



MEDIUM-TERM PHILIPPINE DEVELOPMENT PLAN



2004-2010



Medium-Term Philippine Development Plan 2004-2010

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Foreword



MALACAÑAN PALACE
Manila

The Philippine economy continues to grow at a respectable pace, with the gross national product averaging 4.5 percent and gross domestic product, 4 percent for the period 2001-2003. This growth was made possible mainly by improved productivity of agriculture and services, both of which benefited from government programs to modernize agriculture and to deregulate telecommunication, shipping and trade.

In the next six years, we must do more. Eradicating poverty continues to be our biggest challenge. Thus, the basic task of our Medium-Term Philippine Development Plan for the period 2004-2010 is to fight poverty by building prosperity for the greater number of the Filipino people.

In my recent State-of-the-Nation Address, I mentioned that before I bow out of my official term as President of the Republic, I will leave behind a 10-point legacy that will comprise the major policies and programs to win the war against poverty. This legacy is elucidated in the Plan under more focused action strategies that include: the promotion of livelihood, strengthening of education, attainment of fiscal stability, decentralized development, and arriving at sustained national harmony.

These strategies also aim to meet head-on the danger signals that have emerged and threaten these gains and promise harder times ahead. Among such signals is a still untamed fiscal deficit, insufficient infrastructure, rapid urbanization that has congested our cities, especially Metro Manila, the growing number of jobless Filipinos, and the inefficient delivery of basic services.

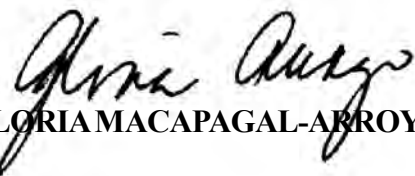
These are the problems that prevent us from effectively confronting our country's challenges, particularly our efforts to eradicate poverty.

Knowing that so much is at stake in such task, I have thus involved myself seriously in the formulation of the MTPDP particularly in the crafting of the basic outline to ensure that the policy strategies and programs therein are more focused. I want the solutions and interventions to our country's problems to be more strategic. My main consideration for the Plan is that it must generate positive impact and must be doable.

Through this Plan, we are guided in all undertakings needed to strengthen and sustain a strong and responsive republic. The targets have been set, and I expect all agencies of government to make sure these are attained. The Plan is the roadmap through which the 10-point legacy of my administration will be achieved.

Beyond this Plan, however, is the more difficult task of making sure that it is successfully implemented. I thus call on the support of all sectors of our society to ensure its realization. The successful implementation of this Plan can only be realized through a strong partnership as well as more equitable risk-sharing among government, the business sector, and the civil society.

Thank you, and God bless us all!



GLORIA MACAPAGAL-ARROYO

Preface



NATIONAL ECONOMIC AND
DEVELOPMENT AUTHORITY
Pasig City

Within 100 days after President Gloria Macapagal-Arroyo's inaugural, the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 was produced. The Plan reflects the administration's focused determination to immediately buckle down to work and get the country moving toward a higher growth path.

The National Economic and Development Authority (NEDA), the country's central planning agency, worked closely with the various government line agencies to flesh out the President's 10-point Agenda for the next six years. It comes as no wonder that President Arroyo herself crafted a comprehensive outline for the entire Plan, and even detailed strategies and measures for immediate action and implementation.

While clear directions were coming from the top, equally significant to the Plan's formulation were the inputs which came from the private sector, academe, legislature and civil society. Their contributions were consolidated from inter-agency committee meetings, with the NEDA Staffs serving as the secretariat.

Prior to its final print, the Plan was presented to the Cabinet Clusters on the Economy, Social Justice and Security on September 22, 2004. Following the incorporation of inputs from the said meeting, the Plan was laid out for further refinement to President Arroyo and her Cabinet during the first week of October.

The Plan consists of five parts – Part I: Economic Growth and Job Creation, Part II: Energy, Part III: Social Justice and Basic Needs, Part IV: Education and Youth, and Part V: Anti-Corruption and Good Governance.

The first part covers nine chapters to accelerate growth and job creation, namely, (1) Trade and Investment, (2) Agribusiness, (3) Environment and Natural Resources, (4) Housing Construction, (5) Tourism, (6) Infrastructure, (7) Fiscal Strength, (8) The Financial Sector, and (9) Labor.

Special emphasis was given on vigorous support for micro, small and medium enterprises and agribusiness as they are the most efficient generators of jobs in terms of jobs to investment ratio.

One key strategy for job generation is to develop two million hectares of new lands for agribusiness that is expected to generate two million new jobs and enhance the productivity and incomes of Filipino farmers who comprise most of the country's poor. The Plan also aims to create three million microenterprises and provide them with credit, technology and marketing support.

An underlying theme in the Part I chapters is on wealth creation through the facilitation of investments in mining, oil and gas exploration, the re-launch of massive reclamation projects, and the development of the Clark-Subic corridor as the logistics center for the Asia-Pacific region.

Part I also tackles the legislative and administrative measures needed to make the public sector deficit more manageable. These initiatives should generate about PhP100 billion in terms of additional annual revenues, savings through austerity and efficiency measures, and more aggressive action against smugglers and tax evaders.

Part II of the MTPDP covers energy independence and power sector reforms. Greater energy independence will be achieved through increased oil and gas exploration, development of renewable energy, expanded use of natural gas, forging of strategic alliances, and through energy efficiency and conservation. Power sector reforms, intended to reduce electricity rates, include resolving the problem of the losses of the National Power Corporation, encouraging private sector participation in power generation, and total barangay electrification by 2008.

Part III of the Plan is on the theme of Social Justice and Basic Needs. This section covers the antipoverty program of government, achieving national harmony through automated elections, the peace process and healing the wounds of EDSA 1, 2 and 3. This part also discusses the basic needs issues of peace and order, and the rule of law.

Antipoverty measures revolve around five goals: (1) enhanced livelihood activities through credit support and capacity building; (2) asset reform that includes agrarian reform and ancestral domain issues; (3) improved accessibility and affordability of essential services including clean water and health care and reducing by half the cost of medicines; (4) protection of the vulnerable, i.e., the children, youth with special needs, women in difficult circumstances, persons with disabilities, and the elderly; and (5) empowerment of the poor through the KALAHI-CIDSS or Kapit-Bisig Laban sa Kahirapan Comprehensive and Integrated Delivery of Social Services Project and through private sector-led initiatives such as the Gawad Kalinga and Habitat for Humanity.

Education and Youth Opportunity make up Part IV of the Plan. It contains three chapters, namely, Education, Science and Technology, and Culture.

The strategies on education are categorized under: (1) early childhood education, (2) basic education, (3) technical, vocational education and training, and (4) higher education. The main concern discussed in the Science and Technology chapter is the acceleration of knowledge creation and transfer to promote technology-based entrepreneurship. Mainstreaming culture into the overarching goal of development and institutionalizing culture in education and governance are also tackled in this part of the Plan.

Part V of the Plan dwells on the theme of Anti-Corruption and Good Governance. Anti-corruption strategies are categorized into punitive, preventive, promoting zero tolerance for corruption, and bureaucratic reforms.

Still in line with achieving national harmony, Part V also has a chapter on Defense Against Threats to National Security expounding on the Philippine Defense Program, upgrading the capability of the Armed Forces of the Philippines, ensuring the observance of cease-fires, and enhancing the country's ability to fight terrorism.

The chapter on Responsive Foreign Policy discusses the primary goal of protecting the interest of the country amid the realities in the global and regional environment.

Finally, the Plan closes with the chapter on Constitutional Reform. The goal of these reforms is to create more effective political institutions and more relevant and accountable political parties. Constitutional reforms that encourage more liberal economic policies that would facilitate the entry of more investments and minimize judicial interference in economic decisions will also be pursued.

Specific programs cited in the MTPDP will be fleshed out in greater detail with the publication of the rolling medium-term public investment programs, beginning with the 2005-2007 Medium-Term Philippine Investment Plan. Before yearend, the Regional Development Plans/Investment Programs that complement the MTPDP shall also be published.

The MTPDP can and will be successfully implemented provided all sectors of society rally behind it, each performing their roles and sharing in the great responsibility to ensure the country's growth that would benefit the greatest number of Filipinos.



ROMULO L. NERI
Socioeconomic Planning Secretary
and NEDA Director-General

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Introduction

I. The Basic Tasks

The basic task of the Medium-Term Philippine Development Plan (MTPDP), 2004-2010 is to fight poverty by building prosperity for the greatest number of the Filipino people. The country must open up economic opportunities, maintain sociopolitical stability, and promote good stewardship—all to ensure better quality of life of its citizens. The country will focus on strategic measures and activities, which will spur economic growth and create jobs. This can only be done with a common purpose to put the economic house back in working order.

By 2010, this will be the 10-point legacy of the Arroyo administration:

LIVELIHOOD (*Part I*)

1. Ten million jobs shall have been created (*Part I*).

Three million entrepreneurs shall have been supported, giving them loans and helping them become good managers, thereby establishing a deep foundation for a broad middle class.

Two million hectares of agribusiness land shall have been developed, making them productive and their products transported to the markets efficiently.

EDUCATION (*Part IV*)

2. Everyone of school age will be in school, in an uncrowded classroom, in surroundings conducive to learning. Three thousand school buildings a year shall have been built and a computer put in every high school.

FISCAL STRENGTH (*Part I, Chapter 7*)

3. The budget shall have been balanced with the right revenues collected and spending on the right things ensured.

DECENTRALIZED DEVELOPMENT

4. The network of transport and digital infrastructure on which the Arroyo government embarked in 2002 shall have linked the entire country (*Part I, Chapter 6 - Infrastructure*).

5. Power (*Part II, Chapter 11 - Power Sector Reforms*) and water (*Part I, Chapter 6 - Infrastructure*) shall have been regularly provided to the entire country.
6. Metro Manila will have been decongested with economic activity growing and spreading to new centers of government, business and community in Luzon, in the Visayas, and in Mindanao (*Part I, Chapter 6 - Infrastructure*).
7. The Subic-Clark corridor will have become the most competitive international service and logistics center in the Southeast Asian region (*Part I, Chapter 6 - Infrastructure*).

NATIONAL HARMONY

8. Elections will no longer raise a doubt about their integrity. The electoral process will have been completely computerized (*Part III, Chapter 13 – Automated Elections*).
9. Peace will have come to Mindanao and all insurgency areas (*Part III, Chapter 14 – Peace Process*).
10. The divisive issues generated by EDSA 1, 2 and 3 will have had a just closure.

II. The Macroeconomy

A. SITUATIONER

The Philippine economy grew at a respectable pace over the period 2001-2003. This notwithstanding internal—fiscal deficit and peace and order issues, which were a concern for investors—and external challenges—geopolitical tensions in the aftermath of 9/11, slump in the electronics and information technology sector, severe acute respiratory syndrome (SARS), and continued increase in the price of oil. The gross national product (GNP), adjusted for price changes, steadily grew from 3.0 percent in 2001 to 4.7 percent in 2003 and to 6.3 percent in the first semester of 2004. Over the period 2001-2003, GNP expanded at an average of 4.5 percent while gross domestic product (GDP) rose on an average of 4.0 percent. GNP was on track of the MTPDP targets, while GDP expanded at a slower pace.

However, although growth has been respectable, this is more modest compared to other Asian countries.

The key growth driver was services, which expanded at an average rate of 5.1 percent over the period 2001-2003 and to a strong 6.9 percent in the first semester of 2004. The continued expansion in this sector is largely owed to the telecommunications sector as telecommunication companies continue to expand outside of Metro Manila. Added to this are the new investments in the call/contact centers, business process outsourcing (BPOs) and software development. The trade sector has also performed very well due to strong personal consumer spending, which

Table A: MTPDP 2001-2004 Targets vs. Actual Performance

	2001		2002		2003		2004	
	MTPDP	ACTUAL	MTPDP	ACTUAL	MTPDP	ACTUAL	MTPDP	LATEST ACTUAL
GNP (growth rate in %)	3.4	3.5	4.1-4.6	4.3	5.5-6.0	5.6	5.8-6.4	6.1 ^{2/}
GDP (growth rate in %)	3.3	3	4.0-4.5	4.3	5.4-5.9	4.7	5.7-6.3	6.3 ^{2/}
Inflation rate	6.0-7.0	6.1	5.0-6.0	3	4.5-5.5	3	4.5-5.5	4.8 ^{3/}
91-day T-bill rate	11.0-12.0	9.9	10.0-11.0	5.4	9.5-10.5	6	9.5-10.5	7.2 ^{3/}
NG Fiscal Deficit (as percent of GDP)	-4	-4	-3.3	-5.2	-2.3	-4.6	-0.9	-3.6 ^{2/}
Consolidated Public (as percent of GDP)	-4.6	-4.6	-3.5	-5.5	-2.2	-5.5	-0.6	4.7 ^{4/}
Public Debt (as percent of GDP)	n.a.	120.1	n.a.	130.4	n.a.	137.5 ^{1/}	n.a.	n.a.
Current Account (as percent of GDP)	5.7	1.8	3.2	5.7	2.7	4.2	1.5	5.1 ^{2/}
Gross International Reserves (US \$ Bn)	14	15.6	14.4	16.2	15.3	16.9	16.6	16.0 ^{5/}
(no. of months in imports)	4.2	4.6	4.2	4.7	4.1	4.7	4	4.3
Employment generation (in thousand)	726-830	1703	874-953	907	1030-1116	566	1089-1193	1234 ^{6/}
Unemployment rate (in %)	10.73-11.06	11.1	9.98-10.51	11.42	8.82-9.63	11.38	7.55-8.64	12.13 ^{7/}
Unemployment (ILO-based definition)	n.a.	7.53	n.a.	7.7	n.a.	7.35	n.a.	7.63

^{1/} Preliminary FY 2003 figure (which still includes intrasectoral debt)

^{2/} First Semester 2004

^{3/} As of January-September 2004

^{4/} As of 1st quarter 2004

^{5/} As of August 2004

^{6/} Jan.-July actual

^{7/} Jan-Apr-Jul 2004 Average

n.a. – not available

has been supported by the steady growth of the agriculture sector and remittances of overseas Filipino workers (OFWs) who are now being deployed in higher paying jobs as ICT professionals, teachers, and nurses/caregivers.

Agriculture rose at an average of 3.8 percent over the period 2001-2003, which further surged to 6.3 percent in the first semester of 2004. Favorable weather conditions complemented by government programs led to respectable growths in major subsectors,

Table B: Comparative GDP Growth Rates of Asian Countries (in percent)

COUNTRY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 S1
Philippines	0.3	2.1	4.4	4.7	5.8	5.2	-0.3	3.4	4.4	3	4.3	4.7	6.3
Malaysia	8.9	9.9	9.2	9.8	10	7.3	-7.4	6.1	8.9	0.3	4.1	5.3	7.8
Indonesia	7.2	7.3	7.5	8.4	7.6	4.7	-13.1	0.8	4.9	3.3	3.7	3.9	4.4
Thailand	8.1	8.4	9	9.2	5.9	-1.4	-10.5	4.4	4.8	2.1	5.4	6.7	6.4
Taiwan	7.5	7	7.1	6.4	6.1	6.7	4.6	5.4	5.9	-2.2	3.6	3.2	7.2
Hong Kong	6.6	6.3	5.5	3.9	4.3	5.1	-5	3.4	10.2	0.5	1.9	3.2	9.5
South Korea	5.4	5.5	8.3	8.9	7	4.7	-6.9	9.5	8.5	3.8	7	3.1	5.4
China	14.3	13.5	12.8	10.5	9.6	8.8	7.8	7	7.6	7.3	8	9.1	9.7
Singapore	6.7	12.3	11.4	8	8.1	8.6	-0.9	6.9	9.7	-2	2.2	1.1	10

Sources: Country Statistical Websites

Asian Regional Information Center (ARIC), ADB

2002 World Development Indicators (WDI)

such as palay and corn, fishery, poultry and livestock. Prices were also favorable during this period leading to improving farm incomes.

On the other hand, industry growth was more sluggish, expanding at a mere 2.8 percent over the period, although strengthening to 5.6 percent in the first semester of 2004. Growth has been dragged down by the steep cuts in public construction to control the deficit, as well as the difficulty of some manufacturing industries to compete under increasing global competition. One bright spot was mining, which grew at double-digit rates given favorable international metal prices.

The economy grew under generally stable macroeconomic conditions, although the fiscal problem emerged as a major threat to growth. Inflation was mild in 2001-2003 with demand expanding at a modest pace and cost-push pressures fended off by good agricultural harvest and stable transport and electricity prices as the purchased power cost was capped at PhP0.40/kWh in May 2002. However, inflationary pressures built up anew in 2004 due to higher world prices of oil and commodities used as production inputs like corn, wheat, fertilizer, and tin on account of the continuing geopolitical tensions in Iraq and huge demand from China. Inflation rose to 4.8 percent in January-September 2004.

The bellwether 91-day Treasury bill rate also stayed within target on account of modest inflation rates and an accommodative monetary policy to support economic recovery. However, interest rates have risen anew since 2003 due to the fiscal deficit and the pick up in inflation in 2004.

The fiscal deficit emerged as the key macroeconomic problem, as actual performance severely fell short of the targets. The consolidated public sector deficit (CPSD) surged to 5.5 percent of GDP while the National Government deficit rose to 4.6 percent of GDP. Among the 14 monitored nonfinancial government corporations (MNFGCs), the largest deficits were registered by the National Power Corporation (NPC), Light Rail Transportation Authority (LRTA), and the National Food Authority (NFA). The rising deficit pushed the public sector debt to balloon to 137.5 percent of GDP by 2003.

Despite the fiscal and domestic debt problem, the country's external balances have remained healthy although the sources of foreign exchange need to be diversified. The current account balance has been positive but this largely comes from remittances of OFWs rather than trade in goods. Recently, however, inflows from contact/call sources and other exports of services have contributed to higher foreign exchange inflows. Capital flows are mostly in the nature of portfolio flows rather than foreign direct investment. Thus, the competitiveness of the country's exports and investment climate has to improve to widen the sources of foreign exchange inflows and avoid external payments problems in the future.

Unemployment has stayed high, as the number of jobs generated has not been adequate to absorb the influx of labor entrants. Using the official methodology, the unemployment rate stood at 11.4 percent in 2003 despite the 3.2 million jobs generated

in 2001-2003. Using the International Labor Organization (ILO)-based definition, unemployment stood at 7.35 percent in 2003, which has barely changed since 2001. Unemployment would have to fall further to significantly reduce poverty.

To address the unemployment problem, the economy has to expand at a faster pace to address the aspects of growth that are undermining long-term sustainability. Growth has been largely consumer-driven with investment spending declining from 22.4 percent of GDP in 2001 to 19.5 percent in 2003. The decline in investment spending is traced to weakening foreign investments and the cutbacks in public construction as the government tried to keep the deficit under control, albeit unsuccessfully. Although the country's

Table C: Medium-Term Macroeconomic Targets*

	2004 Latest Actual	TARGETS						
		2004	2005	2006	2007	2008	2009	2010
Gross National Product	6.1 ^{1/}	5.2-6.0	5.5-6.4	6.5-7.5	6.9-7.8	7.0-8.0	7.2-8.2	7.2-8.2
Gross Domestic Product	6.3 ^{1/}	4.9-5.8	5.3-6.3	6.3-7.3	6.5-7.5	6.8-7.8	7.0-8.0	7.0-8.0
Inflation rate	4.8 ^{2/}	4.0-5.0	4.0-5.0	4.0-5.0	3.0-4.0	3.0-4.0	3.0-4.0	3.0-4.0
91-day T-bill rate	7.2 ^{2/}	7.5-8.5	7.5-8.5	7.5-8.5	6.5-7.5	6.5-7.5	6.5-7.5	6.5-7.5
Fiscal Balance (% of GDP)	-3.6 ^{1/}	-4.2	-3.6	-2.9	-2	-1.1	-0.2	0
Consolidated Public Sector Deficit (% of GDP)	4.7 ^{3/}	6.7	6	5.3	4.6	3.9	3	1
Exports of goods and services (US\$Mn)	19646 ^{1/}	43058	47452	52296	58204	65385	74282	84309
Of which: goods								
Growth rate (%)	187342 9.7	39853 10	43838 10	48222 10	53528 11	59950 12	67141 12	75869 12
Imports of goods and services (US\$bn)	20993 ^{1/}	47157	52730	58455	65336	73624	83510	94691
Of which: goods	19938	42372	47457	52677	58996	66663	75998	86639
Growth rate (%)	5.6	13	12	11	12	13	14	14
	5.6	13	12	11	12	13	14	14
Current Account Bal (\$Mn)	826	1483	1134	1029	879	678	735	785
% of GDP	5.0 ^{4/}	1.7	1.2	1	0.8	0.5	0.5	0.5
Gross International Reserves (\$US Bn)	15.91 ^{2/}	15	16	17.83	19.79	22.54	26.84	31.86
Poverty Incidence (families)	28.4 ^{5/}	25.69- 26.04	24.35- 25.04	22.93- 23.95	21.61- 22.89	20.31- 21.84	19.04- 20.78	17.88- 19.81
Unemployment rate	12.13 ^{6/}	12.1	11.9	11.6	11.1	10.4	9.7	8.9
Memo items:								
Dubai oil price, avg (\$/bl)	32.93 ^{7/}	33.44	32.96	29.17	28.61	28.04	28.04	28.04
P/\$ rate	55.93 ^{1/}	54-56	55-57	55-57	55-57	55-57	55-57	55-57

* In growth rates, unless otherwise stated

^{1/} As of 1st semester, 2004

^{2/} As of January-September 2004

^{3/} Preliminary Q1 2004

^{4/} As of Q2 2004

^{5/} As of 2000 FIES

^{6/} Jan-Apr-July average, 2004

^{7/} Jan-Sept 14

current current account remains in a surplus, indicating that savings is still adequate to finance investment activity, national savings has been low compared to its Asian neighbors. While the country's savings rate hovers at an average of 20 percent in 2001 to 2003, its' neighbors', like Thailand and Malaysia, averaged 30-40 percent. The low savings rate would pose a constraint once investment activity accelerates.

