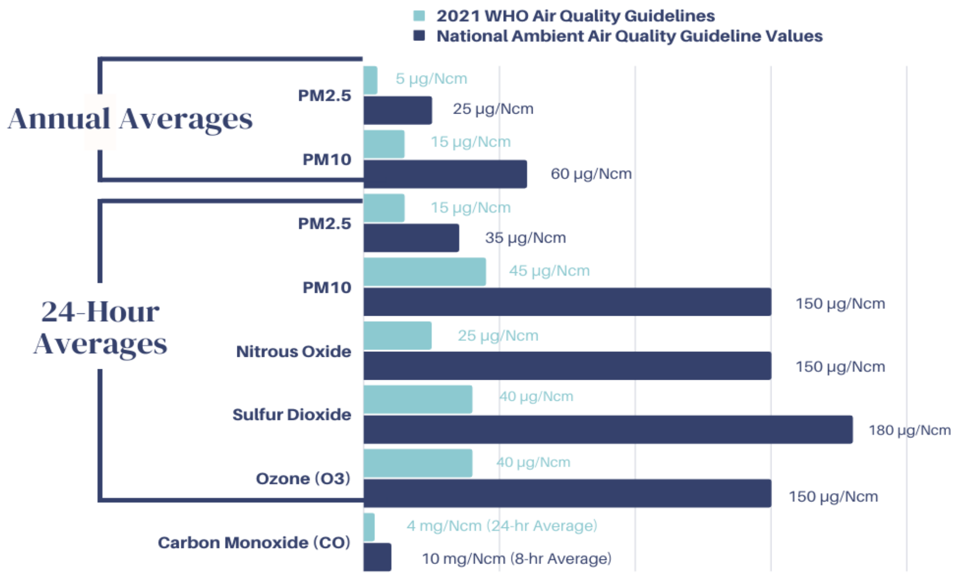
5.3 Over the years, mangrove ecosystems in the Philippines, the first line of defense of coastal communities against typhoons, flooding, storm surge, sea level rise and tsunami, have decreased by half—from an estimated 500,000 hectares in 1918 to 250,000 hectares as of 2000. The DENR asserts that this significant decline was caused by the expansion of communities, conversion for other development, and conflicting institutional mandates both at the national and local levels.

5.4 Also of growing concern are plastics in the marine environment, threatening life and habitat underwater. The Philippines is the third largest contributor of global ocean plastic pollution with an estimated 0.28 to 0.75 million metric tons of plastic waste entering the ocean every year. The World Bank forecasts mismanaged waste generation in the Philippines to reach 20 million tonnes by 2030, 37 percent higher compared to the estimated 14.6 million tonnes in 2016.

5.5 Twenty-one years after the passage of the Ecological Solid Waste Management Act of 2000 (RA No. 9003), the country only has 273 sanitary landfills that serve 524 LGUs, 32 percent of cities and municipalities. The PDP 2017-2022 targets a solid waste diversion rate of 80 percent by 2022. However, in Metro Manila, only 48 percent of wastes were diverted for reuse and recycling in 2015. The LGUs' lack of available financial resources for engineered sanitary landfills and appropriate technologies, the National Solid Waste Management Commission's (NSWMC) shortcomings as the facilitator to LGUs, and weak waste reduction strategies are among the concerns that should be addressed to solve the country's solid waste management issues (PIDS, 2021).

5.6 The current levels of air pollution in the Philippines exceed the new safe limits recommended by the WHO last year. The annual average concentration level of the dangerous pollutant Particulate Matter 2.5 (PM2.5) in 2019 is 26 micrograms per normal cubic meter (ug/Ncm) against the national ambient standard of 25 ug/Ncm, five times higher than the WHO recommendation of 5 ug/Ncm (Figure 16). A joint report by the Centre for Research on Energy and Clean Air (CREA) and the Institute for Climate and Sustainable Cities (ICSC) pointed out that approximately 66,000 premature deaths every year are linked to PM2.5 and nitrous dioxide (NO_2) pollution in the country. Moreover, the report cites that air pollution costs the Philippines PhP4.5 trillion per year, equal to 23 percent of the country's GDP in 2019.

Figure 14. *2021 National Ambient Air Quality Standards vs 2021 WHO Air Quality Guidelines*



Note: Adapted from "Aiming Higher: Benchmarking the Philippine Clean Air Act" by the CREA and ICSC, 2021, and "WHO Air Quality Guidelines" by WHO, 2021.

5.7 Forest cover in the Philippines has dwindled from 17.8 million hectares in 1934 to 7 million hectares as of 2015. According to a study by the PIDS, policies in the forestry sector from 2000-2010 mostly focused on extractive industries—export, timber businesses, multiple land uses—leading to the continued loss of forest cover by the end of the decade.

5.8 Despite the abundance of water resources in the country, the Philippines is experiencing water stress. According to the NEDA, water availability is only 1,446 cubic meters (m^3) per capita per year nationwide, which is below the 1,700 cubic m^3 per capita threshold.[11] A 2015 study by the World Resources Institute (WRI) projected that the Philippines would face a "high" degree of water shortage by 2040, which means that 40 percent to 80 percent of the country's total water supply would have already been withdrawn by 2040. Climate change, population growth and rapid urbanization are seen to further affect future water availability.

[11] According to UN Water, "An area is experiencing water stress when annual water supplies drop below 1,700 cubic m^3 per person. When annual water supplies drop below 1,000 m^3 per person, the population faces water scarcity, and below 500 m^3 'absolute scarcity'."

5.9 While the country is one of the 17 mega-diverse countries in the world, it is also considered a biodiversity hotspot due to human-induced habitat destruction. The DENR listed a total of 1,106 threatened fauna species and 984 threatened flora species as of 2019. The economic potential of the country's biodiversity and genetic resources, especially their medicinal values, remains to be untapped. Illegal logging, illegal wildlife trade, illegal mining, illegal dumping of hazardous wastes, and other environmental crimes continue to threaten the further destruction of the country's increasingly degraded and fragile environment. According to the DENR, the value of illegal wildlife trade in the country is estimated at PhP50 billion annually.

5.10 Last year, the environmental watchdog Global Witness named the Philippines the deadliest country for land and environmental defenders in Asia for the 8th straight year. The group recorded a total of 29 documented killings of people defending their land and ecosystems in the Philippines alone.