Growth strategy

Addressing the fiscal problem is primary and essential to achieve a sustained and accelerated pace of growth (*Part 1, Fiscal Strength*).

If the fiscal problem is not addressed, growth will considerably be much lower on account of a severe erosion in investors confidence, which could create balance of payment difficulties, as well as deep cuts in government spending if the government will seek to achieve fiscal balance by 2010 in the face of lower revenue growth. The lack of progress on the fiscal front will also increase the risk premium on interest and exchange rates and undermine long-term investment. The national government is aiming to balance the budget by 2010 and to reduce the CPSD to 1.0 percent by 2010. Underpinning the fiscal program are measures to boost the revenue to GDP ratio to 18 percent in 2010 from 14.6 percent in 2004, mainly from higher revenue collection efficiency. A credible fiscal program will also lead to a positive shift in investor and creditor confidence and will also boost growth by providing the fiscal resources to raise public infrastructure spending from 2.6 percent of GDP in 2003 to 4.2 percent of GDP by 2010.

The government is targeting inflation to decline to 3-4 percent by 2007 based on expectations of a drop in global oil prices and a modest depreciation of the exchange rate. The inflation target is based on the assumption that Dubai oil prices will fall to less than US\$30 per barrel by 2006 as oil producers such as Russia increase supply and geopolitical tensions normalize in Iraq.

Moreover, the peso is to remain stable as market participants see fiscal reforms taking place. The peso will also be supported by strong capital inflows arising from an improvement in investor sentiment and higher receipts from exports of goods and services and remittances of OFWs, which will lead to a current account surplus of 0.5 percent of GDP.

The government is aiming to achieve its growth targets on account of strong investment spending and exports. Investment spending is targeted to increase to 28 percent by 2010 from around 20 percent in 2003, while exports of both goods and services are targeted to reach more than US\$50 billion by 2006.

To achieve these targets, the government shall pursue policies that address the root causes of declining competitiveness (*Chapter 1: Trade and Investment*). These include keeping the cost of food items and other wage goods at competitive rates through greater productivity; reducing transport and distribution costs through better transport and digital infrastructure and logistics, especially with the completion of the

nautical highway system (*Chapter 6: Infrastructure*); providing more competitive power rates through the elimination of cross-subsidy between industrial and residential users and other power sector reforms (*Chapter 11: Power Sector Reforms*); mobilizing and upgrading knowledge to increase productivity; and addressing corruption and simplifying business procedures (*Part V*).

In addition to policy reforms that will benefit all economic sectors, vigorous support is given to micro, small and medium enterprises (MSMEs) and agribusiness to decentralize development and address the problem of high unemployment and rural poverty. Government financial institutions (GFIs) are being tapped to enhance the access of MSMEs to credit, technology and marketing information (*Chapter 1: Trade and Investment*).

The growth strategy also rests on maximizing the use of the country's natural resources and geographical competitive advantage through wealth creating projects in mining, exploration of oil/gas wells, land reclamation, reforestation and maximizing the use of upland resources, and the development of Subic-Clark as the logistics-center in Asia.

Major infrastructure investments such as the nautical highway and roads in tourist destinations shall be financed mostly from build-operate-transfer (BOT)-type modes and nonrecourse project financing where the cash flows of a financially viable project will not require the proponent to seek government guarantee. Other innovative financing strategies and revenue-generating strategies include capturing the increase in property values arising from the development of major roads and highways such as the Subic-Clark-Tarlac Highway.

Given the fiscal constraints, the investment priority plan shall be focused in areas where the Philippines has natural and human resource advantage. These are identified as: IT-related industries, BPO/contact centers, tourism, fashion garment, jewelry, medical services/healthcare/wellness, electronics, automotive, agribusiness/mariculture, and shipbuilding.

This investment and export-led growth strategy is expected to boost the industrial sectors—mining, manufacturing, construction, and utilities. Industry growth is expected to rise from the modest rate of 4.4-5.2 percent in 2004 to 8.5-9.5 percent by 2010. It shall be the fastest growing sector. Construction is expected to receive a boost from higher infrastructure spending and the construction of new power plants to meet 5,200 megawatts of demand to avert a power crisis by 2010. The development of a Halal food industry in Southern Mindanao is also expected to kick up the food processing industry.

The services sector is seen to expand from 5.7-6.6 percent in 2004 to 7.2-8.2 percent by 2010. It shall benefit from the sustained growth of information and communications technology (ICT)-related businesses like contact/call centers and BPOs, which shall prop up the real estate industry. The government's support for tourism is seen to greatly boost private services. In addition, the financial and banking sector is seen to grow at a faster pace as business confidence improves and as savings products for small savers and OFWs are developed (*Chapter 8: Financial Sector*).

Agriculture is seen growing at around 4-5 percent on a sustained basis as the government works with the private sector to develop 2 million agribusiness lands and to increase agricultural productivity (*Chapter 2: Agribusiness*).

Employment and Poverty

With the domestic economy growing by at least 7 percent by 2010, total job generation for 2004-2010 will reach 9.7-11.5 million, averaging 1.4-1.6 million new jobs each year.

Services is expected to create the most jobs at 5.8-7.0 million, which will account for about 60 percent of total job generation. Next is agriculture, which will create 2.0-2.3 million net jobs with the development of 2 million hectares of agribusiness lands. Industry will create 1.9-2.2 million jobs.

Based on agency programs and estimates¹, by key employment generating industry, tourism is expected to create 3.0 million; agribusiness, 2.8 million; housing, 1.0 million; ICT, 0.8 million; exports, 0.7 million; and mining, 0.2 million.

For overseas employment, one million OFWs will be deployed each year.

Table D: Employment Prospects, 2004-2010 (in '000)

Year	Net Job Creation			
	Agriculture	Industry	Services	Total
2003 (actual)	81	144	341	566
2004 (January, April, July)	187	237	810	1234
2005	290-331	174-212	565-713	1029-1256
2006	298-340	249-291	717-896	1263-1527
2007	297-342	265-312	818-1016	1380-1669
2008	309-355	299-351	894-1114	1502-1821
2009	321-370	333-391	941-1184	1594-1945
2010	320-371	366-431	1009-1279	1695-2081
2004-10 (Total)	2021-2295	1923-2225	5753-7012	9697-11532
2004-10 (Ave.)	289-328	275-318	822-1002	1385-1647

Employment targets were based on the following 1993-2004 elasticity defined as the percent increase in employment level for every 1 percent increase in GDP level : Agriculture 0.34; Industry 0.75; Services 1.04.

Based on a 3.5 percent growth in labor each year, unemployment rate will reach between 8.9 percent in 2010.

Household poverty incidence will also decline from 28.4 percent in 2000 to 17.9 percent by 2010. As a fighting target, the government will aim to halve poverty by 2010.

Household subsistence poverty, in turn, will decline from 13.10 percent in 2000 to 8.98 percent in 2010. This shall enable the country to meet its target of halving poverty over a 15-year period from 1990 to 2015 based on the 20.4 percent subsistence poverty rate in 1991, one of its commitments to the United Nation's (UN) Millenium Development Goals (MDGs).

¹ As presented by the Department of Trade and Industry to the Cabinet in 2004.

The poverty target assumes a reduction in population growth rate from 2.34 percent in 2000 to 2.11 percent in 2000-2005 and 1.93 percent in 2005-2010 as well as a significant reduction in inequality indicated by the decline in gini coefficient from 0.43 in 2000 to 0.35 by 2010. Inequality is expected to decline at a faster rate over this period due to the focus on a propoor and proemployment growth strategy. Meanwhile, the local government units (LGUs) shall be encouraged to strengthen their reproductive health services programs to achieve a reduction in population growth.

The Plan's targets and programs shall also enable the Philippines to achieve the MDGs, which are not just top priority goals and targets. They are the country's commitments to ensure a brighter prospect for all Filipinos, especially the poor. Development efforts are thus directed towards achieving them.

Table E: Medium-Term Macroeconomic Targets
(Growth rate, in percent)

	TARGETS						
	2004	2005	2006	2007	2008	2009	2010
Gross National Product	5.2-6.0	5.5-6.4	6.5-7.5	6.9-7.8	7.0-8.0	7.2-8.2	7.2-8.2
Gross Domestic Product	4.9-5.8	5.3-6.3	6.3-7.3	6.5-7.5	6.8-7.8	7.0-8.0	7.0-8.0
Net Factor Income from Abroad	8.5-8.7	8.0-8.2	8.9-9.9	11.0-12.0	9.8-10.8	9.4-10.4	8.5-9.5
EXPENDITURE							
Private Consumption	5.0-5.7	4.7-5.3	5.0-6.0	5.3-6.3	5.5-6.5	5.5-6.5	5.5-6.5
Government Consumption	0.8-1.7	3.4-3.9	3.4-4.4	3.5-4.5	3.7-4.7	4.0-5.0	4.0-5.0
Investments	8.8-9.3	6.6-6.8	11.4-13.2	11.4-13.2	13.2-15.2	13.6-15.6	13.8-15.8
Fixed Capital	4.7-5.4	6.6-7.1	11.8-13.2	11.6-13.2	13.5-15.2	13.9-15.7	14.1-15.8
Construction	3.4-4.0	5.1-5.5	11.8-12.8	11.0-12.0	12.1-13.0	12.9-13.9	13.0-14.0
Public	0.8-1.7	2.0-3.0	14.9-15.9	12.6-13.6	10.5-11.5	11.0-12.0	9.5-10.5
Private	4.5-5.4	6.0-7.0	10.0-11.0	10.0-11.0	13.0-14.0	14.0-15.0	15.0-16.0
Exports	3.4-4.4	8.2-9.2	13.0-14.0	11.0-12.0	10.0-11.0	13.0-14.0	11.1-12.1
Imports	7.0-8.0	11.7-12.7	14.5-15.5	12.2-13.2	11.2-12.2	14.1-15.1	12.1-13.1
PRODUCTION							
Agriculture, Fishery & Forestry	4.0-5.0	4.2-5.2	4.2-5.2	4.0-5.0	4.1-5.1	4.2-5.2	4.0-5.0
Industry	4.4-5.2	5.4-6.4	7.2-8.2	7.3-8.3	7.8-8.8	8.2-9.2	8.5-9.5
Mining & Quarrying	10.0-10.9	15.0-16.0	15.0-16.0	12.0-13.0	12.0-13.0	12.0-13.0	12.0-13.0
Manufacturing	4.5-5.3	5.0-6.0	6.1-7.1	6.6-7.6	7.2-8.2	7.5-8.5	7.8-8.8
Construction	2.4-2.9	4.8-5.8	12.5-13.5	10.8-11.8	11.1-12.1	11.9-12.9	11.8-12.8
Utilities	3.3-4.3	4.1-5.1	4.3-5.3	4.5-5.5	5.0-6.0	5.2-6.2	5.5-6.5
Services	5.7-6.6	5.7-6.6	6.5-7.5	6.9-7.9	7.1-8.1	7.1-8.1	7.2-8.2
Transport., Comm., Storage	9.5-10.4	9.7-10.7	10.0-11.0	10.0-11.0	10.0-11.0	9.5-10.5	9.5-10.5
Trade	5.6-6.5	5.7-6.6	6.2-7.2	6.2-7.2	6.5-7.5	6.7-7.7	6.7-7.7
Finance	5.7-6.4	6.0-7.0	6.5-7.5	7.0-8.0	7.0-8.0	7.0-8.0	7.0-8.0
O. Dwellings & R. Estate	3.3-4.2	4.0-5.0	5.0-6.0	6.0-7.0	6.5-7.5	6.5-7.5	6.5-7.5
Private Services	5.5-6.4	6.3-7.3	6.5-7.5	6.8-7.8	6.8-7.8	7.0-8.0	7.0-8.0
Government Services	2.2-3.1	(1.9)-(1.1)	2.5-3.5	4.3-5.3	4.0-5.0	4.2-5.2	4.5-5.5
Source: NEDA							
Memo Items:							
Inflation rate, target	4.0-5.0	4.0-5.0	4.0-5.0	3.0-4.0	3.0-4.0	3.0-4.0	3.0-4.0
Nominal GNP, in billion pesos	5042.5-5095.1	5571.5-5676.2	6157.0-6385.9	6763.4-7142.2	7441.7-8000.8	8198.1-8973.7	9032.3-10065.9
Nominal GDP, in billion pesos	4648.8-4732.4	5122.5-5265.7	5656.4-5922.3	6262.7-6682.1	6951.0-7557.8	7728.5-8563.1	8601.5-9711.6
Real per capita GDP, in pesos	13315.0-13425.7	13698.0-13939.6	14228.6-14615.5	14805.4-15350.6	15447.1-16165.5	16143.8-17052.1	16886.3-18002.5
Nominal per capita GDP, in pesos	54552.6-55533.9	58736.4-60344.3	63375.4-66355.0	68565.3-73156.5	74360.4-80851.5	80787.9-89512.2	87857.6-99197.1

Chapter 1

Trade and Investment

I. SITUATIONER

Investment and trade, among others, are essential to job creation. Modest investment spending is a key reason why unemployment has remained high at 11.4 percent.

Investment in the Philippines as a portion of gross domestic product (GDP) was 19.5 percent in 2003¹ and expected at 20.1 percent in 2004. Foreign investments have been slow in coming to the country. For example, the increase in foreign direct investment inflows from US\$1.43 billion in 2002 to US\$1.49 billion in 2003 was insignificant and did not reduce unemployment. This situation is a result of several factors, including the pull of investments towards China, weakening investor confidence due to concerns about fiscal sustainability, and structural problems such as peace and order and a weak infrastructure and logistics system. The latter, for example, has hampered the distribution of products.

Based on the World Competitiveness Report, the Philippines' ranking slid from 48 in 2001 to 56 in 2002 among the countries included in the Global Competitiveness Ranking (GCR). The high cost of doing business has hampered the competitiveness of the Philippines. Power costs are higher compared to China, Taipei, Korea, and Indonesia due to high distribution charges. (Philippine power rates, however, are lower than Singapore, Malaysia, Thailand, and India). At the same time, telephone and mobile phone charges were the highest among ASEAN member countries.²

Also, the limited government funding for infrastructure is adversely affecting the country's competitiveness. The Philippine infrastructure and capital outlay performance vis-à-vis other Asian countries is the lowest for the period 1998-2002, averaging a mere 3.3 percent of GDP. The poor quality of infrastructure is perennially cited as the main problem in the Philippines' global competitiveness.

Philippine exports also face stiff global competition as countries continually strive to improve their productivity and competitiveness. Exports (in dollar terms) grew by 2.4 percent in 2003 and 8.5 percent as of August 2004 while imports grew at 6.1 percent in 2003 and 6.9 percent as of July 2004.

While Philippine merchandise exports (in dollars) grew at an average of 19.2 percent in 1992-1997, export growth decelerated to 14.8 percent in 1998-2000 and further to -1.1 percent in 2001-2003. Philippine merchandise exports were affected by the meltdown in the IT sector in 2000. Exports have grown modestly in 2003 as global demand firmed up. The ADB's forecast of 8.5 percent growth of Philippine merchandise exports in 2004 is at par with Malaysia and five percentage points higher than Indonesia's, while Thailand and Singapore will post higher growth rates.

¹ Source: NEDA S-I Gap, computed using National Income Accounts data in 1985 constant prices

² Source: The 13th Survey of Investment-Related Cost and Comparison in Major Cities and regions in Asia, March 2003

The global economy, especially our major trading partners like the United States and Japan, is showing signs of recovery. China's strong growth is becoming a driving force for countries in the East Asia Pacific region.

We must seize these opportunities. We must expand our market shares and attract more foreign investments.

Table 1-1 Comparative Export Growth of Selected Countries

	1992-1997	1998-2000	2001-2003	2004
China	17.3	11.5	21.3	15
Hong Kong	11.5	2.3	3.7	6.8
Taiwan	9.5	7.4	-0.1	8
India	20	8.4	10.7	16.1
Vietnam	28.2	16.9	10.1	12
ASEAN				
Philippines	19.2	14.8	-1.1	8.5
Malaysia	15.4	8.9	2.6	8.6
Thailand	16.8	6.7	5.4	14
Indonesia	10.7	6.2	-0.6	3.5
Singapore	10.8	3.5	2.4	12.2

Source: ADB-ARIC, ADB Key Indicators 2003 & 2004

II. GOALS, STRATEGIES AND ACTION PLANS

A. Targets

Investment rate is targeted to increase from 19 percent to 28 percent of GDP in two years as a result of increased investment promotion activities. Increased spending on public infrastructure by PhP100 billion shall be pursued through greater private sector investments. Exports of goods and services are targeted to increase from US\$39 billion to US\$50 billion in two years or a minimum growth of 10 percent every year as the government focuses on priority areas such as ICT, automotive, electronics, mining, health care, and tourism. These are where the country has comparative advantage because of its human resources and geographic location and the revitalization of the power, airlines, and shipping industries.

The government will strengthen its program to support three million entrepreneurs and small and medium enterprises (SMEs) by providing credit, technology, and marketing assistance. Loans to self-employed small business owners will be tripled.

B. Strategic Measures

To strengthen and sustain our global competitiveness and create 10 million jobs, the government will focus on five strategic measures:

1. Make food plentiful at reasonable prices to make our labor cost globally competitive (Chapter 2: Agribusiness).
2. Reduce the cost of electricity to make the cost of running our machines and our manufacturing processes regionally competitive (Chapter 11: Power Sector Reforms).

3. Modernize the physical infrastructure and logistics system at least cost to ensure efficient movement of goods and people (Part 1, Chapter VI).
4. Mobilize and disseminate knowledge to upgrade our technologies and increase our people's productivity (Part 4, Chapter II).
5. Reduce red tape in all government agencies to reduce transaction costs (Chapter 21: Anti-Corruption).

C. Job Creation Thrusts

Job creation shall focus on the following:

1. High skill industries and services, namely, software, business processing outsourcing or BPO, contact centers, fashion garments, jewelry, medical services, automotive, electronics, health care;
2. Medium skill industries and services, namely, agribusiness (Chapter 2), mining (Chapter 3), tourism (Chapter 5), hotels and restaurants, entertainment; and
3. Simple skill industries and services such as construction, SMEs, micro-enterprise.

D. Policy Objectives

1. Promote investments in agribusiness.
2. Promote entrepreneurship and SME development.
3. Promote energy independence and savings.
4. Promote investments in infrastructure.
5. Promote investments in exports.

E. Action Plan

1. Agribusiness (Chapter 2)

2. Entrepreneurship

Micro, small and medium enterprises (MSMEs) play a significant role in our country's development. In 2001, MSMEs accounted for 99.6 percent of the country's total business enterprises (811,589) and generated a 69.1 percent share of total employment. While SMEs provide more jobs compared to large enterprises, they however, contribute only 32 percent of value added.

- a. Provide credit, technology and marketing support for three million MSMEs; and
- b. Empower existing SMEs to generate additional employment through increased lending and promotion of Big Brother-Small Brother program.

The SME Development Plan shall be implemented and the twin strategies of credit provision and product development shall be pursued. To triple loans to SMEs, access to various sources of financing shall be improved through the enhanced SULONG Program. The overall cumulative target of government financing institutions (GFIs) involved in the SULONG Program is expected to reach Php 309.98 billion by 2010 from a base of Php24 billion in 2004.

Trade and Investment

On a yearly basis, target loans shall be PhP24 billion in 2004; PhP28.80 billion in 2005; PhP34.56 billion in 2006; PhP41.47 in 2007; PhP49.77 in 2008; PhP59.72 billion in 2009; and PhP71.66 billion in 2010.

The participation of private financial institutions to promote and comply with the mandatory lending quota to SMEs shall be further encouraged. The legal impediments to the establishment of an SME Credit Bureau shall be removed. The establishment of an SME credit rating/scoring system shall be fast-tracked. The implementation and operation of the SME Capital Market shall be strengthened and venture capital financing shall be promoted.

Table 1-2 Targets to Triple SME Loans by 2010

Period	2004	2005	2006	2007	2008	2009	2010	Cumulative
Overall target	24.00	28.80	34.56	41.47	49.77	59.72	7.66	309.98
Projected total		29.16	33.39	38.00	43.17	48.93	55.37	
DBP	9.00	9.90	10.89	11.98	13.18	14.49	15.94	85.38
LANDBANK	9.00	9.90	10.89	11.98	13.18	14.49	15.94	85.38
NLSF	0.80	0.96	1.15	1.38	1.66	1.99	2.39	10.33
PHIL EXIM	1.20	1.44	1.73	2.07	2.49	2.99	3.58	15.50
SB. Corp.	2.50	3.60	4.32	5.18	6.22	7.47	8.96	38.25
QUEDANCOR	2.50	3.16	4.01	4.80	5.65	6.50	7.35	38.97
SSS	0.10	0.20	0.40	0.60	0.80	1.00	1.20	4.30
			Total including GSIS				55.37	273.12
GSIS*		1.00	1.20	1.44	1.73	2.07	2.49	9.93
			Total including GSIS				57.85	283.05

Notes:

Fixed annual growth rate of 20% at P24 billion base except for DBP, LBP and Quedancor

Assume GSIS can be tapped to support SULONG

The One Town-One Product (OTOP) Program shall be implemented. This involves the development and promotion of a product or service where a town has competitive advantage. The OTOP interventions include: provision of a comprehensive package of assistance to MSMEs and OFWs through a convergence of services by LGUs, NGAs and private sector in product/design development, skills and entrepreneurial training, marketing assistance and introduction of appropriate technologies. OTOP also promotes the Big Enterprise-Small Enterprise Program as a source of technology and market, ensures sustainability of the MSME through the industry clustering approach by capitalizing on complementation among towns within a province or a region. Technology based entrepreneurship shall be encouraged and supported (Sec. 7).

c. Tap returning OFWs as sources of capital;

OFWs shall be tapped to invest in micro and small income-generating projects and activities. The remittance profiling survey project for efficient remittance data collection shall be pushed. The evaluation of the Livelihood Development Program for OFWs (LDPO) shall be immediately implemented. Partnerships/linkages with other formal remittance channels (e.g., foreign banks and money couriers) shall be established. The government with support from the private sector will conduct a massive information campaign, through trimedia, Presidential foreign trips, consultations, dialogues and symposia to encourage OFWs/migrant to invest in SMEs, use formal channels of remittance and save in banks particularly in GFIs. The SME Development Plan will include OFW utilization to establish a clear and well-defined working relationship between Department of Trade and Industry (DTI) as support provider for OFW/SMEs and OWWA as caretaker of OFWs. The use of

formal channels for remittances will be promoted through incentive programs such as higher than prevailing interest rate in the market and other similar services offered by the informal network. The possible expansion of the formal banking branch network shall be studied to effectively link overseas workers with the remittance receiving families. Issuance of OFW bonds as savings and investments shall be explored. The SME Guidance Program shall continue its lending operations and venture capital funds and implement and expand the web-based marketing of SME receivables.