Direction for Reforms

These realities prompt a deliberate change from business-as-usual environmental governance to approaches that prioritize ecological sustainability, value ecosystem services more holistically, and strengthen environmental protection laws and policies. As climate change exerts additional pressures on the environment, the Philippines needs to redouble its efforts across all fronts in order to safeguard its natural capital. As such, the following reforms are recommended:

Enact laws that would strengthen environmental protection and management. For the DENR to step up the implementation of numerous environmental laws, it is asking Congress to give it stronger enforcement powers. The Environmental Protection and Enforcement Bureau (EPEB) Bill aims to institutionalize and professionalize law enforcement within DENR. The proposed EPEB will carry out environmental law enforcement functions in the entire Philippine archipelago and coordinate with other law enforcement agencies locally and internationally. The DENR is also advancing measures that seek to strengthen the enforcement and penalty provisions of environmental laws, especially the Wildlife Resources Conservation and Protection Act (RA No. 9147). Alternatively, Congress may consider reorganizing the DENR to address the conflict of interest inherent in its mandate to simultaneously protect the environment and collect revenue from the utilization of natural resources. The current DENR may be split into: (1) a Department of the Environment which will have regulatory powers on matters of the environment such as pollution control and natural resources access control; and (2) a Department of Natural Resources Utilization which will focus on optimum natural resources utilization for sustainable socio-economic development.

Pass the Sustainable Forest Management Bill. To protect the country's remaining forest resources, the country needs a law that will institutionalize a sustainable forest management strategy and a community-based forest management program. The Sustainable Forest Management Bill prohibits extractive activities and built-up facilities in protection forest lands. It institutionalizes participatory development and management of both protection and production forest lands, including mangrove forests, through "forest management units," which may be managed by indigenous and local households, civil society organizations, business organizations, forest land use tenure holders, and LGUs.

Pass the Integrated Coastal Management (ICM) Bill. Climate change, in the form of sea level rise, stronger typhoons, and storm surges, exacerbates the risks faced by coastal communities. To help protect and restore coastal habitats, preserve marine biodiversity, promote a blue economy,[12] and to minimize the impacts of climate change to coastal environments, the ICM Bill should be enacted. This proposed measure mandates the development and implementation of a National ICM Program to provide direction, support and guidance to LGUs in the development and implementation of their respective local ICM programs, and fosters inter-agency and multi-sectoral coordination. Supporting mechanisms under the measure include the integration of ICM in the basic education curricula, ICM capacity-building for LGUs, and establishment of the coastal and marine information management system and network.

Enact the proposed Single-Use Plastics Regulation and Management Act and evaluate the implementation of relevant laws. Congress passed the Extended Producer Responsibility Act (EPRA) of 2022 (RA No. 11898), amending the Ecological Solid Waste Management Act of 2000, to address the worsening problem of plastic pollution through the proper and effective recovery and management of plastic packaging wastes. The measure mandates the development of a National EPR Framework for all product wastes, which includes the establishment of waste management infrastructure such as commercial or industrial scale recycling, composting, thermal treatment, and other waste diversion facilities for waste products.

Moving forward, Congress should consider gradually phasing out single-use plastics, starting with plastic straws, stirrers and packaging below 10 microns thick, among others, to be phased out within one year. Other single-use plastics such as cutlery, multi-layered sachets and bags below 50 microns will be phased out within four years.

Furthermore, in exercise of its oversight function, Congress should evaluate whether NSWMC has effectively acted on its mandate formulate and update the list of Non-Environmentally Acceptable Products and Packaging every year pursuant to the 21-year-old Ecological Solid Waste Management Act of 2000. A process evaluation during the implementation of the EPRA and an impact evaluation after five years of implementation should be conducted. The said evaluations, to be provided with corresponding budgets, should be commissioned either by the Congress or by the DENR.

Amend the Philippine Clean Air Act of 1999 (RA No. 8749). Considering the health and economic implications of air pollution, Congress should amend the Philippine Clean Air Act of 1999 to ensure the timely progression of the country's air quality standards towards the more stringent 2021 WHO air quality guidelines. The DENR should be mandated to implement an Air Quality Management Plan with interim targets for the attainment of the more stringent ambient air quality standards. These should be complemented by tightened emission standards for highly polluting sectors such as coal-fired and oil- and gas-fired power plants (Suarez & Garcia, 2020). The proposed amendatory measure should mandate the conduct of a process evaluation to assess the progression of the country's air quality standards and to determine whether the country is on track to achieving the stricter 2021 WHO air quality guidelines, and an impact evaluation after 10 years to ascertain whether the significant reduction of air pollution-related illnesses and deaths as envisioned by the measure has been attained.

[12] The blue economy is the sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of the ocean ecosystem.

Pass a law to ensure an Integrated Water Resources Management (IWRM). Congress should consider a measure to integrate the efforts of the national government in managing the country's water resources sustainably. The PDP 2017-2022 articulated the need for "an apex body that will act as the lead agency to oversee/coordinate the overall policy and project/program implementation to address the weak and fragmented institutional setup of the water resources subsector." It is envisioned to be primarily responsible for the formulation and implementation of a comprehensive water development and management plan for the Philippines, in accordance with the principles of IWRM and ICM.

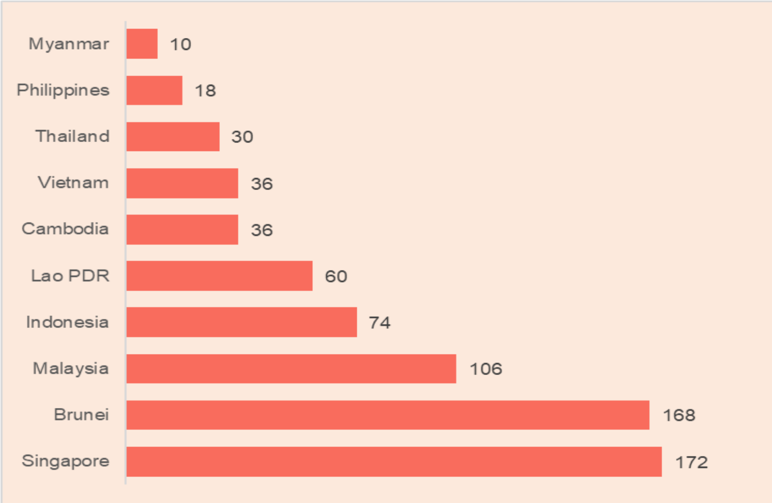
Institute an Ecosystem and Natural Capital Accounting and Valuation System. For the government to have a full understanding of the value of natural resources on the country's economy, a Philippine Ecosystem and Natural Capital Accounting System should be institutionalized. This will reflect environmental inputs and outputs in the determination of national income accounts, a shift from the conventional indicators of economic development. Under this proposed measure, natural capital units shall be established within government agencies concerned to manage natural asset and ecosystem service accounts, environmental and emission accounts, and ocean accounts, relevant to each agency's mandates. This system is envisioned to promote resource base enhancement with clear and measurable targets.

Pass the Philippine Natural Resources Benefit-Sharing Bill. To avoid further using up the country's natural resources more than its own ecosystems can renew, the government should set the optimum extraction or utilization rate per strategic natural resource against established baselines and against maximum limits for optimal regeneration of the resource. A share from the proceeds of the sale of and income from natural resources and their derivatives (e.g., biodiversity, minerals) could generate a significant funding source for an "inter-generational fund" for future generations primarily for strategic programs for human capital development (e.g., health, education, competency development). This longer-term benefit-sharing policy framework enables the country to use the financial resources collected from extracted and utilized natural resources with responsibility to the future generations.

B. Scaling Up Climate Change Adaptation and Mitigation

5.11 Located in the Tropical Cyclone belt and a country of 7,641 islands, the Philippines is extremely vulnerable to hydro-meteorological hazards. It is the 4^{th} most affected country by climate change from 2000 to 2019 according to the Global Climate Risk Index 2021. In Southeast Asia, it is the 2^{nd} most affected after Myanmar (Figure 17). The Philippines lost 0.54 percent per unit GDP and suffered from 317 extreme weather events during the last decade.

Figure 15. *Global Climate Risk Index Scores of ASEAN Member-States, 2010 to 2019*



Note: The Global Climate Risk Index analyzes to what extent countries and regions have been affected by impacts of weather-related loss events (storms, floods, heat waves, etc.). Human impacts (fatalities) and direct economic losses were analyzed. Adapted from the Global Climate Risk Index 2021, Germanwatch.

5.12 In December 2021, Typhoon Odette affected 2.9 million families in 11 regions (Region 4-B, Region 5, Region 6, Region 7, Region 8, Region 9, Region 10, Region 11, Region 12, Caraga, and BARMM), destroyed 2 million houses, and damaged infrastructure and agriculture amounting to PhP29.7 billion and PhP17.7 billion, respectively. The National Disaster Risk Reduction and Management Council (NDRRMC) reported that hundreds of cities and municipalities suffered power and water supply and communication outages, with services in many areas still unrestored two months after the typhoon.

5.13 The massive loss and damage caused by Typhoon Odette, along with the onslaught of the back-to-back typhoons and weather disturbances in November to December 2020 (Tropical Depression Ofel, Typhoon Pepito, Typhoon Quinta, Super Typhoon Rolly, Tropical Storm Siony, Tropical Storm Tonyo, and Typhoon Ulysses) and other extreme weather events that pummeled the country in recent years attest that climate impacts are becoming severe, outstripping the country's capacity to cope and undoing development gains.

5.14 According to the NEDA, the Philippines incurred damage of at least PhP515.51 billion due to disasters from 2010 to 2020. Of this, 98 percent were due to climate-related hazards. Super Typhoon Yolanda in 2013 was the costliest disaster, with damage reaching PhP95.48 billion or 0.7 percent of GDP. Hence, adapting to the effects of climate change is an urgent economic imperative.

5.15 Climate change adaptation, such as strengthening of early warning systems, making new infrastructure resilient, protecting mangroves, improving crop production, and making water resource management more resilient can deliver a triple dividend—future losses are avoided, economic gains through innovation are generated, and social and environmental benefits are delivered (Global Commission on Adaptation, 2019).

5.16 Despite the Philippines' comparatively minimal level of greenhouse gas (GHG) emissions—an average of 1.98 metric tons of carbon dioxide equivalent per capita in 2020 compared to the global average of four metric tons per capita, the country commits through its Nationally Determined Contribution (NDC) a 75 percent GHG emissions reduction and avoidance for the period 2020 to 2030 against business-as-usual economy-wide emission for the same period. Policies and measures on GHG mitigation in the sectors of agriculture, wastes, industry, transport and energy are being pursued towards this commitment, largely conditioned on the support committed by developed country Parties of the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement. Under the NDC, the Philippines endeavors to implement policies and measures on the uptake of circular economy[13] and sustainable consumption and production practices.

5.17 Climate change mitigation, therefore, unlocks an opportunity for the country to leapfrog into a greener economy. According to the International Finance Corporation (IFC), the Philippines' climate-smart business investment potential is nearly US$115 billion by 2030, which includes investments in renewable energy, new green buildings, waste, and transport of US$11 billion, US$57 billion, US$2 billion and US$41 billion, respectively.

5.18 Moreover, climate change mitigation provides co-benefits such as improved air quality, enhanced energy security, reduced energy and water consumption, sustainable agriculture and forestry, and protection of ecosystems, which should be harnessed.

Direction for Reforms

As climate-related disasters continue to intensify and become more frequent in an era of increasing fiscal pressures, national and local governments' capacities to address these challenges will be stretched to the limit. The window of opportunity to transform the Philippines' economic development—from never-ending cycles of disaster recovery to a resilient and sustainable future—is closing fast. As such, the following reforms to scale up the implementation of strategies for climate change adaptation and mitigation are recommended:

Conduct an evaluation of the implementation of laws on renewable energy, climate change, and disaster risk reduction and management. Congress has an important responsibility of exercising strong oversight to ensure accountability for the effective and efficient delivery of mandates of the Executive branch pursuant to various renewable energy and climate change-related laws. The Renewable Energy Act of 2008 (RA No. 9513) sought to accelerate the development of renewable energy sources as a cleaner means of meeting the energy demands of Filipinos and achieving energy self-reliance. The Climate Change Act of 2009 (RA No. 9729) and the Philippine Disaster Risk Reduction and Management Act of 2010 (RA No. 10121) aimed to mainstream climate change adaptation and disaster risk reduction into government policies, plans and programs. Likewise, Congress has empowered scientific and frontline agencies with the passage of the Philippine Atmospheric, Geophysical and Astronomical Services Administration

[13] Circular economy is a new way or system of creating value and prosperity by extending product lifespan through improved design and servicing, and relocating waste from the end of the supply chain to the beginning—in effect, using resources more efficiently by using them over and over, not only once.

(PAGASA) Modernization Act of 2015 (RA No. 10692), the Philippine Space Act (RA No. 11363), and the DHSUD Act (RA No. 11201), which shall contribute to the government's resilience building efforts. The evaluations to be conducted on the aforementioned laws shall inform further deliberations on the strengthening of institutions concerned and identifying aspects that need improvements as well as determining the need for the establishment of a disaster response agency focused on responding to emergency situations. The appropriations for the said evaluations should be contained in the General Appropriations Act (GAA) under the concerned implementing or oversight agencies.

Enact laws that enable large-scale low emissions development. The Philippines should seize the opportunity to decouple its economic growth from carbon emissions, building on the vital pieces of legislation enacted by Congress.[14] This transition, however, requires a revolution in policy and development and investment planning that recognizes the opportunities for climate change mitigation and mobilizes public and private financial flows towards these opportunities with urgency, innovation and scale. The Energy Transition Bill will institutionalize fundamental policies on energy transition that reduce the utilization of fossil fuels and promote clean energy sources and mobilize sectors towards the country's GHG mitigation commitment under the Paris Agreement. Congress should mandate the periodic enhancement of the NDC and sectoral transition plans implementing the same for the country to achieve net zero GHG emissions by 2050. Low emission development measures should also promote circular public procurement, utilization of renewable energy sources for the power supply of government offices and buildings, low emission public works (e.g., green pathways network, green buildings), low emission auditing system of the public sector, and other viable policy instruments that capture the external costs of GHG emissions.