- d. Continue product development as part of technology support (Part 4, Chapter 2);
- e. Provide an environment conducive to MSME development.

The documentary requirements and processing time for registering BMBEs will be simplified and reduced. The Web-Enabled Business Name Registration System will serve as platform for one-stop centers to facilitate business registration and harmonize government frontline services delivery. An on-line Investment Registration and Monitoring System and Business Action Centers — where a comprehensive package of assistance to businessmen/entrepreneurs will be housed under one roof, shall be set up nationwide.

To spur the development of MSMEs, access to information on business opportunities, available raw materials, available sources of funds and latest technologies including product design shall be facilitated. LGUs shall be encouraged and supported in the establishment of SME Centers. Entrepreneurial culture will be developed and promoted by incorporating entrepreneurship in the educational curriculum (Part 4, Chapter 1). Labor productivity shall be enhanced and industrial peace promoted to ensure amiable relations between firms and workers (Part 1, Chapter 9).

Local government units (LGUs) shall implement city development strategies such as city investment promotion, problem-solving activities as well as the Bayanihan Savings Replication Project and the One Cluster-One Vision Project.

3. *Energy* (Part 2)

4. *Infrastructure* (Part 1, Chapter VI)

5. *Investments*

To sustain and generate investments, aggressive promotion campaigns shall be pursued especially in the identified priority areas that will support the country's job creation thrusts. Focused investment promotion in priority markets (e.g. US, Europe, Japan, Taiwan and Singapore) for the retention, expansion and diversification of existing investments shall be undertaken in cooperation with major foreign companies operating in the Philippines and other partners (e.g. foreign embassies, business chambers and associations, international organizations, etc.).

- a. Draw up a more focused incentives package with focus on priority areas:
 - Information Technology and IT-enabled Services Sector (See Item 7)
 - Automotive

The active participation of Philippine assemblers and parts producers in the ASEAN Industrial Cooperation (AICO) Scheme will be promoted and investments in automotive parts and components production for exports will be encouraged. The Board of Investments (BOI) and Philippine Exports Zone Authority (PEZA) shall work with the Bureau of Customs (BOC) for the implementation of policy and administrative reforms towards facilitating import and export transactions by automotive assemblers and parts and components manufacturers. The Auto Parts Industry Roadmap shall be implemented. A Center of Excellence that will support the development of the motor vehicle industry in terms of research and development (R&D), technology scanning, selection and adoption, provision of incubation program and extending facilities for SMEs in parts development will be established.

- Electronics

The value-chain structure of the industry will be strengthened to help promote high value added activities and improve the R&D and design and testing capability of the industry. The industry and academe will initiate the establishment and operation of a Center of Excellence that will provide facilities and training programs for skills development, technological upgrading, R&D and other productivity enhancement. It will also serve as a convergence center for industry leaders to keep the industry in pace with global technological advancements. The engineering curricula will be geared towards producing graduates with knowledge and skills responsive and relevant to the requirements of the industry. Global leaders in the electronics manufacturing services (EMS) and allied and support service-enterprises will be encouraged to locate in the Philippine to strengthen the industry supply chain and increase local value added. The procedures and requirements to encourage and facilitate business transactions between export-producers (particularly those operating inside economic zones) and local enterprises towards increasing local value-added will be simplified.

- Mining (Part 1, Chapter III)

The Mineral Action Plan shall be implemented.

- Healthcare and wellness

Foreign investments for the establishment of medical zones that will target foreigners as primary patients/clients will be promoted. The necessary policy and administrative reforms to facilitate entry and practice of foreign medical specialists in designated medical zones shall be looked into. The DOT in coordination with Philippine and foreign tour operators will promote and arrange tour packages aimed at developing a competitive medical tourism program for overseas corporate clients. The establishment and operation of retirement villages, whose foreign residents shall also serve as clients of the medical zones, shall be encouraged and supported to create jobs for Filipino doctors, nurses, caregivers and other workers and generate other business opportunities. Target sources of investments and clients are Japan, Korea, Taiwan, Pacific Islands, and Singapore.

- Tourism (Chapter V)

- Shipbuilding

Investments in the establishment of additional shipbuilding/ship repair capacities in the country for the production of ocean-going vessels, bulk-carriers, inter-island ships/ferries and catamarans for export and domestic shipping shall be encouraged and supported. The customer base shall be expanded through leveraged selling missions and business matching facilities. The Philippine Navy shall continue its collaboration program with the shipbuilding industry.

- Fashion garments (wearables)

The government will encourage investments in fashion garments to accelerate development of Philippine brands, franchising networks, fashion trend products and fashion forecast centers. The vertical specialization and vertical integration of manufacturing and service facilities between existing garment manufacturer and textile milling companies will be accelerated by providing financing assistance, management services, skills training and enabling legislation. The customer base shall be expanded through leveraged selling missions and business matching facilities.

- Jewelry

Investments in jewelry to develop products for middle- to high-end market shall be encouraged. Local manufacturers will be encouraged to diversify to fall and winter accessories for costume jewelry and expand to contemporary silver jewelry line. Programs envisioned to build and strengthen local institutions under specific legislations (e.g. Jewelry Industry Act) shall be implemented. Industry competitiveness shall be enhanced through design consultation programs and design competitions.

- Agribusiness (Food) (Chapter 2)

- b. Simplify Investment Registration Procedures

Ongoing efforts to further simplify procedures and requirements in registering investments will be continued. These include reducing the documentary requirements, processing time, steps and fees as well as the issuance of various certifications. There shall be a nationwide implementation of on-line registration and monitoring of investments.

6. Exports

To attain the US\$50 billion export target by 2006, the industry shall move toward expanding the export base by tapping new markets, developing more competitive export products and services and maximizing opportunities through bilateral and multilateral agreements. Toward this direction, the following activities shall be undertaken:

- a. Maximize exports and investment opportunities offered by trade agreements;

The Philippines will continue to participate in and conclude various international trading arrangements, among others, the Japan-Philippines Economic Partnership Agreement (JPEPA), the ASEAN Priority Integration Program (PIP) and the ASEAN-China Free Trade Area under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People's Republic of China.

Discussions on economic cooperation initiatives through the Asia-Europe Meeting (ASEM) will be continued while pursuing aggressively the European market. Possible trade agreements with other major trading partners including the US, Taiwan, South Korea, India, Canada, and Australia-New Zealand will be initiated. Studies to identify advantages and disadvantages of these agreements shall be conducted in consultation with various stakeholders.

Development programs and activities in Mindanao and Palawan aimed at taking advantage of trade and other opportunities in the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) will be pursued. The external trade and marketing activities from Mindanao and Palawan to focus areas in BIMP-EAGA and its ASEAN Dialogue partners such as China, Japan, Korea, India and Australia shall be promoted and intensified. SME development activities in Mindanao and Palawan shall be coordinated and integrated to enhance trade in BIMP-EAGA. Technical assistance will be provided to facilitate and enhance Philippine participation in BIMP-EAGA activities. The Mindanao and BIMP-EAGA database will be updated and maintained.

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

Export promotion will focus on the following priority markets: US, China and Hong Kong, Japan, ASEAN, European Union, Taiwan, Australia-New Zealand, South Korea, India, Canada, United Arab Emirates and Kingdom of Saudi Arabia. The Philippine Export Development Plan (PEDP) for 2005-2007 will elaborate on this.

A market-driven export promotion campaign will be undertaken for the following Philippine export products/services in addition to the priority areas where investments will be promoted.

- (i) Marine Products:
 - Advocate compliance with standards for fresh and marine products;
 - Embark on an intensive marketing promotions of value-added marine products through informational campaign and participation in trade shows;
 - Promote product development for seaweed and carageenan;
 - Promote branding of Philippine marine products as quality products through country of origin logo;
 - Pursue bilateral fisheries agreements to gain market access to fishing grounds for tuna and to reduce tariff and nontariff barriers to marine products; and
 - Promote new investments in cold storage facilities to assure continuous supply of fresh and frozen marine products.
- (ii) Construction Materials/Services:
 - Tap well-known construction consultants in promoting construction materials and construction contracting services;
 - Strengthen existing construction industry associations;

- Encourage local contractors to undertake overseas projects by providing appropriate incentives; and
 - Promote compliance with internationally-recognized products and services standards to ensure that construction materials are globally competitive in quality.
- (iii) Gifts, Toys, Housewares and Holiday Decors
- Continue providing technical assistance to private entrepreneurs and product development to keep them in pace with trends in world markets; and
 - Participate in key international trade fairs and undertake trade missions to important target markets to promote Philippine products.
- (iv) Home Furnishings
- Continue experimentation and R&D on new materials and material application;
 - Promote investments in the metalworking and plastics sectors for the production of parts and components of home furnishings and furnitures;
 - Set up special international events through trade fairs and selling missions;
 - Support a National Country Imaging Program to sustain promotional strategies and market share;
 - Establish aggressive market intelligence network for primary and emerging markets; and
 - Provide integrated development assistance to improve production efficiency.
- (v) Logistics Services
- Focus on investment promotions to make RP the prime logistics hub in Asia; and
 - Develop Clark-Subic as the best logistics and service hub in the region (Part 1, Chapter VI).
- c. Simplify export and import procedures and facilitation

The import and export documentation and clearance procedures will be automated to improve efficiency, transparency and accountability. Unnecessary administrative and legal barriers that hamper semiconductor and electronics exports will be dismantled. An electronic business facilitation platform will be developed to facilitate business matching and eventually, export transactions.

- d. Maintain existing and develop more competitive export products and services and diversify markets

The US\$150 billion Halal market will be tapped using the United Arab Emirates and Kingdom of Saudi Arabia as gateways. Philippine food products shall be exported to areas with significant OFW presence.

Product standards will be aligned with international standards. The government shall maintain its membership with the Pacific Accreditation Cooperation and International Accreditation Scheme for Quality Management System (QMS) to ensure international recognition of Philippine QMS certificates. Likewise, it shall pursue participation and negotiation of bilateral/multilateral recognition arrangements on conformity assessment activities (testing, certification, etc. especially on products that are regulated by foreign countries).

The country shall intensify commercial intelligence to cover market information, competitor intelligence and potential and existing barriers to Philippine exports. In areas where there are no trade posts but are potential markets, the diplomatic mission shall conduct trade promotion and commercial intelligence.

e. Legislative Agenda

As part of the SULONG program, and to further promote entrepreneurship, the amendment to the Magna Carta for SMEs (RA 6977 as amended by RA 8289) shall be pushed. To simplify and streamline import and export procedures, the Export Development Act shall be amended. Presidential Decree (PD) 930 which simplifies export procedures by realigning functions of certain government offices/agencies involved in processing export documents shall be repealed. Likewise, Executive Order (EO) 1016 withdrew the inspection, commodity and export clearance requirements on Philippine exports shall be repealed. The amendment of EO 226 or the Omnibus Investment Code of 1987 shall be pursued to rationalize the investment incentive system (Part I: Chapter 7).

7. *Information and Communications Technology (ICT)*

The Philippines faces a massive task of adjustment and catch-up to derive the most from ICT. Hence, the need to further develop and enlarge the ICT sector in order to take advantage of the skill level, availability and comparative costs of the country's technical skilled manpower (Part I: Chapter IV, Section 2, and Part IV: Chapter II). Developments in ICT offer vast opportunities for the country, especially in shared services or back-office operations, animation and software development and technical support.

McKinsey and Company recently identified 11 white-collar services — with an estimated demand worth US\$180 billion by 2010 — that the mature economies can profitably outsource, and which the Philippines is well positioned to supply. Through the information highway, Filipinos can help reduce the overhead cost of service industry multinationals without their going overseas.

The possibility of generating wealth from high-end technology (Part I: Chapter I Section 6) must be continuously explored, with new emphasis on biotechnology (Part IV: Chapter II), as part of the program to build a knowledge economy.

Hence, for the Philippines to become an active player in the global knowledge economy, the government, in close partnership with the private sector, including civil society, shall harness the full potentials of information and communications technology (ICT), especially in bringing investments into the country.

This can be done through the following:

a. Rationalize incentive packages

To further attract investors, more competitive incentive packages with focus on ICT shall be made available. Existing or new investment incentive packages will be rationalized under a single-agency incentives granting program to attract more ICT businesses and other long-term direct investors and locate their operations in the country.

b. Improve ICT manpower

For the five priority areas for ICT services (Contact Centers, Animation and Software Development, Medical Transcription, Business Process Outsourcing, Engineering and Design Services), the industry shall establish a human resource development program to ensure a steady supply and adequate pool of qualified IT executives and workers.

- Math and Science curriculum in the primary, secondary and tertiary levels shall be enhanced.
- Industry-academe initiatives in increasing number of MS and PhD graduates in Math, Engineering and Computer Science courses shall be encouraged.
- State universities and colleges, private universities and technical-vocational institutions shall offer specialized ICT degree programs and shall include specialized ICT courses in their curricula.
- Internationally recognized ICT certification programs for individuals/professionals and organizations/institutions shall also be implemented. Software enterprises will be encouraged to acquire Capability Maturity Model Integration (CMMI) certification to enhance marketability. (Chapter 6 Section B, and Chapter 18).

c. Conduct investment promotions and foreign missions

An aggressive ICT-focused investment promotion program shall be undertaken for the five priority ICT services, while trade attaches and foreign service officers assigned abroad will be tapped for these investment promotion activities. Active participation in trade fairs, expositions, e-services fora, and job fairs in and outside the country shall be encouraged and regular ICT investment promotion missions shall be conducted.

d. Legislative actions/recommendations

In support of these efforts to promote the country as a global knowledge player and ICT services provider, the government will undertake the necessary legal and regulatory reforms.

- The Department of Information and Communications Technology (DICT) shall be created to ensure effective coordination and implementation of the national ICT agenda. The proposed DICT shall be the primary policy, planning, coordinating, implementing, and administrative entity of the executive branch of the government responsible for the promotion and development of the country's ICT industry.
- The National Telecommunication Commission (NTC) shall be transformed as an independent regulatory body, with the commission members given a fixed term of office to insulate them from political and other outside pressures, and equipped with clearly defined mandates and the necessary resources to effectively carry out their decisions.
- The government will continue to exploit the use of ICT as a tool to improve access to and delivery of government services. This effort shall be supported by enacting

supporting laws and policies such as the institutionalization of the e-Government Fund to meet the requirements of major ICT projects of the government.

- A National Information Security Plan shall be developed and adopted by 2005, which shall lead to the enactment of a Network Information Security and Privacy law. This shall be pursued to develop a trustworthy legal environment that ensures privacy of data and other information, resulting in higher trust and confidence in the Philippine ICT environment.
- Security measures will be implemented to protect the integrity of the digital infrastructure networks, information and communications, including commercial, official and personal transactions. A Cybercrime and Cyberfraud Prevention law shall provide the legal basis for enforcing security measures and protecting the general public interest.
- A Freedom of Information law shall provide clear guidelines on: (1) public access to government data; (2) sharing and exchange of information among government agencies; and (3) the use of information obtained under this law by the recipient-government agency or private sector.

Chapter 2

Agribusiness

I. SITUATIONER

Agriculture is the bedrock of the rural economy. It is in the rural areas where most Filipinos, including the country's labor force, live. A majority of them are poor. Agriculture is the major source of raw resources on which the rest of the economy depends. It accounts for 20 percent of the gross national product, or one-fifth of the economy, while one-third of the population is employed in agriculture or agriculture-related industries.

Production targets exceeded and farm incomes raised...

During the past three years, the agriculture sector saw consistent growth of no less than 3 to 4 percent annually. In fact, most of the key Medium-Term Philippine Development Plan (MTPDP) 2001-2003 agriculture and fisheries production targets have been exceeded in spite of the challenges posed by the El Niño and La Niña phenomena during the period (Table 2-1). This is a testimony to the sector's resiliency and better preparedness in meeting these recurring climatic pressures. This better-than-expected growth performance largely came from fisheries, the major crops, and poultry. Their strong growth more than offset the shortfalls posted by corn, other crops and livestock, which, nevertheless, posted positive and respectable growth during the period. Farm incomes also generally improved during the period especially since the growth in production coincided with generally favorable price movements. As a result, the sector created a total of 1.04 million jobs, or 346,000 jobs per year during the first Arroyo administration.

... but not enough to improve international competitive position

There was, however, not much improvement in overall labor productivity in the sector. Comparative yield, production cost and price data on various agricultural commodities show that the gains posted by the country were hardly apace with those of its neighbors. Thus, the comparative advantage of Philippine agriculture continued to wane resulting in it increasingly becoming a net importer of agricultural products since 1994 (Figure 2-1).

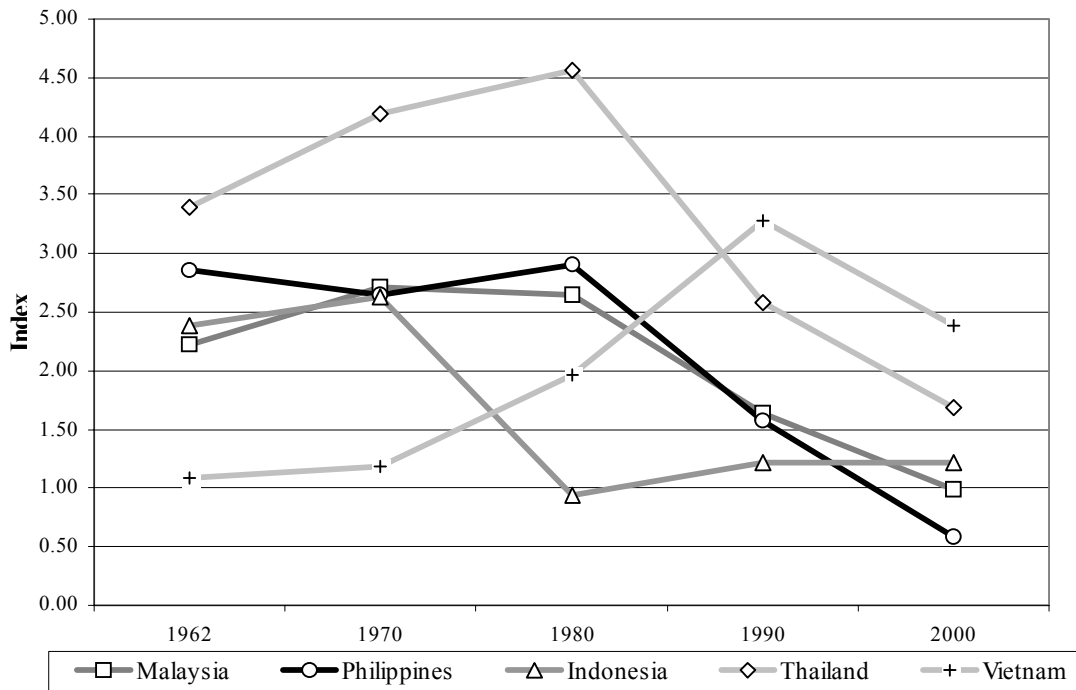
A major reason for this is the higher cost of farm inputs and poor access to recommended packages of technologies. For instance, prices paid for the various fertilizers used by Filipino farmers were nearly double that of the world price (Table 2-2). This may be partially due to possible monopolistic pricing since more than half of the supply of fertilizers in the market comes from a single company. There may also be cumbersome as well as inefficient application of regulatory procedures and requirements, thus, inordinately adding to the production and distribution costs of fertilizers. Consequently, there may be a need to evaluate the effectiveness in which the responsible regulatory agencies are overseeing the market for agricultural inputs. Other factors may include inefficiencies in farm inputs logistics systems and the devaluation of the peso. The same situation most likely exists for pesticides and other agricultural chemicals given that they operate within the same regulatory and logistics environment.

Table 2-1 Gross Value Added in Agriculture, Fisheries and Forestry by Commodity, 2001-2003
 (Actual vs. Targets, growth rates in percent)
 (at 1985 prices)

COMMODITY	2001		2002		2003		Average 2001-2003	
	Actual	Targets	Actual	Targets	Actual	Targets	Actual	Targets
Agriculture Industry	4	3.4	1.9	1.6	3.7	1.6	1.9	1.6
Agricultural Crops	2.6	3.6	2.7	2.7	4.7	3.2	3.3	2.8
MAJOR CROPS	3.5	2.5	3.3	2.1	2.8	2.7	3.2	2.3
Palay	4.6	2.2	2.4	1.5	1.7	2.3	2.9	2
Corn	0.3	2.3	-4.6	2.8	6.9	3.1	0.9	2.5
Coconut	0.6	1.5	6.1	2	1.8	2	2.8	1.8
Sugarcane	3.8	1.5	4.9	1.5	13	1.5	7.2	1.5
Banana	2.6	1.5	4.3	1.5	1.7	3	2.9	2.5
OTHER CROPS	1.9	2.9	3	4	2.2	4.7	2.3	4
LIVESTOCK	2.9	3.4	4.5	4.2	3	4.6	3.5	4.2
POULTRY	7.7	3.8	6.1	4.5	1.8	4.9	5.2	4.5
FISHERIES	5.8	4.1	6.5	3.2	7.4	4.8	6.6	4
FORESTRY	-27.3	None	-27.4	None	23.2	None	-10.5	None
FORESTRY	3.7	None	3.8	None	3.8	None	3.8	None

Source: NSCB (as of August 2004), MTPDP 2001-2004

Figure 2-1 Comparative Advantage in Agriculture of Five Southeast Asian Countries



Source: FAOStat (lifted from Yellow Paper by Dr. Eliseo Ponce and Dr. Cristina David, 9 June 2004)

In addition, there is limited access to certified high-yielding varieties due to supply and distribution constraints. There are relatively few farmers willing and able to grow certified rice seeds, for instance, partially due to inadequate knowhow and skills as well as technical support. As a result, seed cost here is higher than in Thailand, Vietnam, India and China.

Another factor is the high postharvest losses incurred by the country due to inadequate equipment, infrastructure and poor postharvest handling practices. For instance, although the Philippines has a higher average rice yield than Thailand (3.2MT/ha vs. 2.4MT/ha), its rice postharvest losses reach as high as 34 percent while Thailand's have been only around 15 percent.

... not enough to ensure long-term sustainability

The sustainability of even these modest production and income growths also appears to be uncertain as well. The country's environment and natural resource base, which largely determines the sustainable rate at which agriculture can grow, continue to generally degenerate. Various indicators show that the sustainability of the environment and natural resources continue to be either poor or low (Table 2-3).

... not enough to improve overall rural welfare

Moreover, the output and income gains achieved during the period have yet to be translated into significant and commensurate rural sector-wide welfare gains. In spite of the more than a million jobs generated by agriculture over the three-year period, rural unemployment and underemployment continue to be severe as over 1 million and 3 million rural workers remain to be unemployed and

**Table 2-2 Comparative Fertilizer Prices
by Major Grade, 1991-2003 (US\$ per 50 kg bag)**

Year	Urea		% Diff. **	Di-Ammonium phosphate-DAP (18-46-0)		% Diff. **	Muriate of Potash or Potassium Chloride (0-0-60)		% Diff. **
	Phil.	World*		Phil.	World*		Phil.	World*	
1991	12.6	8.4	33.3	16.1	8.4	47.5	11.3	5.4	52.5
1992	11.5	6.6	42.6	16.1	6.8	57.6	11.1	5.2	52.6
1993	9.3	5.1	45.2	13.5	6.2	54.2	9.8	5.2	47.3
1994	11.6	6.7	42.5	14.1	7.8	44.2	9.5	4.8	49.7
1995	14.5	8.8	38.8	15.4	9.1	41.0	10.1	4.9	50.9
1996	14.4	9.0	37.6	15.62	9.4	40.1	10.7	5.2	51.8
1997	11.7	6.8	41.9	14.4	9.3	35.3	8.3	5.4	35.1
1998	8.9	-	-	11.4	10.2	11.4	8.3	5.8	29.8
1999	8.0	3.9	51.4	13.0	8.9	31.4	9.2	6.1	33.3
2000	8.3	5.6	32.3	11.7	7.7	34.0	8.6	6.2	28.3
2001	8.6	5.2	39.2	10.8	7.4	31.7	8.5	5.9	30.8
2002	8.2	4.7	42.9	10.9	7.9	27.8	8.9	5.6	36.7
2003	9.9	6.9	29.7	12.0	8.9	25.4	9.1	5.6	38.0

Sources: Reports from PPA Regional/Provincial Officers; PIDS Agriculture Database; World Bank; Oanda Exchange Rates

* Computed by converting world price per metric ton to price per 50kg bag. This, however, does not take into account the intermediaries in the market which leads to higher retail prices

** % Difference = $\frac{\text{Philippine Price} - \text{World Price}}{\text{Philippine Price}} \times 100$

underemployed, respectively, every year (Table 2-4). In fact, the number of jobs generated by agriculture during the past three years was virtually the same as those it created during the early 1990's when its average annual growth in production was less than half of what it is now. Hence, the employment impact of the present surge in production has, so far, been relatively minor. Thus, poverty and inequity have remained problems in the countryside.

The high rate of unemployment and underemployment in the countryside can be attributed to the seasonal nature of agriculture coupled with the relatively low level of cropping intensity and diversification. For instance, monocropping coconut farmers are gainfully employed for only about 50

Table 2-3 Indicative Environmental Sustainability Rating

ENR INDICATOR	INDICATOR VALUE	INDICATIVE THRESHOLD/ STD	INDEX RATING	INDEX RATING CLASS	SUSTAINABILITY RATING CLASS
Forest Cover ¹	34	50%	2	Poor	Low sustainability
Soil Erosion Extent ²	46	50%	3	Fair	Fair sustainability
Extent of Air Pollution ³	50	20%	1	Bad	Very low sustainability
Extent of Water Pollution ⁴	15	20%	3	Fair	Fair sustainability
Overall Index rating	-	-	2.07	Poor	Low sustainability

Source: Draft Framework Plan for Environment and Natural Resources (ENR) Management, 2002, DENR

¹ % forest cover in total forestlands

² % of total eroded areas suffering from moderate to severe erosion

³ % of total number of monitoring stations in Metro Manila exceeding standards for TSP

⁴ % of total number of water bodies surveyed which are polluted

Table 2-4 Unemployment and Underemployment, 1997-2002

YEAR	RURAL			
	Unemployment		Underemployment	
	Level (in M)	Rate (%)	Level (in M)	Rate (%)
1997	0.9	5.6	2.3	18.3
1998	1.1	6.7	2.3	18.2
1999	1.2	7.1	2.5	18.8
2000	1.1	7.0	3.8	24.9
2001	0.9	5.4	3.1	20.0
2002	1.3	7.5	3.2	20.3

Source: NSCB, NSO

days in a year. In addition, off-farm and nonfarm employment generation were also insufficient to absorb the excess agricultural labor due to inadequate entrepreneurship and investments in the countryside as well as lack of marketable skills. It should be noted that more than half of the rural labor force did not even finish elementary education.

Sector agency performance did not seem to have much influence on sector performance...

In contrast with the sector's performance, the key national government agencies in the sector have generally underperformed in terms of achieving their key targets and commitments under the MTPDP. A notable exception is the Department of Agrarian Reform (DAR) which met most of its Plan targets. However, considering that the DAR's constituencies account for only a portion of all the farmers and fisherfolk in the sector, not all of whom were reached by its interventions, DAR programs may not have had much impact on the entire sector. For instance, only about 22 percent of the agrarian reform beneficiaries (ARBs) were able to access support services by the end of 2003.

Moreover, although there appears to be positive local impact by the different government programs, the extent and degree in which these gains have been successfully upscaled and replicated throughout the sector were, however, hard to discern.

...due to lingering absorptive capacity constraints

Although improvements have been noted in recent years, various operational and allocation efficiency indicators show that a significant margin for improvement still needs to be addressed by the three major sector agencies, the Department of Agriculture (DA), Department of Environment and Natural Resources (DENR) and DAR. For instance, financial performance indicators of the agencies' official development assistance (ODA) portfolio show that disbursement and availment rates have been below the bureaucracy average except for DAR. In the case of the DA and DENR, the low disbursement and availment rates for ODA portfolio were attributed to some major institutional and operational bottlenecks. The DA, in particular, was constrained by policy uncertainties, inefficient and ineffective utilization of funds due to delays in the preparation of financial reports as well as slow release of counterpart funds for project operations, among others.

...governance and institutional weaknesses

These weaknesses can be seen in (a) continuing over-centralization, (b) fragmented and overlapping functions and activities, (c) an inflexible commodity-based organizational structure, and (d) a highly politicized, unstable and underequipped national bureaucracy.

Meanwhile, agricultural extension service delivery as well as communal irrigation development and management were generally disrupted when these were devolved from the national government (NG) to the local government units (LGUs) with the passage of the Local Government Code (LGC) in 1991. Many LGUs lacked preparation, capacity and funding to effectively take over these functions.

...apparent lack of strategic focus of programs and projects

The sector agencies undertook a very broad range of direct interventions which seem to have spread thinly their very limited resources. In addition, most of these interventions do not appear to have been catalytic given their lack of sector-wide impact. The banner programs in agriculture, for instance, directly provided inputs and equipment (e.g., farm implements, machineries, postharvest facilities) that constitute a very small portion of the total requirement of the sector. This underscores the need for government to focus more on its "steering" (i.e., provision of a conducive policy and regulatory environment as well as facilitation services) rather than its "rowing" activities. Given its very limited resources, direct interventions should be limited to those with proven high multiplier effect and those with sector-wide rather than just localized impact.

II. GOALS, STRATEGIES AND ACTION PLANS

Poverty in the Philippines is essentially a rural phenomenon. In terms of both level and incidence, the magnitude of poverty is highest in the rural areas where agriculture serves as the economic base. Since agriculture plays such a major role in the generation of incomes and employment in the countryside, the development of the sector is, therefore, essential to any antipoverty program.

However, agriculture has had very limited impact, so far, in reducing rural unemployment,

underemployment and poverty. For a long time, agricultural production has grown less than the growth of the population. Agricultural productivity improvements have also not been sufficient to reduce food prices to regional levels. Thus, a large part of Philippine agriculture continues to operate at a mere subsistence level. Moreover, because of the highly seasonal nature of agriculture, its vulnerability to price fluctuations and the generally low prices offered to its raw products, it cannot by itself substantially alleviate rural unemployment, underemployment and poverty.

What is needed, therefore, is a more holistic approach in reducing rural poverty that will not only address the production bottlenecks in agriculture but also its inherent vulnerabilities. This approach calls for the promotion of agribusiness. This will not only address agricultural production constraints but also post-production handling, value-adding, and distribution concerns, all of which are the major and inter-connected determinants of job creation and income stability in the countryside.

The agribusiness approach to countryside development has two main goals: (a) to expand substantially the production base, and (b) to raise productivity that is parallel with the regional norm. The expansion of the production base involves breaking out from subsistence agriculture by increasing and diversifying the marketable surplus of the farm. However, raising agricultural and fishery production have not automatically and consistently led to increased farm incomes. Often, more production meant surpluses that depress farm gate prices. Meanwhile, lower farm gate prices also do not automatically lead to lower food retail prices. It appears that an inordinate share of the benefits from higher production goes to middlemen. Thus, productivity will have to be raised to increase production and distribution efficiencies. These will, in turn, translate to higher farm incomes but will keep food accessible and its prices affordable. To achieve these, governance and institutional reforms must be undertaken to ensure that efficiency gains will indeed result in commensurate farmer and consumer welfare gains.

In view of these, government will aim to (1) develop at least two million hectares of new agribusiness lands within the next six years in order to create at least two million jobs, or one job per hectare; and (2) make food plentiful at competitive prices where the cost of priority “wage goods” such as rice, sugar, vegetables, poultry, pork and fish, and other important non-wage goods like corn must be reduced.

The development of two million hectares of new agribusiness lands means that the country will not merely improve but also substantially expand existing agri-based production systems. This will entail expanding the effective production areas for agriculture and fisheries by (a) increasing production intensity as well as diversification in existing crop, livestock and fishery farms (e.g., intercropping, multiple-cropping, integrated farming), (b) cultivating idle and marginal lands such as planting fruit trees in denuded upland areas, and (c) engaging in fishery production in idle off-shore and inland waters. This will also entail expanding the product mix grown within the agribusiness lands to include: (a) adopting new and/or reconfiguring existing agricultural and fishery production systems to be able to tap emerging markets with vast potentials, including the US \$150 bn global Halal food market, (b) a large-scale program of non-traditional high-value crops in farms and fisheries, and c) value-adding through innovative packaging and agri-processing technologies, among others.

High-value farm crops, vegetables and fruits have much higher yields and income potential than the traditional staple crops of rice and corn. Additionally, a program of aquaculture in the coastal areas and inland waters, with thousands of fish cages in the seas of Luzon, Visayas and Mindanao, growing and culturing sea bass, grouper, pompano, milk fish, cobia, freshwater and saline *tilapia*, red snapper, sea bream, etc., have assured markets in the frozen and “live” fish markets of China, Hong Kong,

Japan, Taiwan, Singapore, the U.S. and Europe with significant foreign-exchange earnings, high profit and job-creating potential. Meanwhile, the promotion of agri-processing means that government will also encourage the creation and expansion of related off-farm and nonfarm enterprises so that the production system of farmers will not be confined to farming. This will further reduce unemployment and underemployment as well as diversify, increase and stabilize farmers' incomes. All these initiatives will result in the creation of a new class of farmers and fishers.

Making food plentiful at competitive prices involves raising, to at least region-level norms, the efficiency in which the country will produce and distribute its agribusiness products, especially the wage goods. This will entail three sets of measures: (a) production support to enhance farm and fishery productivity; (b) logistical support to raise distribution efficiency; and (c) governance and institutional support to provide a policy and regulatory environment conducive to efficient production and distribution of agribusiness commodities. These will also ensure that the reduction in production and distribution costs due to the productivity and logistics measures will indeed result in commensurately higher farm incomes and lower food prices. The first set of measures involves addressing the constraints to high yields and low production costs. The second set focuses on post-production handling, marketing, and distribution problems that lead to high agricultural input and food retail costs; while the last set addresses policy and regulatory bottlenecks to efficient agricultural production and distribution as well as competitive food prices.

Goal 1: Develop at least 2 million hectares of new land for agribusiness in order to contribute 2 million out of the 10 million jobs targeted as a legacy by 2010.

A. Design and establish the framework and mechanisms, including public-private partnership arrangements, by end 2005, that will facilitate the transformation of farmlands into agribusiness enterprises

It should be noted that there are existing policies that touch on agribusiness development which can serve as starting points for this set of activities. These include Title 4: Rural Nonfarm Employment of the Agriculture and Fisheries Modernization Act (AFMA) and Republic Act (RA) 7905: The Agrarian Reform Communities (ARC) Development Framework.

1. Identify and prioritize two million hectares of new farmlands for agribusiness (to be done individually and collectively by the DA, DAR and DENR)

Programs and Activities:

- a. Complete the identification, validation and prioritization of new lands for agribusiness by June 2005 to cover the following:
 - a.1. Underutilized farm lands which can be made more productive through increased cropping intensity, intercropping and diversification;
 - a.2. Idle and marginal lands, including denuded upland areas; and
 - a.3. Idle off-shore and inland bodies of water for aquaculture

Table 2-5 shows the initial six-year targets for the development of agribusiness lands by the DA and the corresponding jobs to be generated.

- b. Complete the identification, validation and prioritization of prime and semi-prime agrarian reform lands and adjacent areas for agribusiness development, in coordination with the DA, by 2005
- c. Complete surveys, classification and distribution of at least 760,080 hectares of public

Table 2-5 Six-Year Targets for Areas for Agribusiness Development and Productivity Improvement and Jobs

Commodity	New areas for agribusiness development (has.)	Number of jobs to be generated	Existing areas for productivity enhancement (has.)	Number of jobs to be generated
RICE	-	-	875,130	80,860
CORN	280,250	280,250	-	-
LIVESTOCK	45,200	45,200	-	-
FISHERIES	17,210	743,540	-	-
<i>Bangus (culture)</i>	3,190	86,260	-	-
<i>Tilapia (culture)</i>	8,200	221,450	-	-
<i>Seaweeds</i>	5,820	201,360	-	-
<i>Others* (mariculture, etc)</i>	-	234,470	-	-
HIGH VALUE CROPS (FOOD)	292,690	329,670	214,780	214,780
<i>Pineapple</i>	1,520	1,900	-	-
<i>Pili</i>	850	1,120	-	-
<i>Sugar</i>	20,410	20,410	-	-
<i>Coffee</i>	9,440	9,440	56,420	56,420
<i>Mango</i>	130,170	130,170	-	-
<i>Durian</i>	8,510	8,510	22,090	22,090
<i>Banana</i>	72,840	72,840	-	-
<i>Onion</i>	-	-	2,680	2,680
<i>Cassava</i>	15,590	15,590	48,420	48,420
<i>Citrus</i>	390	390	11,680	11,680
<i>Vegetables</i>	26,730	63,060	73,490	73,490
<i>Garlic</i>	6,240	6,240	-	-
HIGH VALUE CROPS (NON-FOOD)	1,412,050	1,412,050	170,340	170,340
<i>Abaca</i>	50,390	50,390	29,940	29,940
<i>Rubber</i>	11,660	11,660	83,900	83,900
<i>Coconut**</i>	1,350,000	1,350,000	-	-
<i>Tobacco</i>	-	-	56,500	56,500
GRAND TOTAL	2,047,400	2,810,710	1,260,250	465,980

*Equivalent hectares cannot be determined due to varying sizes of sea cages

**Areas which will be developed for intercropping with suitable cash crops and/or high value crops or used for livestock production.

- alienable and disposable lands by 2010 in order to open up additional areas for production and job generation
2. Mobilize, organize and build capacities of farmers and fishers for the establishment and management of production, processing and marketing cooperatives in the priority agribusiness lands

Programs and Activities:

- Capacity building for farmers and fishers and their organization through social infrastructure (organization building and strengthening; provision of technical and vocational education) and enterprise development support to manage and sustain viable operations of organizations and businesses in identified agribusiness lands
3. Form and build capacities of national and location-specific strategic alliances among the national and local governments, business groups/industrial chambers, and farmer groups to broker and facilitate farm-firm linkages (e.g., joint economic enterprises and subcontracting arrangements such as, but not limited to, poultry, vegetables and export winners)

Programs and Activities:

- a. Marketing assistance and facilitation services such as promoting vertical and horizontal integration to shorten the supply chain and increase the efficiency of agribusiness logistics, promoting market-driven or demand-led production systems to improve profitability of farming and processing operations
- b. Sustainable agribusiness and rural enterprise development (Capacity building for cooperative management including forging contracts for joint economic ventures and subcontracting arrangements among farmers, landowners and business groups; and operationalization and strengthening of Farmers Centers under the KALAHI-CIDSS or Kapit-Bisig Laban sa Kahirapan Comprehensive and Integrated Delivery of Social Services Project
- c. Access facilitation and enhancement services (Conduct of regular fora and trade fairs for farmers, fishers and business groups; and establishment of marketing information systems)

B. Organize a large-scale community-based and environment-friendly program of crop and fishery production intensification and diversification, especially high-value and non-traditional commodities in existing crop, livestock and fish farms.

Programs and Activities:

- a. Agricultural production intensification (inter and multicropping) and diversification programs (especially non-traditional high-value crops including fruits and vegetables)
- b. Crop (especially for rice, corn and coconut), livestock and fishery integrated

farming systems program, as well as agro-forestry

- c. Aquaculture enterprise program (sea cage culture of various species such as sea bass, grouper, pompano, milk fish, cobia, freshwater *tilapia*, red snapper and sea bream) as well as sustain seaweed farming in non-traditional areas

C. Transform idle agricultural lands, offshore and inland bodies of water as well as marginal lands into productive agribusiness enterprises to fully utilize existing agriculture and fishery resources

Programs and Activities:

- a. Crop and livestock integrated farming systems program
- b. Aquaculture enterprise program (sea cage culture of various species such as sea bass, grouper, pompano, milk fish, cobia, freshwater *tilapia*, red snapper and sea bream) as well as sustain seaweed farming in non-traditional areas
- c. Expand support service delivery in marginal lands for productive agribusiness and food security purposes
- d. Reforestation through agroforestry (*Refer to Chapter 3: Environment and Natural Resources for details*)
- e. Promotion of more diversified cropping systems for non-timber and non-forest products in suitable areas as means of livelihood for upland settlers
- f. Development of community-based forest management (CBFM) areas as agribusiness enterprises

D. Promote off- and nonfarm enterprises (including agri-processing) in the agribusiness lands to increase and stabilize rural income

Programs and Activities:

- a. Farm income diversification and market development program
- b. Small and micro-enterprises development program to include facilitating access to credit support, among others
- c. Sustainable agribusiness and rural enterprise development
- d. Harnessing of the biodiversity potential for livelihood activities (e.g., ecotourism, pharmaceutical, essential oils)
- e. Social infrastructure and local capability building services such as provision of training and education to enhance entrepreneurial capacities of individual farmers, fishers and their organizations and promotion of grassroots enterprise development

- f. Operationalization and strengthening of KALAH I Farmers Centers for wider dissemination of technologies and promotion of rural entrepreneurship; and facilitation of access of farmers, households and organizations to affordable credit, market and other extension services

E. Make Mindanao as the country's main agro-fishery export zone

The full potential of Mindanao as an agribusiness hub has yet to be tapped. Its strategic location within the East Asian region makes it potentially a major transshipment point and center of trade in the region. With almost a third of its land devoted to agriculture, it accounts for over 40 percent of the Philippines' food requirements and contributes more than 30 percent to the national food trade. With rich agricultural resources supported by a generally fair tropical climate, Mindanao hosts a wide variety of economic activities and investment opportunities. Some of these are focused in the agribusiness and fishery sectors. Following are some of the investment opportunities for these sectors.

For Agribusiness:

- Fruit and vegetable production and processing
- Feed milling
- Animal production
- Meat processing
- Snack food manufacturing
- Ornamental horticulture
- Industrial tree plantation (oil palm, rubber)

For Fisheries:

- Aquaculture
- Fish processing/canning
- Crab production
- Seaweed farming and processing

Some major programs to be implemented in support of making Mindanao the main agro-fishery export zone are:

1. Developing Southern Mindanao as a Halal food production area. Recognizing the growing demand in the global market for Halal certified foods, Mindanao, with its export-oriented agri-based industries, island-wide infrastructure development and where around 70 percent of the more than four million Muslim Filipinos live, is the most logical place to put a Halal food industry. Interventions supporting this program include technical assistance, standards setting and market facilitation (i.e., establishment of Halal-accredited slaughterhouses and improvement of central and satellite laboratory facilities).
2. Cost-effectively linking Mindanao's agriculture and fishery production centers with its markets internally, with the rest of the country, and abroad through the provision of adequate transport and communication services and infrastructure facilities. These will be realized through strong partnership and linkage with the private sector groups, multinational companies and other government entities.