Moreover, Congress should consider the passage of the proposed Sustainable Transportation Act, which will pave the way for the adoption of sustainable urban development and transport models. This proposed measure will prioritize efficient and low emissions mass transportation systems, walking and biking, and alternative systems for improving mobility. The development of sustainable transport infrastructure, networks and public transit systems should harness renewable energy sources and take into account resilience to climate change and other shocks. This measure could be complemented by the modernization of public utility vehicles which integrates renewable energy and allows a just transition for workers.

As large-scale low emissions development requires significant and sustained investments, the government, aside from ensuring scaled-up budgetary support, should aggressively seek out various sources of financing such as bilateral assistance, multilateral climate funds, and private sector investments, especially for the energy, transport and industry sectors.

Build government capacity to mitigate and adapt to climate change. Congress, holding the power of the purse, should direct public spending for priority climate change adaptation and mitigation actions, including for capacity building. It should invest in: (1) improving the technical and institutional capacity of the government to design, implement, monitor and evaluate, and mobilize resources for low emissions

[14] Philippine Clean Air Act of 1999 (RA No. 8749), Ecological Solid Waste Management Act of 2000 (RA No. 9003), Philippine Clean Water Act of 2004 (RA No. 9275), Renewable Energy Act of 2008 (RA No. 9513), Organic Agriculture Act of 2010 (RA No. 10068), Philippine Green Jobs Act of 2016 (RA No. 10771), and Energy Efficiency and Conservation Act (RA No. 11285).

and climate-resilient development programs and projects; and (2) enhancing the capacity of government agencies concerned to collect, analyze, apply and report climate risk information for appropriate response actions.

Evaluate domestic climate finance mechanisms. The implementation of climate financing provisions of relevant laws should be evaluated. The People's Survival Fund (PSF) created pursuant to RA No. 10174 to finance local climate actions should be fully utilized. The Philippine Innovation Act (RA No. 11293), which identifies climate change and disaster resilience as a priority area, should be operationalized. The government's Innovation Development Credit and Financing Program under the law should encourage technological innovation of potential innovators and private sector investors for adaptation to climate impacts and mitigation of GHG. Finally, Congress may mandate a public expenditure review to determine the policy alignment, efficiency and effectiveness of public spending for adaptation and mitigation.

Chapter 6

UNITING THE NATION THROUGH TRANSPARENT, RESPONSIVE AND ADAPTIVE GOVERNANCE

The magnitude, complexity and severity of the COVID-19 pandemic exposed the frailties of government institutions in responding effectively and swiftly to the rapidly evolving needs of the people and to the challenges of future global emergencies. Even with a high approval rating, the government's pandemic response was still mired by allegations of corruption and lacked transparency and accountability. The questionable disbursement of funds by the PhilHealth drawn from the PhP30-billion Interim Reimbursement Mechanism (IRM)[15] that the Senate investigated in the 18th Congress was just one of the many alleged corrupt practices that occurred during the pandemic. An inefficient local government financing system, which contributed to the dependence of many LGUs on national government fiscal transfers, has affected LGU performance on the implementation of social amelioration programs or the distribution of pandemic cash subsidies, some of which were subjected to delay and irregularities.

The government's response to the pandemic may have also widened the divide and exacerbated the political differences among Filipinos. This was particularly manifested during the recent national elections, which was described as the most divisive presidential election in decades. The election was also a stark reminder of the country's weak electoral system, particularly the presence of an ill-developed political party system. Moreover, the COVID-19 pandemic has been accompanied by the continuation of peace and order problems. Even as the country was preoccupied with the health crisis, terrorist groups affiliated with the Islamic State group continued their skirmishes with the Philippine government.

The new Marcos administration and the 19th Congress present a new opportunity to unite the nation by adopting public policies that promote responsive and adaptive governance, wherein: (1) corruption can be further constrained; (2) transparency promoted and information asymmetry reduced; (3) people participation in decision-making encouraged; (4) financial resources mobilized in support of local governance; and (5) public institutions and the electoral system strengthened. These will ensure effective and efficient public service delivery, enhance the exercise of democracy, boost investor confidence, and consequently increase economic growth and reduce poverty. Responsive and adaptive governance will build the foundation necessary for government to build trust and deliver better amid the uncertainties of a post-pandemic environment and a range of non-traditional security threats.

A. Controlling Corruption and Promoting Transparency and Accountability

6.1 All levels of corruption, from petty bribery to grand corruption, patronage and state capture still proliferate in the Philippines. This is based on direct and indirect methods of corruption measurements. A report, for instance, on corruption cases received by the Sandiganbayan indicates that around 11,134 cases of malversation and 9,260 cases of graft have been filed against public officials, making up for about 54.19 percent of the 37,630 cases received from 1979 to March 2022.

[15] The IRM is an emergency support program for hospitals taking care of COVID-19 patients. During the Senate hearings, it was revealed that the IRM funds were released to dialysis centers and maternity clinics with no COVID-19 related cases. Some hospitals were able to collect benefit claims for COVID-19 cases even if the patients were admitted for other ailments.

The other nature of offense of cases filed in the Sandiganbayan includes falsification cases (17.36%), estafa cases (12.51%), and other civil or criminal cases such as murder, homicide, physical injury, robbery, theft, rape (Sandiganbayan, 2022). Official data, however, does not capture many unreported corruption cases and may just reflect the efficiency of the judicial system. At best, it gives a minimum idea of corruption in the country at hand (United Nations Office on Drugs and Crime (UNODC), 2019). In a 2019 interview, according to Deputy Ombudsman Cyril Ramos (2019), it is estimated that PhP700 billion or around 20 percent of the annual government budget, is lost to corruption.

6.2 On the other hand, indirect methods of corruption measurement such as those provided by Transparency International point out the worsening corruption in the Philippines.[16] The country dropped two spots from its 115th rank in year 2020 to 117th place in 2021 out of 180 countries/territories surveyed under the Corruption Perceptions Index (CPI). It posted a historic low score of 33 out of 100 in a scale that measures perceived levels of public sector corruption (i.e., a score of zero would indicate the highest perceived levels of corruption). Transparency International also noted the sharp decline in freedom of expression during the same period which as the report noted, made it difficult for citizens to speak up against corrupt activities.

6.3 Table 18 shows that the country garnered negative scores in control of corruption under the 2021 Worldwide Governance Indicators (WGI). Table 19 shows that the Philippines ranked 7th among the 10-member ASEAN in fighting corruption in 2020 with a percentile rank of 34.13. While there are efforts to manage corruption through the implementation of the Office of the Ombudsman's 7-Year Roadmap (2011-2018), the country still slipped in the ASEAN rankings in 2016 and has not been able to recover since then.