Programs and Activities for both components:

- a. Establishment of and capability building for the Halal certification and accreditation process
- b. Technical assistance for Halal food production
- c. Construction/repair/rehabilitation of vital infrastructure for land and water-based production enterprises
- d. Upland and coastal development program
- e. Emergency and livelihood assistance program
- f. Local capability building services for the provision of social and physical infrastructures to link agribusiness lands to markets
- g. Access facilitation and enhancement services (Capacity building for cooperative management including forging contracts for joint economic ventures and subcontracting arrangements among farmers, landowners and business groups; and operationalization and strengthening of KALAHI Farmers Centers)

Policy reforms for this goal are:

Tap all possible fund sources to support the provision of social and physical infrastructure for farmers and fishers to include the following:

- a. the Marcos wealth which shall be used to finance agricultural land reform, including ancestral domain reform, and the development of agribusiness in the land reform communities;
- b. the coconut levy fund which shall be used for social services for coconut farmers and their communities, and for the development of coconut-based agribusiness; and
- c. the agrarian reform fund (ARF)

Goal 2: Make food plentiful at competitive prices where the cost of priority “wage goods” such as rice, sugar, vegetables, poultry, pork and fish and other important non-wage goods like corn must be reduced. This also means that government will continue to fight for self-sufficiency in rice production by increasing price and production efficiency and competitiveness.

A. Raise factor (land, labor and capital) productivity to approach the regional average within six years.

1. More strategic and catalytic provision of national government support services (to include credit and capability building support) in agriculture and agrarian reform areas through, among others, stricter application of the agrarian level of development assessment

(ALDA) for agrarian reform areas as well as the NG-LGU-Private Sector Cooperation Guidelines as provided for in the Operations Manual for Project Preparation of the DA which is initially being adopted under the Diversified Farm Income and Market Development Project

Programs and Activities:

- a. Identification, validation and prioritization of production areas, by June 2005, based on their production and income potentials
- b. Formulation of commodity road maps, by September 2005, focused on “wage” goods
- c. Promotion of the development of viable seed and planting material industries for crops and forestry, including mangrove propagules as well as hatchery industries for fisheries through NG research and development support, technology dissemination and advocacy, as well as access to credit

More important than these time-bound and area-specific interventions, the national government will ensure that the policy and regulatory environment will be sufficiently and consistently conducive for the stakeholders to rapidly improve agricultural production and productivity.

Policy reforms:

- a. Allocate 17 billion pesos yearly in addition to the annual budget of the DA for agricultural and fishery modernization (RA 8435 as amended by RA 9281)
- b. Sector agencies to adopt a standard and transparent prioritization criteria and process for infrastructure and other support services in agriculture and fisheries, primarily considering cost effectiveness, efficiency parameters, and, where appropriate, gender responsiveness
- c. Complete the rationalization and consolidation of directed credit programs (DCPs) into the Agro-industry Modernization Credit and Financing Program (AMCFP) by December 2005
- d. Adopt alternative and innovative financing schemes such as the Special Agriculture Financing Window and the Rural Household Financing Program that will enhance greater collaboration and investments of private financial institutions (PFIs) especially in the provision of credit for small farmers and fishers
- e. Establish, by December 2005, public-private sector mechanisms for finance mobilization in support of the provisions under the Philippine Fisheries Code (RA 8550): (a) the PhP100M Municipal Fishery Grant Fund; (b) the PhP250M Fishing Vessels Development Fund; (c) the PhP100M Special Fisheries Science and Appearishtech Fund; and (d) the PhP50M Aquaculture Investment Fund
- f. Rationalize the rental fee of public lands for agricultural production (e.g., pasture and fishpond lease agreements)

- g. Include in the legislative agenda the passage of the National Land Use Act, within 2005, to mitigate unrestrained land conversion and secure agricultural lands for the nation's food requirements, the Land Administration Reform Act and the amendment of the Public Land Act.
- 2. Concentrate investments in quick gestating irrigation development activities such as rehabilitation and improvement of existing systems and facilities; establishment of small but high-impact irrigation projects such as Small Water Impounding Projects (SWIP) and Shallow Tube Well (STW); as well as establishment of new multi-commodity facilities, where appropriate, that are cost-effective and sustainable with NG focusing on national irrigation systems (NIS) and LGUs on communal irrigation systems (CIS). To ensure the long-term viability of these systems, watershed areas will be protected, rehabilitated and maintained to convert irrigated lands into watershed-supported systems from the current rainfall-dependent systems (*Refer to Chapter 3: Environment and Natural Resources*).

Programs and Activities

- a. Rehabilitation/repair of existing national irrigation systems
- b. Construction of new multi-commodity irrigation facilities
- c. Reactivation of groundwater irrigation systems
- d. Water resources development program
- e. Irrigation Management Transfer (IMT) and capacity building program for Irrigators' Associations (IAs) on proper operation and maintenance of facilities
- f. Development and maintenance of communal irrigation systems by LGUs with technical assistance from national government

Policy Reform:

Pursue volumetric pricing for irrigation

Changing the fee structure to volumetric pricing at the head gate will provide a means for greater assurance for service delivery to the IAs as well as provide a powerful incentive to properly maintain the distribution system to improve equity of head- and tail- end distribution and to conserve water resource.

- 3. Intensify science and technology application in Philippine farms by transforming research, development and extension (RDE) institutions into market-sensitive and demand-driven change agents; NG to focus on capacity building of LGUs to deliver extension services using, among others, the PhilRice, PCARRD and other provincial extension models.

Programs and Activities:

- a. Provision of capability-building programs by DA (i.e., Agricultural Training Institute) to LGUs to enable them to perform their mandate on extension
 - b. Review of the Internal Revenue Allotment (IRA) system to make it performance-based and serve as an incentive system for the full and effective delivery of extension services by LGUs
 - c. Establishment of demonstration/model farms
 - d. Market-linked technology development generation and dissemination, including improvement of farm technologies/systems (e.g., genetic resources improvement program)
4. Transform relevant agencies as centers for agriculture, fishery and natural resources knowledge management systems by maximizing the use of up-to-date information technology for intra- and inter-agency as well as national and international information exchange that will provide timely and adequate information for rational decision-making

Programs and Activities:

- a. Establishment and improvement of the database and information system for agriculture and fisheries
 - b. Transformation of database and information system to knowledge systems
 - c. Integration of the knowledge management system into the human resource development program of the bureaucracy
 - d. Development of a national common spatial database to support growth initiatives (e.g., foreshore and municipal coastal database)
5. Increase capital productivity and investments through the reduction and appropriate management of risks inherent in agriculture

Programs and Activities:

- a. Coverage expansion of the agricultural credit guarantee and insurance systems
- b. Resolution of agricultural, fishery and agrarian property rights conflicts and uncertainties
- c. Early completion of the implementing rules and regulations on the delineation of municipal waters with off-shore islands
- d. Emergency assistance and disaster-mitigation projects for calamity-stricken areas
- e. Geohazard Assessment Program

Policy Reform:

- a. Include in the legislative agenda the passage of the Farmland as Collateral Bill in conjunction with the proposed Progressive Land Tax, Graduated Capital Gains Tax and Land Conversion Tax, Idle Land Tax and the National Land Use Act to prevent agrarian land ownership reconsolidation
- b. Include in the legislative agenda the passage of a bill that will extend up to 2015 the utilization of the Agricultural Competitiveness Enhancement Fund (ACEF) to provide loan assistance to agricultural and fishery enterprises
- c. Include in the legislative agenda the passage of a bill amending the Agri-Agra law, to ensure that agri-agra funds are used for rural credit

B. Increase the effectiveness, adequacy and efficiency of the agricultural sector's transport and logistical support system for both farm inputs and produce to approach regional standards especially for agricultural and fishery food products

1. Link infrastructure support and postharvest facilities with the nautical highway to reduce postharvest handling thereby minimizing losses and facilitating the flow of goods

Programs and Activities:

- a. Promote the construction/repair of vital postharvest facilities and equipment, including grains-highway bulk handling, ice plants (for livestock and fisheries) and cold storage by the private sector through credit facilitation
- b. Development of regional and municipal fish port complexes in the validated priority production areas

Policy Reform:

Include in the legislative agenda the passage of a bill that will provide adequate, efficient and price-competitive shipping services (Philippine Export and Import Freight Shipping Bill)

2. Cost-effectively link the production areas to major markets through the construction of farm-to-market roads, the expansion of shipping services through the promotion of competition, and the promotion of the roll-on roll-off ferry logistics system for more efficient transport of agricultural goods from Mindanao to Luzon and the rest of the world

Programs and Activities:

- a. Construction/rehabilitation of priority farm-to-market roads in validated priority production areas
- b. Development and establishment of regional and municipal fish ports in validated priority fishery production areas

- c. Access facilitation and enhancement services for the delivery of necessary physical infrastructure support such as farm-to-market roads, bridges, irrigation and postharvest facilities in areas identified for agribusiness development
3. Provide effective, commensurate, and where appropriate, gender-responsive market assistance and facilitation through the provision of timely and accurate business information and appropriate trading services (e.g., national agricultural and fisheries product standards system, quarantine and inspection system, data-basing, profiling, farm-firm matching, trade fairs, exhibits, market research)

Programs and Activities:

- a. Aggressive promotion of products in international markets
- b. Market development and assistance to improve the local agricultural products' relative competitiveness and access to domestic markets vis-à-vis imports
- c. Institutionalization of the Bureau of Agriculture and Fisheries Products Standards (BAFPS) and its product standards development program
- d. Rationalization, modernization and harmonization of the disparate regulatory agencies into a national quarantine and inspection system with dual functions of border protection and trade/export facilitation

Policy Reform:

Further rationalize the grains sector trading with the passage of House Bill (HB) 418: "National Food Authority (NFA) Reorganization Act of 2002."

The ultimate purpose of the House Bill is to restructure the NFA to separate its regulatory and proprietary functions. NFA shall grant ministerially import permits for rice to all applicants, subject to the payment of all taxes and duties. The passage of this HB is envisioned to effect the implementation of NFA activities consistent with its mandate.

4. Ensure that the efficiency gains in production and logistics result in more affordable prices for consumers rather than larger margins for middlemen. Therefore, there is a need to intensify efforts to directly link producers to retailers and possibly to consumers as well. This will lessen distribution costs and attain optimum production volume of wage goods to a level that will generate competition at the retail level. Such a situation will put a downward pressure on consumer prices and force distribution and retailing margins to a fair level.

Programs and Activities:

- a. Electronic marketing program
- b. Market matching fairs

- c. Forward contracting mechanisms
 - d. Strengthening LGU capability on marketing
 - e. Supply chain research and analysis as well as establishment and updating of database systems
 - f. Bantay Presyo (Consumers' Price Watch)
 - g. Systematic consultation with private sectors and commodity boards for data validation and updating of costs data, interventions, and monitoring and evaluation of intervention effects
- C. Implement critical governance reforms to establish a bureaucracy that will effectively be responsive to the demands of a productive and enterprising agricultural sector** (*Chapter 20: Bureaucratic Reforms*)

Chapter 3

Environment and Natural Resources

I. SITUATIONER

The underutilization and mismanagement of the country's abundant natural resources is a major cause of poverty, particularly in the countryside. Its potential to sustain poverty alleviation programs has not been fully explored. The productive use of the country's rich mineral resources, for one, has been affected by environmental and social distrust. Legal issues also continue to surround the constitutionality of some of the provisions of the Mining Act. Similarly, the management of watersheds has not been properly given attention. This has led to shortages of water supply needed for irrigation, industrial and domestic uses and thus, is likely to negatively affect future development initiatives. Moreover, this has negatively affected the function of watersheds to act as carbon sink to clean the air and prevent soil erosion and mitigate flooding.

Meanwhile, there is also the foregone income and welfare from biodiversity as the reduction and the lack of concrete basis into its potentials continue. The Philippines is considered to be a mega diverse country, but its biodiversity is also considered to be among the most threatened in the world. It should be noted that the latest environment indicators show that the various aspects of our environmental sustainability are rated either poor or low. Overall, the ability of the major ecosystems to provide and maintain a regular stream of economic goods and ecological services has been significantly affected due to declining stocks and reduced coverage and quality. Thus, there is an urgent need to properly manage the natural resources and protect the environment to improve our quality of life and that of the future generations.

The watershed and ecosystems approach to natural resources management and environmental protection provides an effective paradigm for its proper and sustainable development. It considers the dynamic and complex interactions of living organisms, their physical surroundings and the natural cycle that sustains them as a functional unit; managing any one of these affects other components in that system. This approach, therefore, provides a framework that balances the often conflicting and competing demands on natural resources and the environment so that the welfare of the succeeding generations are not sacrificed by present use.

A. Forest Ecosystem and its Resources

The Philippine upland/forest ecosystem refers to areas with at least a slope of 18 percent. It comprises an estimated 45 percent of the country's total land area and directly supports approximately 30 percent of the population, including the indigenous peoples. The forest cover is estimated at 7.168 million hectares or 23.9 percent of the total land area, based on 2002 satellite mapping. The forest ecosystem provides ecological benefits to agricultural production, industries, water and power needs. A watershed with adequate forest cover supports lowland agriculture by ensuring continuous supply of water for irrigation. They also prevent soil erosion and consequent loss of fertile topsoil and siltation of our coastal areas and water bodies. It also sustains the supply of surface and groundwater for domestic use in the lowlands.

Aside from ecological benefits, forest resources – particularly the production forest areas – can be a source of revenue and job generation. Timber production as well as agroforestry activities may be promoted in these areas to maximize their utilization.

However, the country's watersheds have been severely degraded, thus, reducing the capacity to provide vital ecological services and economic benefits. In fact, 140 priority watersheds with a total area of 4.5 million hectares nationwide, which directly support national irrigation systems, were identified as needing management, particularly rehabilitation and protection. Thus, a massive reforestation program to reclaim the bald mountains, particularly in the protection forests in the country, needs to be implemented. Revenue and job generation, on the other hand, can also be realized by promoting timber production and agroforestry in production forest areas.

B. Alienable and Disposable (A&D) Land Resources

Land as a resource contributes significantly to economic growth anchored on social equity. Equitable access to land encourages agricultural productivity, which in turn results to higher rural incomes. Increased rural incomes accelerate rural development, which, eventually, leads to overall economic growth and well being of a greater number of people. Access to land is an essential ingredient in providing equal opportunities, increased income and wealth. It is also considered a critical factor in achieving social justice.

Of the country's total land area of 30 million hectares, about 47 percent are classified as alienable and disposable lands, which are open for titling. Of these, about two-thirds have already been titled and only 1.1 million hectares have yet to be titled. Among the constraints in land titling, however, is the multiplicity of agencies involved in land administration with no appropriate mechanisms for coordination. Moreover, there is no overall institutional mechanism to resolve outstanding issues.

C. Biodiversity

The Philippines is considered as one of the 17 megadiverse countries in the world. These countries hold about 70 percent of the world's total diversity in flora and fauna. In the Philippines alone, there are over 52,000 species. Of these, 13,500 are plants comprising 5 percent of the world's total flora. About 68 percent of the country's reptiles, 78 percent of amphibians, 64 percent of the mammals and 44 percent of birds are considered unique in the Philippines. In terms of uniqueness or endemism, many of the country's species rank in the top ten in the world. Considering land density and density of flora and fauna, the Philippines may even be considered to be the most megadiverse country. However, the species in the Philippines are considered to be among the most threatened in the world. The Philippines, together with Madagascar, is considered as the hottest of the hotspots or the most severely threatened of the megadiverse countries. The destruction of the original forests, freshwater and marine ecosystems have led to an unmatched biodiversity crisis.

Biodiversity resources offer many economic opportunities such as ecotourism, sources of raw ingredients for pharmaceutical and industrial products, and genetic materials for the development of crops and animals for food and commerce. Biodiversity also nourishes our forests and is largely responsible for forest regeneration. However, continued degradation of forests, wetlands and marine areas have caused substantial biodiversity loss in the country.

D. Mineral Resources

The Philippines is considered to be a highly mineralized area. Geological estimates showed that mineral resources cover about 9 million hectares or about 30 percent of the total land area. Presently, less than half a million hectares are under exploration or development. This means that 8.5 million hectares or 94.4 percent of mineralized areas have yet to be developed.

For 2003 alone, the mining sector employed 104,000 workers and provided PhP4 billion to PhP5 billion in wages and benefits. For each direct job in the mining sector, 4 to 10 allied jobs are created. The minerals industry still offers huge potentials. The country's mineral wealth is estimated to have an approximate value of US\$800 billion to one trillion dollars, as against the current Philippine external debt of US\$57.0 billion. It is expected that the industry will generate US\$4-6 billion of investments, US\$5-7 billion of annual foreign exchange and at least 240,000 jobs for the next six years.

However, despite these huge potentials, mineral development has been on the decline: from 27 mines in 1997 to only 12 mines in 2004. Correspondingly, its share to total exports also declined to only 1.5 percent as of last year. These are due to a host of factors: the decline in mineral prices that affected the economic viability of many mining projects; the perceived policy inconsistencies and instabilities, especially the land use conflicts and, recently, the Supreme Court ruling that adversely affected the industry that relies heavily on foreign investments; the strong opposition to mining, and the lack of domestic capital.

A policy decision – including a favorable decision from the Supreme Court – to rebuild the industry would open its enormous economic potential, and employ hundreds of thousands of people. China, Australia, Canada and the US would be major players in a revived Philippine mining industry. Currently, the revitalization of the mining sector is being pursued through Executive Order (EO) No. 270, issued in 16 January 2004, as amended, or the National Policy Agenda on Revitalizing Mining in the Philippines and its Minerals Action Plan (MAP).

E. Coastal and Marine Ecosystem

The coastal and marine ecosystems include coral reefs, sea grass and algal beds, mangroves, a variety of productive fisheries, beach systems, estuaries and lagoons. In terms of area, Philippine coastal zone extends to an area of about 11,000 sq. km. of land and 267,000 sq. km. of water. Thus, the coastal and marine ecosystems are considered an important source of livelihood for about 70 percent of the country's municipalities and compose 80 percent of the country's territory. This serves as a rich source of fish and aquatic products used for food, habitat for countless underwater wildlife, and natural areas for recreation, tourism and related activities. However, the productivity of the coastal and marine ecosystems has continuously been threatened by destructive fishing methods, siltation and pollution, among others. It is estimated that only 5.0 percent of the country's coral reefs are in excellent condition, mangroves have declined by as much as 57.0 percent in the last 23 years and sea grass losses have been estimated at 30-50 percent over the last 50 years. The widespread loss of mangroves, living corals and sea grass beds has severely eroded the capacity of this particular ecosystem to support life. There is considerable biodiversity loss and population decreases among the pelagic and crustaceans as well as soft-bottomed organisms. In addition, an increasing number of coastal communities and lands have become more vulnerable to tidal surges and waves highly associated with the country's seasonal typhoons.

F. Environment

1. Air

Air pollution remains a problem in Metro Manila and major urban centers the last two decades. A 1992 report estimated that 80 percent of Metro Manila residents and 31 percent of residents in Metro Cebu are exposed to Total Solid Particulates (TSP) in the air above normal standards. It is projected that the volume of air pollutants (e.g., TSP, Particulate Matter (PM₁₀), Sulfur Oxide (SO_x), Nitrogen Oxide (NO_x)) will continue to increase due to increasing industrial activity, traffic and the number of vehicles plying the streets including the many smoke-belching public utility vehicles. Majority of TSP concentration is contributed by motor vehicles. Increasing air pollution load was reported by World Health Organization (WHO) in 1996 to contribute to the high incidence of upper respiratory tract diseases in major urban centers like Metro Manila. Especially vulnerable are public utility drivers and pedestrians.

2. Water Resources

It is estimated that the total population served by potable water in the Philippines is about 80 percent. Water is distributed through the MWSS and the water concessionaires in Metro Manila, the water districts, the local government units (LGUs), the cooperatives, the private sector and bulk water supplier. The reach of these systems, however, are limited and many Filipinos still do not have access to water that is clean and affordable.

Despite the high average rainfall, the Philippines is estimated to have second to the lowest per capita freshwater in Asia, as of 2000. The supply of freshwater is diminishing due to over extraction of groundwater, water pollution, denuded forests/watersheds and lack of catchment basin and, occasionally, the El Niño phenomenon. There was already a shortage of water in Metro Manila and nearby areas from January to July 2004. This is due to the low water level in the Angat Dam, as a result of lack of rains in the area in 2003.

The issues besetting the water sector include disparities in water supply coverage across regions, depletion of groundwater especially in Metro Manila and Metro Cebu, lack of cost recovery on investments, institutional weaknesses and low willingness of consumers to pay.

In addition, pollution of water sources such as rivers and lakes is evident in many parts of the country. About 457 water bodies have already been classified by the Department of Environment and Natural Resources (DENR). Of these, however, about 51.0 percent still meet the water quality standard, as of 1996. About 16 rivers nationwide are considered biologically dead during the dry months. About half (48.0%) of water pollutants are domestic waste, about a third (37.0%) are agricultural wastes, and the remainder are industrial wastes (15.0%). Pollution of rivers, streams and lakes contaminate ground and surface waters, thus, exposing the population to environmentally-related diseases. Water pollution is decreasing the primary productivity of many water bodies. Heavy loads of inorganic pollutants have made water increasingly a threat to life. A report by the WHO in 1996 cited the rise in morbidity rate caused by gastrointestinal diseases from 502 in 1982 to 5,151 per 100,000 population. Other types of water-borne diseases are also expected to increase as water quality further deteriorates.

With increasing water demand – water being such a critical factor to the country's socioeconomic development and global competitiveness – there is a need to adopt a more integrated

and holistic management of our water resources such as the Integrated Water Resources Management (IWRM) approach. This approach involves the coordinated development and management of water, land and related resources within the hydrological boundaries, to optimize economic and social welfare without compromising the sustainability of vital ecosystems.

3. Waste

Solid waste generation in Metro Manila is estimated at 5,345 tons per day. This is expected to double by 2010. Waste collected in Metro Manila is only about 65-75 percent of total wastes generated and the recycling level is estimated to be about 13 percent. The 25 to 35 percent uncollected wastes are just thrown anywhere, especially in esteros and creeks. These threaten the health of the population and contribute considerably to flooding.

Urbanization has inevitably increased the use of chemicals, which resulted in an increasing number of incidents involving chemicals, particularly the release of ammonia and chlorine over the years. Presently, only about 45 percent of the total industries using chemicals such as cyanide, mercury, asbestos and ODS have been registered. For polychlorinated biphenils or PCB's (e.g., coolant or oil for transformer), only 25 percent have been inventoried.

Based on the JICA Study (2001), about 700 industrial establishments in the Philippines generate about 273,000 tons of hazardous wastes per annum. It was further estimated that with 5,000 potential hazardous waste generators, about 2.41 million tons of hazardous wastes will be generated. An ADB study on hospital wastes reported that there are about 30,000 tons of hospital wastes generated per annum.

At present, there is no integrated treatment facility for hazardous wastes in the country. However, there are about 95 small to medium-scale treatment facilities that treat hazardous wastes (i.e., used oil, sludge). There is approximately 50,000 tons of hazardous wastes stored on or offsite due to lack of proper treatment and landfill facilities. Other hazardous wastes are exported to other countries for recovery and disposal (i.e. metal bearing sludge and used solvents) and treatment (e.g. PCB.). However, this entails additional costs to industries, which consequently affects their international competitiveness, especially locators in economic zones.

G. Across Ecosystems

The Philippines, due to its geographical location, is highly vulnerable to natural disasters such as tropical cyclones and earthquakes, which result to flooding and landslides. Moreover, flooding and landslides are aggravated by heavy amount of rainwater, lack of forest cover and loose soil. For landslides alone, conservative estimates recorded that 18,339 lives were lost in 2000 and PhP42 million worth of property were damaged in 2003.

There is therefore a need for geohazard mapping in order to determine the most vulnerable areas to landslides and guide development plans on settlements, industries and production areas. More importantly, this will guide the relocation and serve as an alert system for existing settlements located in highly vulnerable areas. Presently, the geohazard mapping for regions that are most frequently visited by typhoons (Bicol and Eastern Visayas) or experience excessive rainfall (CARAGA) have been initiated.

II. GOALS, STRATEGIES AND ACTION PLANS

For the medium term (2004-2010), the Environment and Natural Resources Sector will pursue the following five major thrusts, consistent with the 10-Point Agenda of the President:

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

1. Across Ecosystem

- a. Maximize physical planning as a development tool for greater and sustained job creation
 - Full implementation of the Philippine Reference System (PRS '92) to facilitate the conduct of land surveys
 - Completion of the land classification by December 2010
 - ❖ Conduct ground validation/verification of forestland boundaries covering a total of 78,450 kms within 79 provinces and push for the legislation of permanent forest lines of these provinces
 - ❖ Pursue the disestablishment of portions of reservations and initial components of protected areas no longer suitable for original purpose
 - Accelerate distribution/titling of A&D Lands
 - ❖ Survey the remaining 1.4 million hectares of A and D lands in the 72 unsurveyed municipalities and 2.4 million hectares in the 289 partially surveyed cities and municipalities
 - ❖ Distribute 760,080 hectares of A and D lands through land patents prioritizing areas in Bulacan, Cavite and Laguna
 - Ensure the integrity of land titling system in order to promote the development of a mortgage market for lands and prevent illegal titling
 - ❖ Integrate the various agencies involved in land titling (LMB, LRA-DOJ, DAR) through legislation
 - ❖ Accelerate and expand the campaign against fake titles
 - ❖ Strengthen the system for registration and monitoring of land titles through digitization of land records
 - Promote the lease/rental of open forestlands and foreshore areas to investors and entrepreneurs
 - ❖ Conduct nationwide inventory of foreshore and open forestlands

- ❖ Develop a system for marketing and appropriate pricing for these areas.
- Relaunch major reclamation projects for shorelines of highly built-up urban areas that are not classified as marine reservation provided that technical and environmental soundness of these projects are ensured.
- b. Create a climate conducive for investments and production
 - Liberalize/streamline and refocus the Environmental Compliance Certificate (ECC) system to increase the efficiency and the development facilitation function of the system without lowering the environmental standards it seeks to promote (e.g., delegate issuance of ECCs in the Laguna Lake Region to the Laguna Lake Development Authority (LLDA) to avoid duplication between LLDA and Environmental Management Bureau of DENR);
 - Implement at least 10 Clean Development Mechanism (CDM) Projects;
 - Shift from technology generation to technology transfer;
 - Expand the use of market-based instruments, proper pricing of natural resources and other incentives/disincentives mechanisms; and
 - Provide business-related and technical/extension services to investors and clients:
 - ❖ Assist applicants in securing permits from other government agencies, such as National Commission on Indigenous People (NCIP) and LGU clearances;
 - ❖ Link community-based programs and small/medium scale projects to sources of finance and markets; and
 - ❖ Provide technical assistance, best suitable practices and technologies and improved planting materials.

2. Forest Ecosystem

- a. Open up more forestlands that are denuded or no longer suitable for protection forest for development
 - Delineate 8.4 million hectares forestlands nationwide for agroforestry and other environmentally sustainable production activities; and
 - Undertake inventory and evaluation to determine suitable uses such as for agriculture, agroforestry, ecotourism and other development projects.
- b. Promote investments in permanent production forest areas
 - Issue the following tenurial instruments: Community Based Forest Management Agreement (CBFMA) covering 1.8 million hectares; (Industrial Forest Management

Agreement (IFMA) covering 36,365 hectares; and Socialized Industrial Forest Management Agreement (SIFMA) covering 39,350 hectares; and

- Pursue area development for corporate and community-based economic activities covering 500,000 hectares for CBFMA, 262,000 hectares for IFMA, 37,530 hectares for SIFMA, 14,000 hectares for Timber License Agreement (TLA) and 55,000 hectares for Forest Land Grazing Lease Agreement (FLGMA)

3. Biodiversity

Initiate the development and sustainable utilization of biodiversity resources (e.g., promote the establishment of 15 wildlife farms and zoos)

4. Coastal and Marine Ecosystem

Clearly delineate areas for protection, exploration and utilization through the survey and mapping of maritime zones starting in 2005 with particular emphasis on expediting the delineation of municipal waters in coastal areas with offshore islands.

B. Thrust No. 2 -Promote responsible mining that adheres to the principles of sustainable development: economic growth, environmental protection and social equity. Responsible mining reduces poverty and benefits local and indigenous communities

- 1. Launch a major program to revive the mining industry.*** We need to revitalize the mining industry and pursue the implementation of responsible mining through the Minerals Action Plan (MAP) (see Box 1);
- 2. Pursue and assist in the development of 18-23 large scale mining projects*** that will bring an estimated U.S \$4.0-6.0 billion in investments, U.S \$5.0-7.0 billion in foreign exchange, PHP 5.0-7.0 billion in excise taxes alone, and about 210,000 in direct and indirect employment; and
- 3. Resolve the issues involving mining accidents in abandoned and idle mine areas.***
 - Address remaining issues pertaining to the Marcopper Mine Tailing Spill accident
 - Construct the final Mabatas tailings dam covering some 30 hectares
 - Conduct assessment of 7 abandoned mines and implement stop-gap measures/ rehabilitation of 3 abandoned mines
- 4. Develop incentive schemes to attract international and local investors in Mt. Diwalwal***
 - Conduct core drilling within 1.5 to 2 years to determine the mineable resources of Diwalwal; and
 - Mobilize international and local investors to develop the underground wealth of gold, employ the tens of thousands of miners who might be given additional incentives of partnership or profit-sharing arrangements.

C. Thrust No. 3 - Focus and strengthen the protection of vulnerable and ecologically fragile areas, especially watersheds and areas where biodiversity is highly threatened

1. Forest Ecosystem

- a. Rehabilitate and strengthen protection of critical watersheds
 - Rationalize and prioritize reforestation of 1 million hectares in 140 critical watersheds, especially those areas supporting the Pampanga and Bicol River Basins, to preserve rivers and other fresh water systems in support of providing adequate and reliable water for irrigation, domestic and industrial uses;
 - Augment forest protection through partnership with other government agencies, LGUs and nongovernment sectors (e.g., NGOs, Integrated Bar of the Philippines, civic groups, etc.); and
 - Pursue the incorporation of forest protection as a key result area for Philippine National Police or PNP and military contingents covering watershed areas.

2. Coastal and Marine Ecosystem

- a. Expand coverage and strengthen protection of coastal and marine ecosystem
 - Extensively implement mangrove replanting, covering 10,500 hectares and establishing 128 marine sanctuaries in cooperation with LGUs;
 - Create 14 coastal law enforcement alliance with non-government sectors and communities; and
 - Provide technical assistance to 570 LGUs in coastal protection and management, especially in participatory planning, zoning and standard setting.

3. Biodiversity Resources

- a. Delineate 6.336 million hectares nationwide for protection
 - Conduct assessment and classification of 57 caves;
 - Conduct inventory of wildlife in the areas for protection;
 - Manage 39 priority wetlands; and
 - Develop protected area management plans for areas for protection.
- b. Develop Protected Areas into viable management areas
 - Conduct zoning of 77 Protected Areas to delineate areas suitable for development (i.e., buffer and multiple-use zones);

- Fully establish the Protected Area Management Boards (PAMB) in all proclaimed Protected Areas;
- Equip LGUs and communities with the tools necessary for better management of Protected Areas;
- Promote ecotourism in 29 protected areas that are included in the National Ecotourism Master Plan;
- Develop water user fee and plowback mechanism for forest protection and management of Protected Areas;
- Facilitate the remittance of the Integrated Protected Areas Fund (IPAF) or the funds generated inside Protected Areas, to the PAMB;
- Conduct carrying capacity studies for 29 protected areas, especially those that will host development projects; and
- Develop Ninoy Aquino Parks and Wildlife Center into a premier ecological destination and People's Center in Metro Manila.

D. Thrust No. 4 - Create healthier environment for the population

1. Air

- a. Improve air quality in major urban centers and reduce air pollution (total suspended particulates or TSP) in Metro Manila by 90 percent to bring air quality within acceptable standard and sustain standard TSP level (90 ug/Ncm) in other urban centers
 - Establish 19 airsheds nationwide for better management of air quality
 - Complete the establishment of state-of-the-art air quality monitoring stations and 20 air quality advertisement boards, especially in Metro Manila
 - Pursue urban greening in area sources in Metro Manila and other major urban centers
 - ❖ Pursue the establishment of 310 mini forests
 - ❖ Undertake roadside planting covering 612 kilometers
 - Promote the use of clean fuel through the use of Coco Methyl Ester or coco bio-diesel (CME1% Blend) in government vehicles
 - Promote use of Compressed Natural Gas (CNG) Fueled Buses

2. Water Resources

- a. General Strategy: Adopt the Integrated Water Resources Management Approach

- Identify/establish Water Resources Regional Councils (WRRCs)/River Basin Organizations (RBOs) while strengthening existing RBOs to promote devolution of decision-making processes to the lowest appropriate levels capable of handling such tasks, normally to local government and community-based institutions;
- Pursue raw water pricing to effect efficient allocation and conservation. Raw water is not currently priced to reflect its real value leading to wasteful practices and allocations that are not in the best interest of the country. Water should be priced and allocated according to its economic value so as to attain efficiency and sustainability in the development and allocation of the resource;
- Maintain and sustain data collection and database for water resources (i.e. rainfall, stream flow, groundwater and water quality, etc.); and
- Conduct water assessment in terms of availability and demand for prioritized water constraint areas as identified in the 1998 Master Plan Study on Water Resources Management in the Philippines.

b. Specific Strategies

- Potable water for the entire country by 2010
 - ❖ Provide potable water to the entire country by 2010, with priority given to at least 200 “waterless” barangays in Metro Manila and 200 “waterless” municipalities outside Metro Manila through private sector or public investment. (Note: Waterless is defined as areas with less than 50 percent water supply coverage). To achieve the priority target of 200 waterless municipalities without access to potable water, it is estimated that PhP1.90 billion and PhP10.77 billion are needed to construct 38,097 level I and 7,696 level II systems for these municipalities, respectively;
 - ❖ Ensure that all barangays/municipalities that will be provided with water supply services have the corresponding sanitation facilities for proper disposal of wastewater/septage;
 - ❖ Continue to provide capacity building programs and technical assistance on water supply and sanitation planning, management and project implementation for all Water Service Providers (WSPs) needing assistance;
 - ❖ Develop technology options for water supply (e.g. solar desalination for isolated islands, windmill technology, etc.);
 - ❖ Promote private sector or public investment in the provisions of water to waterless barangays and municipalities;
 - ❖ Conduct groundwater resources and vulnerability assessment covering 310 priority LGUs;
 - ❖ Monitor drinking water of selected poor communities through the Tap Watch Program
 - ❖ Complete the groundwater resource inventory/assessment in major urban areas and surface water in rural areas, control extraction through moratorium/stringent requirements in the grant of water permits in water-deficient areas and complete registration of all water pumps, metering of water pumps, etc.

- Ensure clean water resources for the entire country through full implementation of the Ecological Solid Waste Management Act and the Clean Water Act
 - ❖ Improve water quality through close and regular monitoring of 18 priority rivers nationwide and reduce the biochemical oxygen demand (BOD) in Pasig River and other priority rivers by 50 percent to provide for adequate oxygen for aquatic life to survive;
 - ❖ Reclassify the remaining 202 unclassified principal water bodies nationwide, based on their best and most suitable uses, for better water quality management; and
 - ❖ Complete the water analysis and monitoring of 162 bathing areas nationwide through the “beach watch” program.

3. Waste

- a. Improve management of solid waste especially in Metro Manila by fully implementing the Ecological Solid Waste Management Act (RA 9003)
 - Provide technical assistance to LGUs on: closure and/or conversion of 868 open dumpsites to controlled dump facilities; construction of 14 sanitary landfills/waste processing facilities; complete the implementation of LGU-wide integrated waste management system (segregation and collection at source, materials recovery facilities, recycling and composting) in 48 model sites to serve as model for other LGUs;
 - Assist LGUs in providing storage facilities and markets for compost and recyclable materials;
 - Conduct geological assessment of potential solid waste and disposal sites for 200 LGUs;
 - Support waste recycling and recovery through ecolabelling of eight products in Metro Manila; and
 - Pursue the opening of cluster sanitary landfill sites with material recovery facilities (MRFs) for Metro Manila and other highly urbanized centers.
- b. Clean and rehabilitate *esteros*, especially in eight major *esteros* in Metro Manila and 32 prioritized *esteros* in other urban centers that contributes significantly to flooding, on a sustained basis
 - Undertake sustained metro-wide clean-up of *esteros* through the active involvement of LGUs, concerned communities, private sector and NGOs; and
 - Include clean-up of *esteros* as part of the civic requirements for students and ROTC cadets.

- c. Establish management system and facilities for toxic and hazardous wastes
 - Complete the inventory of toxic and hazardous wastes;
 - Complete registration of 400 establishments utilizing toxic and hazardous wastes and closely monitor 500 companies utilizing cyanide, mercury, asbestos and other highly toxic chemicals like the polychlorinated biphenils (PCBs);
 - Initiate the establishment of the first facility for the treatment of toxic and hazardous wastes, especially for those located in economic zones;
 - Establish a mechanism for the retrieval and disposal of millions of cellphone batteries by 2007;
 - Pursue efficient health care waste collection in 197 accredited hospitals in Metro Manila and increase by 40 percent the health care waste collection and treatment outside of Metro Manila by 2005; and
 - Conduct clean up of former military bases in Region 3 (approximately 50 percent clean up of identified contaminated sites).
 - d. Total phase-out of ozone depleting substances (ODS) consumption nationwide
 - Convert production systems to ozone-friendly technologies;
 - Develop a system for recovery, reclamation and recycling of used refrigerants which utilized ODS and strictly monitor their operations; and
 - Closely monitor and regulate the importation, sale, manufacturing and use of ODS products and ban the use of ODS in the manufacturing sector by January 2005.
- E. Thrust No. 5 - Mitigate the occurrence of natural disasters to prevent the loss of lives and properties**
- 1. Nonstructural measures**
- a. Complete the geo-hazard mapping of the remaining 13 regions;
 - b. Conduct soil stability measures (e.g., reforestation and planting in river banks) for landslide-vulnerable areas; and
 - c. Ensure integration of disaster preparedness and management strategy in the development planning process at all levels of governance. This shall be done through the following activities, namely, among others: periodic risk assessments, updating of respective land use policy based on the assessment, conduct of disaster management orientation/training among LGU officials and concerned local bodies, institutionalization of community-based mechanisms for disaster management (e.g. inclusion of legitimate disaster management organization at various Disaster Coordinating Councils), and advocating for the bill on “Strengthening the Philippine Disaster Management Capability”.

2. Structural Measures

- a. Keep at the optimum the conveyance capacities of existing river channel floodways, drainage canals, esteros through riverbank protection, dredging/desilting, observance of river easements, relocation of informal settlers, proper disposal of garbage, and efficient maintenance in coordination with LGUs;
- b. Provide adequate flood control and drainage facilities in all flood/sediment disaster prone areas to mitigate flooding as well as rehabilitate and improve existing facilities. The priority flood management projects are as follows:
 - Mt. Pinatubo Hazard Urgent Mitigation II;
 - ❖ Total Project Cost: PhP4,500 Million
 - ❖ Remaining Balance: PhP516 Million
 - ❖ Percentage of Accomplishment: 98 percent (as of May 2004)
 - Mt. Pinatubo Hazard Urgent Mitigation III;
 - ❖ Total Project Cost: PhP4,890 Million
 - Iloilo Flood Control;
 - ❖ Total Project Cost: PhP4,150 Million
 - ❖ Remaining Balance: PhP3,440 Million
 - ❖ Percentage of Accomplishment: 21 percent (as of June 2004)
 - Lower Agusan Flood Control Project Stage 1, Phase 2;
 - ❖ Total Project Cost: PhP4,870 Million
 - ❖ Remaining Balance: PhP2,080 Million
 - ❖ Percentage of Accomplishment: 60 percent (as of June 2004)
 - Bicol River Basin and Watershed Management;
 - ❖ Total Project Cost: PhP1,680 Million
 - Agno and Allied Rivers Flood Control;
 - ❖ Total Project Cost: PhP3,250 Million
 - ❖ Remaining Balance: PhP41 Million (for winding-up operations)
 - ❖ Percentage of Accomplishment: 100 percent (as of September 2003)
 - KAMANAVA Flood Control;
 - ❖ Total Project Cost: PhP4,870 Million
 - ❖ Remaining Balance: PhP2,990 Million
 - ❖ Percentage of Accomplishment: 3 percent (Civil Works only - as of March 2004)
 - Metro Manila Flood Control Project – West of Manggahan Floodway;
 - ❖ Total Project Cost: PhP3,140 Million
 - ❖ Remaining Balance: PhP400 Million
 - ❖ Percentage of Accomplishment: 75 percent (as of July 2004)

- Pasig-Marikina River Channel Improvement Project Phase II;
 - ❖ Total Project Cost: PhP4,160 Million
- Cagayan River Flood Control Project;
 - ❖ Total Project Cost: PhP2,390 Million
- Panay River Flood Control Project;
 - ❖ Total Project Cost: PhP3,870 Million
- Lower Cotabato River Flood Control Project;
 - ❖ Total Project Cost: PhP1,430 Million
- Central Luzon Flood Control Project;
 - ❖ Cost for estimation
 - ❖ Remaining Balance: PhP400 Million
 - ❖ Percentage of Accomplishment: 75 percent (as of July 2004)
- Pasig-Marikina River Channel Improvement Project Phase II
 - ❖ Total Project Cost: PhP4,160 Million
- Cagayan River Flood Control Project
 - ❖ Total Project Cost: PhP2,390 Million
- Panay River Flood Control Project
 - ❖ Total Project Cost: PhP3,870 Million
- Lower Cotabato River Flood Control Project
 - ❖ Total Project Cost: PhP1,430 Million
- Central Luzon Flood Control Project
 - ❖ Cost for estimation

Box 3-1 Policy Agenda of the Minerals Action Plan

- (a) Government recognizes the critical role of investments in the minerals industry for national development and poverty alleviation and shall provide support mechanisms for a sustained mineral exploration program (including the streamlining of procedures of concerned government agencies and instrumentalities relating to the grant of mining tenements, responsive research and development priorities and capability building for industry manpower).
- (b) Clear, stable and predictable investment and regulatory policies shall be instituted to facilitate investments in mining, leading to a prosperous minerals industry.
- (c) Value adding as a measure of optimizing benefits from minerals shall be pursued through the development of downstream industries to achieve greater productivity and efficiency.
- (d) Small scale mining shall be promoted as a formal sector of the minerals industry and as part of the development initiative for both down stream and upstream industries.
- (e) Efficient technologies shall be adopted to ensure the judicious extraction and optimum utilization of non-renewable mineral resources to enhance sustainability.
- (f) Protection of the environment shall be paramount consideration in every stage of mining operation; mitigation and progressive rehabilitation measures shall be integral components of mining operations. Decommissioning and/or final mine rehabilitation shall be supported by the most appropriate environmental surety.
- (g) The ecological environmental sustainability of areas affected by mining operation (including biodiversity resources and small island ecosystem) shall be safeguarded in order to protect public welfare, safety and environmental quality. The rights of affected communities (including the rights of indigenous cultural communities, especially the free and prior informed consent requirement) shall be protected.
- (h) Mining operations shall be pursued within the framework of multiple land use and sustainable utilization of mineralized areas.
- (i) Remediation and rehabilitation of abandoned mines/sites shall be accorded top priority to address the negative impacts of past mining projects.
- (j) The economic and social benefits derived from mining shall be equitably shared by and among various units of government as well as the affected communities
- (k) Sustained information, education and communication campaigns shall be vigorously pursued, jointly with the industry stakeholders about the minerals industry for purposes of enhancing public awareness and respect for the rights of communities, reaching informed decisions on mining and related projects both at the national and local levels.

Chapter 4

Housing Construction

I. SITUATIONER

Jumpstarting the housing construction sector can spur economic growth and alleviate poverty by taking advantage of its multiplier effect. Housing has a high multiplier effect of 16.6 times, meaning that every PhP10 billion worth of housing units, it can contribute a total of PhP166 billion of economic activity for the country.