Table 18. *Quality of Philippine Governance (2015-2020, Estimated Scores)*

Indicator	2015	2016	2017	2018	2019	2020
Voice and Accountability	0.15	0.16	0.08	0.01	0.01	-0.10
Government Effectiveness	0.11	-0.01	-0.05	0.05	0.05	0.06
Control of Corruption	-0.45	-0.49	-0.48	-0.54	-0.57	-0.48
Rule of Law	-0.34	-0.36	-0.42	-0.47	-0.48	-0.55
Regulatory Quality	-0.04	0.00	0.02	-0.06	0.01	0.03
Political Stability and Absence of Violence/Terrorism	-0.86	-1.38	-1.19	-1.09	-0.92	-0.79

Legend: -2.5 = weak governance performance; 2.5 = strong governance performance
Note: The table shows the quality of Philippine governance. Adapted from "The Worldwide Governance Indicators: Methodology and Analytical Issues" by World Governance Indicators, 2010, https://info.worldbank.org/governance/wgi/Home/Reports.

[16] The country's quality of governance (e.g., control of corruption) is currently being gauged by using global governance indices such as the Worldwide Governance Indicators (WGI), Corruption Perceptions Index (CPI), Global Competitiveness Index (GCI), and Open Budget Index (OBI), pending the development of a national governance index that will be developed by the NEDA and then measured by the PSA (NEDA, 2021).

Table 19. *Control of Corruption (2015-2020, In Percentile Rank)*

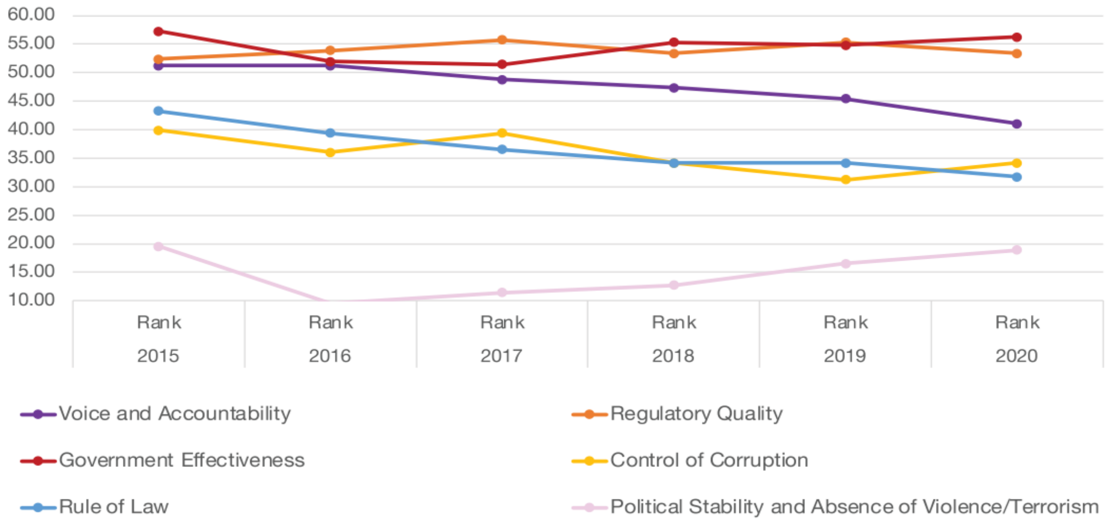
Country	2015	2016	2017	2018	2019	2020
1. Singapore	96.63	97.12	97.60	98.56	99.04	99.04
2. Brunei Darussalam	69.23	69.23	75.48	79.81	78.37	87.02
3. Malaysia	63.46	59.62	58.65	64.42	62.50	62.50
4. Vietnam	41.83	37.50	31.25	37.50	34.13	42.31
5. Indonesia	39.42	41.83	48.08	46.63	37.98	38.94
6. Thailand	37.02	42.31	42.79	40.87	38.46	38.46
7. Philippines	39.90	36.06	39.42	34.13	31.25	34.13
8. Myanmar	20.67	32.21	32.21	30.29	29.81	27.88
9. Lao PDR	17.79	14.42	15.87	15.38	13.46	14.90
10. Cambodia	12.02	9.13	8.65	8.65	9.62	11.06

Note: Adapted from "The Worldwide Governance Indicators: Methodology and Analytical Issues" by World Governance Indicators, 2010, https://info.worldbank.org/governance/wgi/Home/Reports.

6.4 Every year, public funds are spent to deliver key services to Filipinos in the form of policies, programs, and projects. However, not enough attention has been given to systematically measure the results of government interventions through monitoring and evaluation, as a way to improve transparency and accountability. This hampers the ability of government to learn from and make use of findings to improve the delivery of services and thus ensure that public funds are spent wisely.

6.5 Relatedly, the country's WGI percentile rank on voice and accountability[17] has been sliding down since 2017 (Figure 18). The steady fall in the percentile rank from 2017 to 2020 coincided with the perceived unfavorable treatment of the media by the government. In his second year in office, President Rodrigo R. Duterte was reported as seemingly critical to three media organizations, namely Philippine Daily Inquirer, ABS-CBN broadcast network, and online media outfit Rappler that had covered the alleged excesses of the drug war.

Figure 16. *World Governance Indicators, Philippines (2015-2020, in Percentile Rank)*



Legend: 0 = Lowest Percentile Rank; 100 = Highest Percentile Rank

Note: From "The Worldwide Governance Indicators: Methodology and Analytical Issues" by World Governance Indicators, 2010, https://info.worldbank.org/governance/wgi/Home.

[17] The Voice and Accountability Indicator measures the extent of citizen participation in choosing their government, the degree of freedom of expression and association, and the existence of a free media.

Direction for Reforms

Strengthen the Institutional Capacity of the Office of the Ombudsman. There is a need for a legislative measure that will strengthen the institutional capacity of the Office of the Ombudsman. Currently, the agency is hampered by the lack of lawyers and other resources despite its heavy workload. The investigative and prosecutorial powers of the Ombudsman must also be broadened to enhance its ability to build solid cases against erring public officials, employees and government offices. Prosecutors and investigators of the Office of the Ombudsman should likewise be given legal protection and immunity from suits for acts done in line with their duties. There is a need to grant additional investigative and prosecutorial powers to the Office of the Ombudsman.

Enact the Freedom of Information (FOI) Bill. Section 7 of the 1987 Philippine Constitution emphasizes the right of the people to information on matters of public concern. However, 30 years since the first FOI Bill was filed, Congress has yet to pass this vital piece of legislation that promotes access to information, transparency and accountability. As the FOI Bill seeks to provide citizens with knowledge or information on how the government operates, it will also address insufficient mechanisms to enhance citizen participation (Open Government Partnership, 2020). This proposed measure, which mandates the disclosure of government information to the public from across all branches of government, has three key features. First, when information requests are lodged with the wrong agency, the receiving agency must refer them rather than reject. The second feature creates an independent commission to oversee FOI implementation and handle appeals. The third is to maintain a transparent record management system. The FOI Bill should build on and be informed by government experience implementing EO No. 2, Series of 2016, on the FOI (Open Government Partnership, n.d.).

Institutionalize a National Evaluation Policy (NEP). Passing an NEP Law is an important first step towards solving issues on transparency and accountability. This proposed measure seeks to institutionalize monitoring and evaluation in the public sector by strengthening the legal and institutional framework for the regular conduct of monitoring and evaluation of public policies, programs, projects and other government interventions. It seeks to create a National Evaluation Council which would oversee the implementation of the measure and mandate the formulation of a National Evaluation Strategy which would guide the formulation of an evaluation agenda of all covered entities. All departments, agencies and other instrumentalities of the national government, including state universities and colleges (SUCs), constitutional commissions, and GOCCs; and legislative and judicial branches of the government would be covered by the measure, and all these entities would be required to organize their own independent evaluation units which would then manage or conduct independent and objective evaluations for each entity.

B. Enhancing Peace and Security

6.6 According to the PNP, index crimes under the Duterte administration have significantly dropped from about 131,699 in 2016 to 34,552 in 2021. The COVID-19 pandemic and the ECQs have contributed to the lower crime rates in the country.

6.7 The pandemic also led to the release of 81,888 prisoners from March 17, 2020 to October 16, 2020. This was part of government's efforts to decongest the country's crowded jails and prisons and prevent the disease spread among inmates. Those who were freed, either on recognizance or after paying bail, had already completed the mandatory jail time or probation. Congestion in jails or prisons remain the biggest problem in the Philippine justice system. Total jail population in the country has reached 130,667 in December 2019 (Commission on Audit, 2019). The ideal capacity of jails is pegged at 24,306, which is 438 percent above the normal occupancy rate. The jail congestion is largely attributed to the delays in the completion of 49 infrastructure projects of the Bureau of Jail Management and Penology (BJMP) amounting to PhP2.76 billion.

6.8 While index crimes dropped, the Philippines experienced a rise in terrorist violence, partly due to the emergence of groups affiliated to the Islamic State of Iraq and the Levant (ISIL) and how they took the COVID-19 pandemic as an opportunity to exploit their downgraded priority in regional and global policy agendas. Terror operations (i.e., both high-intensity and low-intensity) rose in 2020 as compared to 2019 (Nair, 2021). In addition, the Armed Forces of the Philippines (AFP) has recorded a total of 1,506 International Humanitarian Law (IHL) violations of the communist terrorist group (CTG), also known as the Communist Party of the Philippines-New People's Army (CPP-NPA) between the period 2010 to 2020. As of October 2021, an additional 166 IHL violations were reportedly committed by the CTG, increasing the total to 1,672 incidents (Nepomuceno, 2021). The Philippines is the second most impacted by terrorism in Asia-Pacific after Myanmar, according to the Global Terrorism Index (GTI) produced by the think tank Institute for Economics & Peace.

6.9 Another threat to peace and security is the possible armed conflict due to overlapping territorial claims and maritime domain issues. The Philippine Navy remains under-resourced compared to its most likely adversaries in a conflict. In addition, unlike other countries that are strengthening their navy and air force by training more sailors and pilots, the Philippine Army continues to be the priority for additional personnel (Tarriela, 2020). About 100,000 of the 140,000 members of the AFP are assigned to the army and just about a quarter of troops are from the Philippine Navy (which includes the Philippine Marines) and the Philippine Air Force.

Direction for Reforms

Pass a Defense Acquisition Bill (Defense Procurement Law). The proposed bill intends to strengthen the AFP in addressing peace and security issues by ensuring the AFP's continuous modernization. It will provide for a specialized and protected procurement process for defense capabilities, while taking into account the sensitive and classified nature of the acquisition. Provisions exempting certain acquisitions from public bidding, which generally comes with the requirement of publication and posting of the Technical Specifications and Terms of Reference of the acquisition, should be one of the highlights of the proposed measure. In the interest of national security, alternative modes of procurement, such as direct negotiation with suppliers and government-to-government procurement, should be available in the acquisition of specialized, highly technical, and classified capabilities, equipment, or material. Provisions to protect the procurement process from graft and corruption should be built-in into the proposed law.[18]

[18] For Fiscal Year 2022, the revised AFP Modernization Program was allocated PhP35 billion to support the funding requirements for the modernization projects in accordance with RA No. 10349 (An Act Amending RA No. 7898, Establishing the Revised AFP Modernization Program and for Other Purposes). In order to adhere to the principle of transparency and accountability, the AFP has formed an Anti-Corruption Committee within the organization in 2021. The Committee is an offshoot of the AFP's signing of the Memorandum of Agreement under the Presidential Anti-Corruption Commission's (PACC) "Project *Kasangga*". The Office of Ethical Standards and Public Accountability (OESPA), which has primary jurisdiction over corruption and public ethical standards, will oversee the Committee's operations. The AFP vice chief of staff, as OESPA head, will serve as its chair (Nepomuceno, 2021).

Amend the National Defense Act of 1935. This 87-year-old law should be revisited to help the AFP keep in step with other military organizations, and to reorganize the military structure and composition to one that is more responsive to current and future non-conventional national security threats such as possible naval conflicts due to overlapping territorial claims and maritime domain issues. The enactment of a new law should also address issues like equitable budget distribution, sensible scheduling of personnel expansions, and even the strategic acquisition of assets. Congress could include specific provisions to evaluate the needed percentage distribution of the defense budget, subject to review every three or five years (Tarriela, 2020). Additionally, the new law may set fixed term limitations for the chairman of the joint chiefs and possibly mandate that the position be rotated among the three military services. This situation might provide equal opportunities for representation of all military branches at the highest levels of command (Tarriela, 2020).

Establish a High-level National Penitentiary for Heinous Crimes. This legislative reform aims to (1) establish a national penitentiary for high level drug trafficker or heinous criminals, and (2) regionalize the National Bilibid Prison (NBP), as the three (3) maximum penal institutions in Luzon, Visayas, and Mindanao will be in secured and isolated places where there will be no unwarranted contact or communication with those outside of the penal institution. The sale of the NBP property will help the government raise trillions of pesos to address its financial difficulties.

C. Rationalizing Local Government Finance

6.10 Local government finance is said to be the backbone, the life and blood of local governments (Kaur, 2010, p. 138). It provides fuel to the administrative machinery for LGUs to deliver the social, economic, political and administrative goods and services at their locality. The implementation of the Mandanas-Garcia ruling beginning 2022 will result in LGUs having bigger coffers to address some of the challenges they have been facing. However, there is a need to establish a well-functioning local government financing system in the Philippines. Specifically, the following issues need to be addressed: (1) counter-productive inter-governmental fiscal transfers (IGFTs); (2) restrictive revenue assignments; (3) excessive expenditure assignments; and (4) constrained access to credit.

<u>Financial dependence of LGUs on national government</u>

6.11 The present system of local finance relies heavily on IGFTs from the national government to the provinces, cities and municipalities. The fiscal transfers from the national government constitute more than 70 percent of the total LGU revenues in most LGUs, and up to nearly 100 percent of the total revenues in some of the financially weaker LGUs (Soriano et al., 2005; Bureau of Local Government Finance (BLGF), 2022).