A. Assessment of Performance

Housing construction, relative to the huge housing need (3.6 million in 2001-2004) has been modest. Against a target of 1.2 million units of housing assistance or shelter security units (i.e., a house, house and lot, or lot only), the housing sector, through the National Shelter Program, was able to provide 822,823 shelter security units or an accomplishment rate of 68.6 percent as of June 2004 (Table 1). Of the total output, 60 percent or 493,496 units went to socialized housing of which 93 percent (219,268 units) benefited the informal sector (i.e., nonmembers of Home Development Mutual Fund-Pag-IBIG, GSIS or SSS) mainly through the Presidential proclamation of 73 sites. Forty percent (389,327 units) went to formal housing. It may be noted that 52 percent of this (200,865 units) was provided by Pag-IBIG, the largest output by a single institution involving PhP48.53 billion.

Table 4-1 Housing Targets and Accomplishments

Housing Package	Target Households 2001-2004	Actual Accomplishments				
		2001	2002	2003	2004*	2001-2004
Socialized (below PhP 225,000)	880,000	207,940	118,987	84,716	81,853	493,496
Low Cost (PhP225,000-PhP2 M)	320,000	54,447	74,306	114,507	146,067	389,327
Total	1,200,000	262,387	193,293	199,223	227,920	882,823

Source: Housing and Urban Development Coordinating Council (HUDCC)

* Figures as of June 2004

In support of the Millennium Development Goal target to significantly improve the lives of at least 100 million slum-dwellers by 2020, the government and the private sector through their programs provided shelter security units to 382,285 households during the period 2001 to 2004. The government programs included the HUDCC's Asset Reform Program; the National Housing Authority's (NHA) programs on slum upgrading, sites and services, land tenurial assistance, community land acquisition support, grants-in-aid for housing, cooperative housing, resettlement, emergency housing assistance, housing materials assistance, medium-rise housing projects, and completed housing; and the Community Mortgage Program (CMP) of the National Home Mortgage Finance Corporation (NHMFC). The private sector through the Couples for Christ Gawad Kalinga 777 (GK 777) Project provided a total of 8,979 units for the improvement of the plight of slum dwellers (Table 4-2).

Table 4-2 Program for Slum Dwellers

Program	Number of Household Beneficiaries			
	2001	2002	2003	Total
HUDCC Asset Reform Program	133,900	68,820	1,000	203,720
NHA Housing Programs	47,771	25,356	15,205	88,332
NHMFC Community Mortgage Program (CMP)	28,474	19,529	11,453	59,456
National Government Center (NGC) East-West Project	8,739	2,049	410	11,198
North and South Rail Relocation	--	7,350	3,250	10,600
Gawad Kalinga (GK 777)	1,000	1,032	2,963	4,995
Habitat for Humanity	1,878	1,087	1,019	3,984
Total	221,762	125,223	35,300	382,285

Source: HUDCC, *Couples for Christ*, *Habitat for Humanity*

B. Key Challenges

To ensure shelter security for the Filipino family and the provision of access to affordable and decent housing especially for the poor, the housing construction sector will continue to be formidable challenges to the Arroyo Administration. The key challenges for housing include the following:

1. Meeting the rapidly growing housing need.

Demand for housing continues to grow as the Philippine population continues to grow rapidly. Government resources are, however, limited and most public programs tend to produce complete shelter packages largely unaffordable to the poor. Annual population growth rate is estimated at 2.36 percent while urbanization rate (i.e., the proportion of urban areas to total land area) is 52 percent. For the period 2005-2010, the housing need is projected to be 3.75 million units broken down as follows:

Table 4-3 Housing Need, 2005-2010

Category	Total
Housing Backlog	984,466
- Doubled-Up Housing	387,315
- Replacement/Informal Settlers	588,853
- Homeless	8,298
Substandard (Upgrading)	186,334
New Households	2,585,272
Total	3,756,072

Source: HUDCC

In terms of geographical location, more than half of the total housing need (56%) is in Southern Tagalog, Metropolitan Manila, and Central Luzon, 21 percent in the Visayas and the remaining 23 percent in Mindanao (Table 4-4).

Table 4-4 Housing Need per Region, 2005-2010

Region	Annual Backlog	Cumulative Backlog and New Households						
		2005	2006	2007	2008	2009	2010	Total
NCR	58,412	82,182	82,434	82,689	82,946	83,206	83,469	496,928
CAR	1,309	6,494	6,589	6,685	6,783	6,882	6,984	40,416
I	5,556	25,027	25,446	25,874	26,310	26,757	27,212	156,626
II	4,078	17,725	18,032	18,346	18,667	18,995	19,330	111,094
III	12,569	71,938	73,837	75,798	77,821	79,909	82,064	461,368
IV	23,827	127,872	131,742	135,757	139,920	144,239	148,718	828,248
V	12,267	28,288	28,288	28,830	29,109	29,392	29,679	173,855
VI	16,816	36,941	37,255	37,574	37,898	38,322	38,561	226,455
VII	10,578	45,880	46,865	47,877	48,918	49,988	51,087	290,616
VIII	7,281	18,766	18,940	19,116	19,294	19,476	19,660	115,252
IX	7,642	21,824	22,133	22,449	22,772	23,101	23,438	135,717
X	5,912	18,880	19,164	19,455	19,751	20,054	20,364	117,668
XI	11,158	41,922	42,722	43,542	44,384	45,248	46,134	263,952
XII	6,661	18,033	18,270	18,511	18,758	19,009	19,266	111,847
ARMM	5,126	22,800	23,482	24,190	24,926	25,691	26,484	147,574
CARAGA	5,942	12,791	12,902	13,016	13,131	13,248	13,367	78,456
Total	195,133	597,362	608,370	619,708	631,389	643,422	655,821	3,756,072

Source: HUDCC

2. Expanding private sector participation in socialized housing financing and construction.

The banking system and private sector groups participate minimally in socialized housing, partly because they cannot compete with the subsidized (i.e., below market) housing loan interest rates of the government housing programs. With the thrust of government to shift towards a market-oriented housing finance system, a level playing field for both public and private housing programs will be ensured.

Efforts at the central level often do not meet the needs and preferences of the targeted beneficiaries. This supply-driven housing policy has resulted in the accumulation of about 100,000 unoccupied dwelling units over the years. Effective programs are better implemented at the local level, under a decentralized framework, where national agencies and private sector groups as well as NGOs work to support the LGUs' housing projects for various clientele.

3. Strengthening the capacity of housing institutions.

Despite the institutional reforms, there is still a long and tedious process of securing permits and licenses for housing and urban development.

At present, processing time for permits has been reduced from 90 days to 30-45 days, required signatures from 288 to 40, housing loan applications are processed within seven days, while requirements under the CMP have been reduced from 56 to 18 requirements. These improvements, however, are not enough and efforts are needed to further cut red tape in the system. This is exacerbated by the need for better coordination of agencies involved in

housing and land development and the inability of some LGUs to fully assume the devolved functions.

II. GOALS, STRATEGIES AND ACTION PLANS

A. Goals

The housing sector shall adopt a strategic framework anchored on a multi-stakeholder/tripartite, market-based, private sector and LGU-led reforms and approaches to meet the goals of: (a) job generation; (b) shelter security of the different housing market segments; and (c) the Millennium Development Goal of improving the lives of slum dwellers. The sector will work towards the decongestion of Metro Manila by developing housing centers/communities outside the metropolis in line with the President's 10-point Agenda.

An important component of the construction industry, housing could generate downstream economic activities and therefore, enhance productivity and competitiveness in the construction, real estate sector, and mortgage markets. The economic contribution of housing of 16.6 times consists of the following components: increase in raw materials, 1.88; increase in labor, 0.35; increase in taxes, 2.64; and other values, 11.74.

While traditionally viewed as a social development service, housing, as a labor-intensive activity, is now recognized as a potential provider of massive employment opportunities for about 1,063,037 urban and rural construction workers (i.e., professionals, skilled, semiskilled, and simply skilled workers) in the housing industry every year. Constructing a low-cost housing unit requires an average of eight persons working for three weeks or a total of 124 man-days.

B. Strategies

To help meet the above goals, the following priority strategies shall be pursued:

1. Expand private sector participation in socialized housing finance and construction

- a. Create a viable and sustainable source of housing finance through the establishment of an active and liquid secondary mortgage market;
- b. Redesign the subsidy mechanism to increase transparency and efficiency by phasing out interest rate subsidies;
- c. Increase the role of private financial institutions in financing housing through credit at market-based interest rates;
- d. Fasttrack disposition of assets and non-performing loans to generate additional funds for housing; and
- e. Pursue strategic linkages with client/sectoral groups, private developers for joint venture arrangements, and private banking sector.

The development of the secondary mortgage market is a scheme for fund generation in housing that is long awaited. The market will be stimulated for the buying and selling of mortgage-backed securities (e.g., housing loans, housing bonds)

at a discount especially for the PhP42 billion NHMFC portfolio once this is securitized or restructured for trading. At the same time, the subsidy mechanism for socialized housing will be rationalized from the current interest-based subsidy towards a more transparent, up-front amortization-based subsidy on the principal payments for socialized housing loans. There is therefore a need to institutionalize an “on-budget” amortization subsidy scheme for socialized housing to maintain its affordability and which should be kept separate from the housing finance market.

On the other hand, private sector financing for housing will be pursued under a market-oriented approach and lending tenor (i.e., market-based interest rates and repayment schemes) to remove distortions in housing finance. Joint venture schemes with the private sector will also be developed for public housing for the formal sector (i.e., members of HDMF, GSIS and SSS) in government properties proclaimed for housing purposes. These approaches will redefine the role of government in housing finance to ensure a better distribution of responsibilities and risks with the private sector.

2. *Continue to address the housing requirements of the formal and informal sectors particularly the socialized and low-cost housing categories*

- a. Scale up proven multi-stakeholder and cost-effective housing programs;
- b. Improve the security of tenure of households, improve land registration process, and adopt and develop innovative tenure arrangements to address the affordability factor;
- c. Relocate informal settlers occupying danger areas in Metro Manila in a just and humane manner;
- d. Support LGUs and private sector-led housing programs; and
- e. Develop new centers for housing in Luzon, Visayas, and Mindanao.

Proven multistakeholder and cost-effective housing programs that may be scaled up or expanded include the CMP, the Couples for Christ Gawad Kalinga 777, and the Habitat for Humanity Project. Innovative secure tenure arrangements that need to be further developed and pilot-tested include public rental, lease/ purchase and shared ownership, rent-to-own, usufruct or long-term lease of up to 99 years particularly for prime/ semi-prime properties in urban centers. To address the influx of informal settlers in danger zones (e.g., railways, riverside, *esteros*) in Metro Manila, the relocation of these settlers will be prioritized and undertaken in a just and humane manner in identified sites (Table 4-5).

In developing new housing centers outside Metro Manila, the LGUs and the private sector will take the lead in identifying new areas for residential development guided by their Comprehensive Land Use Plans (CLUPs). Priority areas for new housing development are the densely populated and fast growing urban centers nationwide.

Table 4-5 Housing Sector Priority Relocation Program

Program	Number of Families to be Relocated	Funding Requirement (P Million)
North Rail Relocation Program	37,850	7,736
Phase 1 Section 1	19,953	4,167
Caloocan North	-	127
Malabon	3,399	688
Valenzuela	4,102	831
Bulacan (Meycauayan to Malolos)	12,452	2,521
Phase 1 Section 2	17,627	3,569
Calumpit, Bulacan		
San Fernando		
Clark, Angeles		
South Rail Relocation Program	42,929	8,286
Caloocan South	1,223	226
Manila	8,597	1,590
Makati	2,843	578
Taguig	2,633	487
Parañaque	1,279	237
Muntinlupa	10,561	1,954
Laguna	15,793	3,214
Pasig River Rehabilitation Program	6,802	756
Esteros Program	21,047	2,253
Total	108,358	19,031

Source: HUDCC

3. Strengthen the institutional capacity of the housing agencies

- a. Elevate the HUDCC into the Department of Housing and Urban Development (DHUD);
- b. Pursue organizational restructuring and streamlining for cost-effective and efficient management; and
- c. Enhance collection efficiency and servicing of housing loans.

The transformation of the HUDCC into the DHUD is envisioned to strengthen the housing sector's institutional framework by establishing a lead agency for governance to address the pressing issues posed by a runaway population growth, rapid urbanization, urban poverty, growth disparities, and poor urban environment. The creation of the DHUD should strictly adhere to the scrap-and-build policy of the government so that neither additional budgetary allocation nor new personnel would be required. Meanwhile, the enhancement of collection efficiency and servicing of housing loans by housing finance institutions is expected to reach about 80 percent from the current 70 percent. This would be achieved mainly through outsourcing,

upgrading of operating systems and procedures, and enhancing financial system management.

4. *Enhance the capacity of LGUs*

- a. Further emphasize decentralization and devolution and infusing more authority, responsibility and accountability to LGUs in urban development, planning, finance, implementation and management in the delivery of housing and urban services.
- b. Establish Local Housing Boards in every city and municipality.
- c. Further streamline the processes in securing permits and licenses for housing and land developments, as well as in securing housing loans.

C. **Action Plan**

1. *Targets*

For 2005-2010, the housing sector will pursue the provision of housing for a total target of 1,145,668 households valued at Php 217.04 billion with a 68 percent to 32 percent ratio in favor of socialized housing (Table 4-6).

Table 4-6 Housing Targets, 2005-2010

Housing Package	Number of Units	Percentage Share
Socialized (below PhP225,000)	780,191	68.1 %
Low Cost (PhP225,000- 2 M)	365,282	31.8 %
Medium (PhP2 M-4 M)	195	0.01 %
Total	1,145,668	100.0 %

Source: HUDCC

The housing targets by program and key implementing shelter agencies are shown in Table 4-7.

2. *Legislative Agenda*

The following priority legislative agenda will be pursued:

- a. Rationalize coordination of key shelter agencies.
- Elevate HUDCC into the DHUD as the primary agency of government that will prepare, integrate, coordinate and supervise plans, programs and activities of the government relative to urban planning, development and renewal including land use zoning, housing provision, regulation and finance, and marginal settlement.

Table 4-7 Housing Targets by Program and Agency, 2005-2010

Program/Agency	Year						Total	Cost (PM)
	2005	2006	2007	2008	2009	2010		
A. Direct Housing Provision								
Socialized Housing								
NHA								
Resettlement	22,900	21,100	19,900	19,000	17,700	16,500	117,100	11,205
Slum Upgrading	5,800	5,500	5,200	4,800	4,500	4,000	29,800	1,151
Sites & Services	5,700	6,200	7,300	8,200	9,200	10,400	47,000	4,277
Core Housing	5,000	5,100	5,400	5,700	6,000	6,300	33,500	7,773
Community-Based Housing	7,400	8,900	10,700	11,800	13,200	14,800	66,800	2,970
Sub-total NHA	46,800	46,800	48,500	49,500	50,600	52,000	294,200	27,376
NHMFC								
Community Mortgage Program (CMP)	15,360	15,860	15,625	16,510	16,750	17,920	98,025	5,202
HDMF	18,313	20,694	23,384	26,423	29,858	33,739	152,411	26,582
GSIS	720	792	871	958	1,054	1,160	5,555	2,839
DBP	3,700	5,000	1,300	3,000	3,000	4,000	20,000	1,677
HUDCC								
Presidential Proclamation	35,000	35,000	35,000	35,000	35,000	35,000	210,000	--
Sub-total, Socialized	166,693	170,946	173,180	180,891	186,862	195,819	780,191	36,300
Low-Cost Housing								
NHA								
Medium-Rise Building	8,200	10,200	11,500	13,500	15,400	18,000	76,800	33,966
HDMF	26,403	29,835	33,713	38,096	43,048	48,644	219,739	85,062
GSIS	8,351	9,143	10,014	10,883	12,027	13,206	63,621	28,120
SSS	664	730	803	884	972	1,069	5,122	1,685
Sub-total, Low-cost	43,618	49,908	56,030	63,363	71,447	80,919	365,282	148,833
Medium-Cost Housing								
GSIS	25	28	30	33	37	42	195	4,532
Total Direct Housing Provision	210,336	220,881	229,240	244,287	258,345	276,780	1,145,668	217,044
B. Indirect Housing Provision								
HGC								
Retail Guaranty	22,340	24,574	27,031	29,735	32,708	35,979	172,367	87,981
Development Guaranty	2,482	2,730	3,003	3,304	3,634	3,998	19,151	10,165
Sub-total HGC	24,822	27,304	30,034	33,039	36,342	39,977	191,518	98,146
HLURB								
License to Sell Housing Units	131,320	134,000	136,680	139,360	141,705	144,050	827,115	
Subdivision/Condominium Projects	2,100	2,100	2,100	2,120	2,160	2,200	12,780	
LGUs Assisted on Comprehensive Land Use Planning (CLUP)	101	101	102	103	110	117	634	

Source: HUDCC

The DHUD bill seeks to rationalize the existing institutional set-up for housing and urban development which is complex and characterized by overlapping functions, mandates and programs of the agencies involved. The DHUD shall serve as the “one-stop shop” envisioned to cater to the housing needs of the country. The DHUD shall be the primary government agency that will facilitate and ensure the availability of affordable housing. The bill also proposes to restructure the different housing agencies and corporations to streamline the housing bureaucracy. To pursue this objective, the HUDCC (which is merely a coordinating body) shall be strengthened and empowered with direct control and supervision over all housing agencies and corporations.

- b. Promote sustainable source of housing finance.
- Propose legislation that will operationalize the Social Housing Finance Corporation (SHFC) as the primary institution responsible for addressing the housing needs of the bottom 30 percent poor households.

The SHFC shall have an authorized capital of PhP 15.0 billion. In addition, the SHFC shall be empowered to enter into loans or issue bonds and other debentures to raise funds for housing construction.

- Strengthen the Home Development Mutual Fund (HDMF) by establishing, developing, promoting and integrating a nationwide sound and viable mutual provident saving system.

This would allow mandatory coverage of all SSS and GSIS members and their respective employers. The legislation would, among others, set the maximum contribution rate of 2 percent and the membership term to 20 years or a total of 240 monthly contributions. The HDMF, as a provident fund, shall be private in character.

- c. Strengthen housing regulation.
- Propose legislation on the prescription of time periods for the issuance of housing related certifications, clearances and permits and providing sanctions thereof.

The proposed bill aims to institutionalize a system that will fast track the issuance of housing-related certifications, clearances and permits and impose sanctions for failure to observe the same. All applications for these permits and certifications shall be deemed approved should the agencies concerned (e.g., DAR, DENR, HLURB, NIA, PCA, SRA and LGUs) fail to process the said applications within the prescribed period.

- Establish Local Housing Boards in Every City and Municipality.

The proposed Local Housing Boards shall formulate, develop, implement and monitor policies on the provision of housing and resettlement areas and on the observance of the right of the underprivileged and homeless to a just and humane eviction and demolition. The Boards shall be empowered to: (a) prepare local shelter plans; (b) assist in the preparation of CLUPs; (c) approve preliminary and final subdivision and development plans; (d) evaluate and resolve issues in the issuance of development permits; (e) ensure compliance with the 20 percent balanced housing requirement in the Urban Development and Housing Act (UDHA) (which provides that in every housing development project, at least 20 % of the units or project cost should be for socialized housing); (f) identify lands for socialized housing, among others.

- Institute the National Land Use Policy, which shall integrate efforts, monitor development relating to land use and evolve policies, regulations and directions of land use planning processes.

The proposed National Land Use Policy mandates the formulation of national planning and zoning guidelines and standards, which will guide LGUs in the formulation of their CLUPs and enactment of zoning ordinances. The Policy also categorizes uses of land into protection, land use, settlements development, and infrastructure development.

- Create the field of land title insurance to protect the insured against title defects, liens, encumbrances and fraud.

The proposed Title Insurance Act is aimed at building confidence of financial institutions and individuals to proceed and deal with real property, knowing that, should it later turn out that the title sold or mortgaged was a fake, the financial institution or individual will be reimbursed by the insurance company for the losses. The legislation will include title insurance in the Insurance Code of 1978. The passage of this law can also help pave the way for the development of the secondary mortgage market as it promotes investor confidence in mortgage-backed assets.

Chapter 5

Tourism

I. SITUATIONER

The tourism industry is among the sectors that has the potential to boost the Philippine economy. It can be a powerful economic growth engine for the country, if developed in a sustainable manner. It deserves to be a top priority for national development because of the following reasons:

- it is a powerful and efficient industry;
- its impacts on social development are broad and deep;
- it creates strong peripheral benefits;
- the Philippines can compete and win; and
- it helps maintain cultural integrity, essential ecological processes, biological diversity and life support systems.

The industry is powerful and efficient because:

- it is global in size;
- it has a strong potential for growth;
- it can accommodate large levels of investments;
- it has a very high value added retention rate, i.e., relatively low import component;
- it creates jobs;
- it generates huge foreign exchange movements; and
- it can be developed quickly.

Its impacts on social development are broad and deep because:

- it is both labor and capital intensive;
- it promotes skills and vocational development that can be exported; and
- it promotes a 'culture of tourism' through a safer and cleaner environment that benefits not only tourists but also the entire community.

It promotes and creates strong peripheral benefits to other economic sectors and society as a whole through:

- tourism infrastructure spending;
- catalyzing entrepreneurship; and
- improving the image of the country in international trade and investment.

The Philippines can compete and win in developing its tourism sector because:

- it possesses ‘timeless’ competitive advantage of proximity to North-East Asia, especially China, Japan, and Korea, and it also has world class natural attractions;
- it is relatively free of restrictions unlike the other export sectors of the economy; and
- it can create sizeable niche markets.

During the first semester of 2004 alone, international tourist arrivals in the Philippines reached 1,140,517 against 861,643 arrivals during the same period last year resulting in a 32.4 percent increase. Visitor receipts also posted significant growth reaching US\$1.001 billion for the first semester of 2004 or a 40.6 percent increase from the same period in 2003. Employment generation, on the other hand, reached 2.86 million in 2003.

But tourist arrivals of two million a year pale in comparison with that of Thailand and Malaysia, which are in the 10-million mark. To achieve a turnaround in 2005-2006, a determined and creative program should be implemented to reinvigorate the tourism industry.