6.12 The internal revenue allotment (IRA), now called the national tax allotment (NTA), accounts for the largest component of these transfers. As of 2020, the IRA remained the biggest source of operating revenue at 62 percent, while LGU tax and non-tax revenues only account for 23 percent and 7 percent, respectively. The IRA comprises majority of the province and municipality’s source of revenue for 2020 at 79 percent and 74 percent, respectively. The IRA has significantly increased by an average annual growth rate of 9.71 percent from 2001 to 2020, even exceeding the amount necessary to address the vertical fiscal gap (i.e., total expenditure minus own-source revenues).

6.13 The noteworthy findings of studies on IGFTs focusing on IRA, include the following: (1) net transfers to cities are consistently larger than those of provinces and municipalities; (2) IRA distribution formula has been counter-equalizing (i.e., poor LGUs receive less while rich LGUs receive more); and (3) IRA acts as disincentive to local revenue mobilization (Llanto, 2012; Manasan, 2017). Given that it is the largest and most important component of the IGFTs, the reformulation of the IRA/NTA is paramount, especially with the implementation of the Mandanas-Garcia ruling.

<u>Restrictive revenue assignments</u>

6.14 The primary reason LGUs are heavily dependent on IGFTs relates to their capacity to generate own-source revenues (OSR). OSR relative to total local revenue has declined through the years since around 1985 (World Bank, 2004). In 2020, OSR was only 30.50 percent of LGU operating income, 3.87 percentage point lower than its 2019 level of 34.37 percent. A major component of OSR is real property tax (RPT). In other countries, RPT make up the biggest part in the local government's OSR. In the Philippines, RPT, as a proportion of GDP, has fallen steadily since 2009, and dramatically so as a share of overall local tax revenue. As a proportion of LGU operating income, RPT is in decline since 2012 (Asian Development Bank, 2020). The average share of RPT to the total operating income also continue to decline, posting only an average of 9.35 percent from 2016 to 2020.

6.15 LGUs can levy other taxes if it is not prohibited in the Local Government Code (LGC) or by law in general (e.g., RPT and tax on business). These types of taxes would be relatively small in comparison to the major revenue sources. They are reflected in the LGUs' revenue code. According to the World Bank and ADB (2004), such local revenue codes make the tax system of LGUs very complicated because of the kind and quantity of tax items. Many of these taxes under the local revenue code are under-collected or, for the most part, not collected at all.

6.16 While the revenue assignment in the Philippines largely conforms to generally accepted principles (Manasan, 2004), large portions of OSRs are heavily subjected to restrictions (e.g., imposing very low fixed rates). The size of the tax base for other taxes aside from real property taxes and local business taxes has very little influence to increasing total local government revenue. Most of the taxes that can produce significant revenue are still lodged under the control of the national government. Because of these restrictions or issues with taxing powers, most LGUs have been heavily dependent on IGFTs (Manasan, 2004; World Bank, 2004; BLGF, 2022).

<u>Constrained LGU access to credit</u>

6.17 Credit financing should be leveraged as a strategic tool of the LGUs' resource mobilization agenda, especially when it can be judiciously and carefully designed, accessed, managed and utilized to help address financing gaps in local governance (Alvina, 2019). The local infrastructure and fiscal gaps in 2017, for example, are estimated to be PhP133.7 trillion (SEPO, 2022). It is therefore important to exhaust the various sources of borrowings afforded by the LGC, including private banks.

6.18 There has been little progress to remove the bottlenecks on private financial institutions (PFIs) participation in LGU lending. The Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) still monopolize the LGU credit market.[19] PFIs practically have no market presence because they are unable to become depository banks for LGUs. The situation where private banks are not allowed to be depository banks of LGUs affects another issue which is the risk-sharing arrangement between lender and borrower. The process of securing the essential documents plus the processing time hinder LGUs in tapping other credit financing opportunities.[20] This risk on providing local government with credit can be addressed by using the IRA as collateral or through the hold-out of local government deposits. However, the IRA cannot be withheld and certainly cannot be intercepted by private banks and as mentioned earlier local government funds cannot be deposited in private banks and hence no deposits to hold-out (World Bank, 2004; Alvina, 2019).

6.19 Private banks and financial institutions have indicated that they are interested to directly provide LGUs with borrowings. Unfortunately, national government policies do not provide a conducive environment to promote the participation of private banks and financial institutions in the provision of the needed private capital to LGUs (World Bank, 2004). With hardly any mobilization of domestic capital, almost all long-term credit to LGUs is sourced from Official Development Assistance (ODA).

Direction for Reforms

There is a need to establish a well-functioning local government financing system in the Philippines, which is vital for the fulfilment of service delivery and poverty alleviation objectives and is critical for the overall functioning of the decentralized system of governance as mandated by the LGC. This could be achieved by: (1) reformulating the NTA, e.g., using a more appropriate baseline to accurately determine proposed variables such as LGU expenditure needs; (2) amending the restrictive provisions of the LGC on increasing local government OSRs; and (c) rationalizing LGU credit financing, among others (SEPO, 2022).

Reformulate the NTA. The NTA formula, like government organizational functions, should first be rationalized to bring about efficient and equitable allocation of resources. The NTA should be viewed as part of the four pillars of fiscal decentralization. The nature of the proposed NTA reformulation would depend on the rationalization, for instance, of expenditure responsibilities for local infrastructure, which continues to be heavily provided by the national government.

[19] Per Bureau of Local Government Finance (BLGF) Memorandum Circular No. 07-01-2017, LGU depository banks include: (1) LBP; (2) DBP; (3) Philippine Postal Savings Bank; (4) Al Amanah Islamic Investment Bank of the Philippines; (5) United Coconut Planter Bank; and (6) Philippine Veterans Bank.

[20] LGUs wanting to engage with private banks will need to secure several certifications and other necessary documents such as letter from the Head of the LGU, certification from bank that no officer of the LGU is a director or stockholder of the bank, vicinity map, certification from the Philippine National Provincial Office for security risk assessment, banking products or services that will be availed of not offered in LGU depository banks, and the likes.

Earlier studies fairly captured the issues in the IRA (NTA) as well as offered many alternative formulas, which may be considered in further NTA studies. These formulas, however, are not exhaustive and more simulations can be done using a more appropriate baseline to accurately determine proposed variables such as LGU expenditure needs. In the simulations conducted by PIDS Former Senior Research Fellow Dr. Rosario Manasan, for example, at least 20 percent of the total IRA was reallocated according to revenue base and expenditure need. By doing this, they provided more funds to LGUs with smaller revenue bases and based the expenditure need on the cost of devolved functions, among others.

Amend the restrictive provisions of the LGC to increase local governments' OSRs. Augmenting funds of LGUs to boost their capacity in delivering basic services could be attained by considering other measures that help them increase their OSR. This could be achieved by: (1) amending the restrictive provisions of the LGC on increasing local government OSRs; (2) providing greater incentives on LGUs to increase OSRs; and (3) building capacities of LGU personnel. Related to this, Manasan (2017) has enumerated several specific proposed amendments to the LGC. These include instituting reforms in real property valuation and imposition of tax on idle lands.

The Real Property Valuation and Assessment Reform Bill acknowledges that taxes on real properties is one of the principal sources of income of LGUs. Hence, it seeks to establish appraisal standards and methods of real property valuation and assessment to maximize LGU revenue collection.

Rationalize LGU Credit Financing. This proposed measure aims to relax the preference for government financial institutions to be a source of credit financing and provide LGUs access to more abundant private capital markets. The measure should provide a private sector participation framework that would include the following: (1) opening of LGU depository functions to PFIs; (2) specifying alternative forms of collateral for LGU credit; (3) strengthening the LGU Guarantee Corporation; and (4) examining new models of ODA support to leverage private sector funding (World Bank & ADB, 2005; ADB, 2016).

D. Pursuing Political and Electoral Reforms

6.20 The current electoral system in the Philippines encourages "weak and incoherent political parties". From the national presidential race to the local mayoral posts, the country sees a massive number of political parties, which may be addressing the same issues, representing the same groups, or representing a personality rather than a collective. Largely due to how the 1987 Constitution lays out the electoral system, it is observed that the party system is heavily fractured (Hutchcroft, 2020).

6.21 Political parties play a vital role in a democracy. Political parties take a stance on certain issues and can present the political information to the voting population in a manner that is readily understandable, provide balance through the accommodation of various interests and opinions, prevent unexpected shifts in political trends that threaten stability in the government, and encourage political participation (Scarlett, 2019). However, several candidates and incumbent politicians resort to turncoatism when the odds are not in their favor. Political parties in the country are usually used only as political vehicles to win in elections and centered on personalities and not advocacies and political platforms.

6.22 According to Hutchcroft (2020), there are three key issues regarding the electoral system arrangement that deserve attention. First, the multi-member plurality system (MPS) fosters competition among candidates of the same political party. This encourages a focus on candidates rather than a party-centric campaign. MPS also produces short-lived alliances or coalitions and weakens incentives of politicians to respond to broad constituencies (Hutchcroft, 2020). The candidate-centric politics also encourages significant political dynasty affiliation. Research by the Ateneo School of Government (Mendoza et al., 2019) showed that 80 percent of the governors, 67 percent of congressmen, and 53 percent of mayors who won office in the 2019 elections belonged to "fat dynasties"—the name given to families holding multiple elective posts. Dynasties tend to thrive in the poorest Philippine regions, where politicians find it easier to wield patronage (De Guzman, 2021). A string of literature has shown a causal relationship between dynastic concentration and the standard of living among the constituents. The improvement of local living conditions was shown to be considerably harmed by dynastic concentration, which also indicated that bad policies result from a lack of genuine political competition. In a study made by Beja et al. (2016), it showed that the expansion of political clans led to deeper poverty incidence at the provincial level and the effect is stronger among provinces that are farther from Manila.

6.23 Second, the president and vice president, as well as governors/vice governors and mayors/vice mayors, are elected separately rather than as part of a joint ticket. This separation is very rare internationally, as it opens the possibility that the two top officials of the land, as well as the province, city, and municipality, will come from different political parties and different policy positions. This further strengthens the focus on candidates rather than parties as a whole (Hutchcroft, 2020).

6.24 Third, the oddest component of the Philippine electoral system—seemingly not found anywhere else—is the Party List System. The three-seat limit contradicts the proportionality principle and encourages the growth of small, ineffective parties. There are some instances where large parties would split into smaller parties that are said to cover different marginalized sectors, seemingly to maximize the three-seat ceiling (Tigno, 2019). This further contributes to the weakness and incoherence of the Philippine party system (Hutchcroft, 2020).

Direction for Reforms

Strengthen the Political Party System. In order to achieve genuine political development, the political party system of the country should be strengthened and institutionalized. A legal institutional framework should be established to promote party loyalty, discipline and adherence to ideological principles, platforms and programs. Professionalizing genuine political parties will reduce cases of graft and corruption and uphold party loyalty by penalizing turncoatism.

Pass an Anti-Dynasty Law. Although the 1987 Constitution explicitly prohibits political dynasties, no law has been passed to enforce it, even after three decades. One of the main reasons why political dynasties are not good for democracy and inimical to social justice is the consolidation of power both political and economic in the hands of a few. A particular bill even proposed prohibiting power tandems and power successions sometimes referred to as "vertical" or "horizontal" political dynasties. According to the proposed measures intended to end the dominance of political clans in the nation, an official's spouse or a relative within the second civil degree of consanguinity or affinity should not be permitted to hold power in the same city or province or to run for the same position immediately after the incumbent's term. This applies to the official's parents, kids, siblings, grandparents, grandkids, and in-laws, whether they are full or half blood, genuine or not. Additionally, it is not permitted for these relatives to compete in the same city or province at the same time. The barangay authorities are not included in the ban. Relatives should not be allowed to run in the same province where the incumbent is a registered voter if the official is holding a national position.

Legislate campaign finance reforms. Reforming campaign finance policy is a powerful tool to regulate expenditures of candidates and political parties and at the same time address the weaknesses of existing policies. The lack of provisions on contribution limits and public subsidies, outdated expenditure limits, and the virtual inability of the Commission on Elections (COMELEC) to implement campaign finance regulations has created an unregulated campaign finance regime in the Philippines. The prevalence of excessive spending in the Philippine electoral systems has not only corrupted elections, but also has negative repercussions to sound democratic governance. Thus, there is a need to review of the limits on election-related expenditure, introduce a cap in campaign contributions per contributor, and allot subsidies from the government, and reinforce the oversight capabilities of COMELEC (Eusebio, 2021).

Amend the Party-List System Act (RA No. 7941). There is an urgent need to amend the Party-List System Act to ensure that its purpose of giving greater representation to the marginalized and disadvantaged is achieved. Specifically, the provision on registration (Section 5) should be amended to require nominees and party-lists to hail from marginalized and underrepresented groups. The term "marginalized" should be properly defined to make sure that the marginalized sectors or groups, including labor, peasant, urban poor, indigenous cultural communities, women, youth, and other such sectors are given representation in Congress as originally envisioned under the 1987 Constitution (Cervantes, 2022). A system of open participation combined with a seat allocation formula based on a highest average method with a stricter threshold and a relaxed seat cap should also form part of the core of the proposal to amend the Party-List System Act. The new system should include a built-in safeguard against domination by the traditional forces despite its open character and strike the optimum balance between the different requirements of representation of the marginalized and the underrepresented on the one hand and proportionality on the other.

Amend the Omnibus Election Code (Batas Pambansa Blg. 881)*.* The Omnibus Election Code should 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, noting that 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 COMELEC (SEPO, 2010).

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