Moreover, to harness growth in the tourism industry, focus, execution, and coordinated leadership against priority tourist markets and destinations are required.

II. GOALS, STRATEGIES AND ACTION PLANS

A. National Tourism Strategy

1. Market-Product Focus

The 10 most attractive tourist segments for the Philippines towards 2010 are the short-haul sightseeing and shopping; long-haul mass comfort; long-haul backpacker; long-haul niche beach; domestic, short-haul ecotourism; short-haul beach lover; short-haul recreation; meetings, incentives, conventions and exhibitions (MICE); and Balikbayan segments.

The product focus should be:

- 10-14 day well-organized package tours based on several tourist-ready destinations in the long-haul mass comfort segment;
- 4-5 day well-organized package tours based on convenient flights to specific cluster areas offering sightseeing, shopping for native branded goods, eating out, and a good range of accommodation in the short-haul sightseeing and shopper segment;
- good beaches with direct access, varied accommodation, and also varied choices of convenient sun and fun activities in the short-haul beach lover segment;
- affordable packages for long weekends and annual vacations in the domestic market;
- golf, gaming, diving, spa or theme parks worth visiting in the short-haul recreation travel segment;
- convenient and well organized 4-5 day adventure activities at natural sites in the short-haul ecotourism segment;
- multiple destinations for 14 (or more) days with cheap access and accommodation in the backpacker segment;
- a ‘wow-level’ beach and/or accommodation with a competitive range of packages for the long-haul niche segment;
- worldclass convention and exhibit facilities together with competitively priced flights and hotel accommodations for the MICE segment; and

- affordable packages offering a range of activities like shopping and dining together with relatives in the Balikbayan segment.

Based on estimated spending, Philippine market share, and the ability to meet market segment needs, the following will be the priority activities:

Priority 1: Aggressive multichannel promotion of the short-haul beachgoer and sightseeing/shopper, and domestic market segments, related products, and destinations. These markets should receive between 60 and 70 percent of the promotional budget;

Priority 2: Niche-based tailored promotion of the short-haul recreation travelers and ecotourists; and the strategic ‘ambassadors’ backpacker and balikbayan segments, and related products. These should receive between 20 and 30 percent of the promotional budget focusing on ‘rifle shot’ promotions aimed at specific niches such as golf, diving, among others; and

Priority 3: Long-term tactical marketing to the long-haul markets and MICE segments, and related products. These should receive 20 to 30 percent of the promotion budget in the long-term, focusing on nonmedia based campaigns.

In the short-haul market place, the primary focus should be China, Korea, and Japan. People from these countries and in the ASEAN are emerging as the new major tourists in Southeast Asia, in addition to the Europeans and Americans. However, tourism promotion will be increased in Hongkong, Taiwan, ASEAN, Australia, North America and Europe.

2. Destination Focus

Based on the following criteria-carrying capacity, fit with Priority 1 and 2 market segments, the number of major attractions contained therein, the “Wow” Factor, available infrastructure, readiness/existing tourism volume, and access and other factors, eight priority destinations shall be classified into three groups:

- Major destinations: comprising Cebu/Bohol/Camiguin, Palawan, Manila plus Tagaytay, and Davao as potential major destinations;
- Minor destinations: Vigan/Laoag, and Clark/Subic; and
- Special interest destinations: Baguio/Banaue, and Boracay

Priority actions in each set of destinations are:

- for major destinations, priority shall be given to major infrastructure improvement, aggressively closing gaps, and promoting these destinations. In the case of Davao, the priority shall be to build for its future after resolving security issues;
- in the case of special interest destinations, the priority shall be to increase accessibility, and improve the existing tourism products being offered; and
- for minor destinations, the priority shall be to build more attractions, and promote these as secondary options.

B. Building Priority Tourism Zones

The priority destinations shall be built up by:

- establishing tourism economic zones (TEZs) in the priority destinations to create accountability, and mobilize investments;
- creating a Tourist Enterprise Zone Authority (TEZA) to manage the overall zone development policy and strategy;
- enabling action to launch and fund TEZs and the TEZA; and
- removing national level barriers that impede the free flow of investment and tourists to and within the country.

The TEZs shall be the main vehicle for focused development at a local level within the priority destinations. These sites need to be selected; their roles, functions, and development clearly defined in terms of management, master planning, infrastructure, financing, corporate marketing, and investor marketing; the correct mix of public and private participation defined in each TEZ; and specific authorities provided to each TEZ to ensure capacities to win stakeholder cooperation.

Hotels, restaurants, resorts, tourism enterprises and other tourism-related products and activities shall be developed within these identified tourism zones and hubs. Moreover, health tourism, ecotourism, agritourism, cultural tourism, English as Second Language Tour Program, handicraft skills demo centers, and adventure tourism shall be enhanced and promoted while new tourism products shall be developed. Industry and community-based tourism training programs shall be conducted in coordination with local government units (LGUs). Other resource-oriented departments like Agriculture, Agrarian Reform, as well as the Environment and Natural Resources, shall be involved in tourism development.

The creation of the TEZA shall be studied consistent with the government's policy to streamline departments, offices and agencies including government-owned and controlled corporations.

To remove the barriers to investment and tourists:

- lands with high potential shall be pre-zoned and titled in order to reduce the lengthy land acquisition and conversion process, i.e. a land-banking program should also be undertaken;
- financial incentives shall be provided to big ticket investments in the tourism zones to reduce the risk associated with the uncertain investment and tax environment;
- master plans shall be used to prioritize line agency and LGU participation to ensure timely infrastructure development;
- tourism shall be a top investment priority for the Department of Trade and Industry (DTI) where the President and Cabinet members shall be involved in investor marketing to signal government commitment to tourism;
- the cost of funds shall be reduced by sourcing soft loans for private sector investment, and addressing security concerns through press relations, increased transparency of tourist safety, and resolution of conflicts;
- the tourism force within the Philippine National Police shall be expanded to overcome the poor image of security and safety in key destinations;
- visa and other restrictions that make it difficult for legitimate tourists to enter the country shall be addressed by adopting interregional arrangements on travel requirements and improving the hosting attitude of front-line immigration and customs officers at entry ports;
- a proactive approach to travel advisory warnings shall be taken by convening special meetings with the diplomatic corps on tourism security and travel advisories; and

- tourism investment incentives shall be enhanced consistent with the policy on rationalization of fiscal incentives.

In the air access area:

- the airline industry shall be liberalized;
- charter flights shall be facilitated and organized to release constraints in key markets;
- DOT representation shall be included in Air Panels to represent tourism interest;
- key tourist airports in Palawan/Coron, Bohol and Iloilo shall be upgraded to international standards;
- charges/fees imposed on international carriers shall be rationalized to encourage them to mount additional flights; and
- air talks with Korea shall be opened.

C. TOURISM INFRASTRUCTURE (Chapter 4)

D. LEADERSHIP AND ACCOUNTABILITY (Part 5, Chapter 19 - Anti-Corruption and Good Governance)

E. EXPECTED OUTCOMES

Between 2000 and 2010:

- international arrivals shall grow to 5 million;
- employment generated shall increase from around 3 million to 6 million;
- gross domestic product (GDP) contribution shall increase to around US\$17 billion (13.6 percent of total); and
- domestic tourism expenditure shall increase from US\$ 0.8 billion to US\$ 2.5 billion.

These outcomes would in turn induce the much needed growth contributions in investment, income, employment, and foreign exchange earnings from the tourism sector.

Chapter 6

Infrastructure

Development plans should consider our archipelagic economy. Our islands have to be interconnected by good transport and communications networks that will open up new economic opportunities, reduce transportation and transaction costs of business, and increase access to social services. This interconnection will also strengthen the socioeconomic, cultural and political linkages between and among regions. Eventually, this connection will decentralize progress and bring development to the countryside.

The cost of these infrastructure projects is enormous and beyond the capacity of any one level of government. The government shall thus tap local government units and the private sector to be its partners in the development and implementation of infrastructure. The implementing rules and regulations of the Build-Operate-Transfer (BOT) Law shall be amended to promote wider private sector participation. It must be noted that the first generation of BOT projects brought more than US\$26 billion in new infrastructure to the country at no cost to the Philippine government.

The Department of Trade and Industry (DTI) will create a Philippine Infrastructure Corporation (PIC) as a subsidiary of the National Development Company so that the government could build airports, seaports, railways, dams, irrigation systems, and expressways critical to economic growth. The government bonds sale would provide the seed money and the balance provided by attractive, revitalized BOT or similar agreement. The PIC will manage the infrastructure fund by bidding out and awarding construction projects to the most qualified entities. PIC will not have an operating arm but will focus on assuring that funds are properly managed and that target projects are completed on time.

TRANSPORT INFRASTRUCTURE

I. SITUATIONER

An efficient transport network will reshape the country's physical and economic configuration. From fragmented and island economies separated by mountains and seas, the country will develop into a unified, well-integrated economy where people and goods can move and trade swiftly and efficiently, locally and internationally.

While Central Luzon, Metro Manila and the Calabarzon area account for 30 percent of the country's population and about 55 percent of the country's gross domestic product (GDP), these areas have lost or are fast losing their agricultural land. Food will have to be sourced from far regions like Cagayan Valley and Mindanao. The transport and logistics system should thus be adequate and efficient to help bring down the cost of food for workers, especially in the country's industrial heartland. This will make food plentiful at reasonable prices and make the country's wages internationally competitive.

The Philippines' transport system relies heavily on the road network which handles about 90 percent of the country's passenger movement and about 50 percent of freight movement. While

national roads are extensive and serve priority production areas and population centers, roads that lead to many tourism destinations and conflict-affected areas are inadequate. Of the approximately 202,000 kilometers (km) of roads nationwide, 15 percent are classified as national roads, and therefore, provided for and maintained by the Department of Public Works and Highways (DPWH). Provincial roads account for 13 percent, while city/municipal roads constitute 11 percent of the total. The balance of 60 percent of the road network is classified as barangay roads, which are mostly unpaved and built in the past by DPWH. Farm-to-market roads fall under this last category. Barangay roads have been devolved to local government units (LGUs). National roads in the Autonomous Region in Muslim Mindanao (ARRM) region have also been transferred from DPWH to the ARMM government. National arterial and secondary roads are currently 70 percent paved while 93 percent of national bridges are permanent.

There are more than 1,400 ports in the country but many of them are extremely small. There are 408 private ports, mostly dedicated for the private enterprises' exclusive use. There are 213 fishing ports which are handled by the Philippine Fisheries Development Authority. The Philippine Ports Authority (PPA) operates 114 public ports. The remaining ports are very small and serve mainly as feeder ports.

Interisland routes provide regular roll-on roll-off (RORO) vessel operations, connecting the main islands of Luzon, Visayas and Mindanao. The recent implementation of the Strong Republic Nautical Highway (SRNH) connected the islands of Luzon to Mindoro, Panay, Guimaras, Negros and Mindanao.

In past years, social and economic opportunities have been concentrated in Metro Manila, prompting migration to the metropolis. Overpopulation, however, has depleted the resources of the region, deteriorated the environment and increased traffic congestion. Despite the decreased desirability of the living environment, people have continued to flock into the National Capital Region (NCR).

Studies conducted for the Philippines' transport sector identified several challenges, which include the need for efficient transport institutions; increased private sector participation in the implementation of transport infrastructure and services; and improved monitoring and maintenance of existing infrastructure, especially of roads. Addressing the above challenges will be proactive steps to achieving the development goals for the country, as these will greatly improve the transportation backbone.

II. GOALS, STRATEGIES AND ACTION PLANS

Transport infrastructure shall be provided in pursuit of the following:

- Providing easier access to markets at home and abroad to alleviate poverty in the countryside and isolated regions;
- Enhancing peace and order in conflict-affected regions through efficient transport and trade;
- Strengthening national unity, family bonds and tourism by making the movement of people faster, cheaper and safer;
- Facilitating the decongestion of Metro Manila via a transport logistics system that would ensure efficient linkages between its business centers and nearby provinces; and
- Generating more transport infrastructure with minimal budget cover or contingent liabilities. Private sector-initiated infrastructure should be deficit-neutral, with minimum government exposure in the project.

The government will prioritize infrastructure projects that are strategic and critical to stimulate trade and investments, such as the RORO ports and the highways connecting them, the roads and rail systems that will decongest Metro Manila, the Clark-Subic Highway, and highways that are catalytic to development in Luzon, Visayas and Mindanao, roads and airports to tourism hubs, and affirmative action projects for Mindanao and other highly impoverished conflict-ridden areas.

The government will pursue a prioritized program of airport development to serve as gateways to regional centers and major tourism destinations. Meanwhile, the Clark (Diosdado Macapagal) International Airport will be upgraded to an international service and logistic center in the southeast Asian region.

Deregulation and progressive liberalization of civil aviation will be put in operation by adopting a trigger mechanism anchored on the carriers' load factor of at least 60 percent attained over a specified period of time.

The commercial viability of airports will be enhanced through full cost recovery of air services, including airport investment.

To enhance mobility and improve linkages between islands/provide access to markets/activity centers, as well as support the agrofiseries sector, the government shall expand the coverage of the SRNH through the completion of the vital links of the Western, Eastern and Central Nautical Highways.

A Maritime Equity Corporation of the Philippines will be established to provide support to the full implementation of the Road-RORO Terminal System through the acquisition of modern RORO vessels to be leased to qualified operators under a lease purchase agreement.

To encourage private sector participation in port development, simplification of the guidelines and procedures in the processing/issuance of required Clearance to Develop/Permit to Construct and Certificate of Registration/Permit to Operate shall be pursued. To further enhance privatization and in support of Executive Order (EO) 170, Promoting Private Sector Participation and Investment in the Development and Operation of the Road Roll-on /Roll-off (RORO) Terminal System, and 170-A, Amending EO 170 to Expand the Coverage of the RORO Terminal System, the Terms of Reference for the privatization of existing government-owned SRNH RORO ports/terminals shall be prepared.

To make the maritime transport more cost-efficient and discourage monopolies/cartels, the government will attract new players in the industry through deregulation of routes and rates. A comprehensive review of the present port tariff system shall be undertaken and consequent development and implementation of a cost-based tariff shall be pursued. The application of the SRNH RORO tariff, which eliminates cargo-handling costs, will be expanded to cover all ports where RORO operations are being carried out. In its place, a RORO Terminal Fee Cash Ticket to facilitate movement and documentation of purely RORO cargo at SRNH ports will be applied.

Priority shall be given to the coordination of port development plans to ensure integrated and efficient port system. The government shall likewise encourage modernization of vessels by giving incentives as embodied in the newly enacted RA 9295, An Act Promoting the Development of the Philippine Domestic Shipping, Shipbuilding and Ship Repair and Ship Breaking, Ordaining Reforms in Government Policies Towards Shipping in the Philippines, and for Other Purposes.

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A “users pay” culture where the road users will be the one to pay at least for the maintenance of the roads shall be pursued.

To allow the strategic allocation of public resources, the hierarchy of priority activities shall be as follows: (a) maintenance of existing assets; (b) rehabilitation of damaged sections; (c) improvement and widening of heavily traveled roads; and (d) construction of new roads and missing links in the road network.

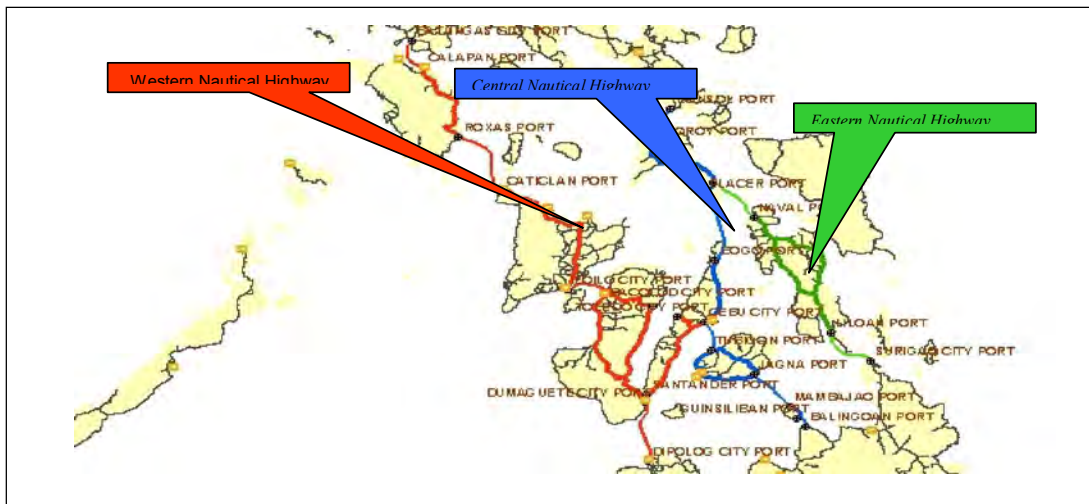
To ensure compliance with international safety standards, the Communications, Navigation and Surveillance/Air Traffic Management will be implemented in accordance with International Civil Aviation Organization standards. Meanwhile, road safety will be actively promoted through the implementation of the Road Safety Action Plan formulated by the interagency Road Safety Committee headed by the Department of Transportation and Communications (DOTC). Maritime safety and security will also be enhanced through the ratification of maritime safety and security related conventions.

A. Nautical Highways to Link the Entire Country (PhP40,000 million)

Transport cost from Mindanao through the Visayas to Luzon shall be reduced. The nautical highway system introduced in 2003 to maximize the use of the RORO system to transport produce from Mindanao through the Visayas to Luzon has reduced travel time by 10 hours, and reduced cost by 40 percent for passengers and 30 percent for cargo. The nautical highway system shall be completed through the following high priority routes:

1. Western Nautical Highway (also known as Strong Republic Nautical Highway)
 - Oroquieta City-Dapitan City-Dipolog City Road
 - Dipolog-Dumaguete City RORO
 - Dumaguete-Samboan, Cebu RORO
 - Samboan-Barili-Toledo City Road
 - Toledo-San Carlos City RORO
 - San Carlos- Dumaguete Road
 - Dumaguete-Bacolod City Roads
 - Dumaguete-Bais-Mabinay-Kabankalan-Bacolod route
 - Dumaguete North Road-San Carlos Coastal-Bacolod North Road
 - Bacolod-Iloilo City RORO
 - Iloilo City-Caticlan (Aklan) Roads
 - Iloilo City-Passi-Calinog-Ivisan-Kalibo-Nabas-Caticlan Road
 - Iloilo East Coast-Capiz Road
 - Caticlan, Aklan-Roxas, Mindoro Oriental RORO
 - Roxas-Calapan, Mindoro Oriental Road
 - Calapan-Batangas City RORO

Figure 6-1 Nautical Highways to Link the Entire Country



Source: DPWH

2. Central Nautical Highway
 - Calinan, Davao-Buda, Bukidnon-Misamis Oriental Road
 - Butuan City-Agusan del Norte-Misamis Oriental Road
 - Balingoan, Misamis Oriental-Guinsiliban, Camiguin RORO
 - Guinsiliban-Mambajao Road, Camiguin
 - Mambajao, Camiguin-Jagna, Bohol RORO
 - Jagna-Tubigon Roads, Bohol
 - Bohol Circumferential Road
 - [Loay Interior Road] Jagna-Sierra Bullones-Clarín-Tubigon Road
 - Tubigon, Bohol-Cebu City RORO
 - Cebu City-Toledo Road
 - Toledo-San Carlos RORO
 - San Carlos-Dumaguete Road
 - Dumaguete-Samboan RORO
 - Samboan-Cebu City Road
 - Cebu City-San Remigio, Cebu Road
 - San Remigio-Placer, Masbate RORO
 - Placer, Masbate-Aroroy, Masbate Road
 - Aroroy, Masbate-Boca Engano, Masbate RORO
 - Boca Engano, Masbate-Claveria, Masbate Road
 - Claveria, Masbate-Pantao, Albay RORO
 - Claveria, Masbate-San Pascual, Masbate Road
 - San Pascual, Masbate-Pasacao, Camarines Sur RORO
3. Eastern Nautical Highway
 - Davao-Compostela Valley-(Alegria-Santiago, Bayugan-San Francisco-Trento-Monkayo)-Agusan-Surigao Road
 - Surigao City-Liloan, Southern Leyte RORO
 - Liloan, Southern Leyte-Naval, Biliran Highway
 - Naval, Biliran-Cataingan, Masbate RORO
 - Cataingan-Aroroy, Masbate Highway

B. Decongestion of Metro Manila

Metro Manila or the NCR has consistently dominated the country's economic activities contributing more than 30 percent to the total domestic output. NCR is not only the center of commerce, but is also the seat of government and the financial and educational center of the country.

The challenge, therefore, is to spread development and provide new opportunities for growth in other regions to decongest Metro Manila. The government will lead in this effort through the establishment of new centers of government, business and housing in Luzon, Visayas and Mindanao. This will also entail the creation of a transport logistics system that will facilitate the decongestion of Metro Manila by ensuring efficient linkages between its business centers and nearby provinces.

1. Establish new centers for government, business and housing in Luzon, in the Visayas, and in Mindanao

The promotion of regional development and the decentralization of government departments and agencies will be undertaken through the transfer and establishment of new government centers outside Metro Manila to regions where they are needed most as follows:

- a. Department of Agriculture in Mindanao
- b. Department of Tourism in Cebu
- c. Department of Land Reform in Iloilo
- d. Department of Transportation in Clark
- e. Department of Public Work and Highways in Bicol
- f. New government center in Clark, envisioned to be ready ten years hence

These new centers shall serve as catalysts to growth by facilitating the entry of investments and other economic activities and eventually create new hubs for business and housing as counter magnets to NCR. To facilitate the transfer of the concerned departments, the President issued EO 352, s. 2004, creating the Office of the Presidential Adviser for New Government Centers.

Each department shall prepare their respective plans to effect their transfer within the next six years. In addition to the benefits that are provided for in the Civil Service Code, a standard package of assistance and benefits for the affected employees will also be prepared, including but not limited to moving out cost, housing and education arrangements, and other measures that will allay the fears of the employees connected with the transfer.

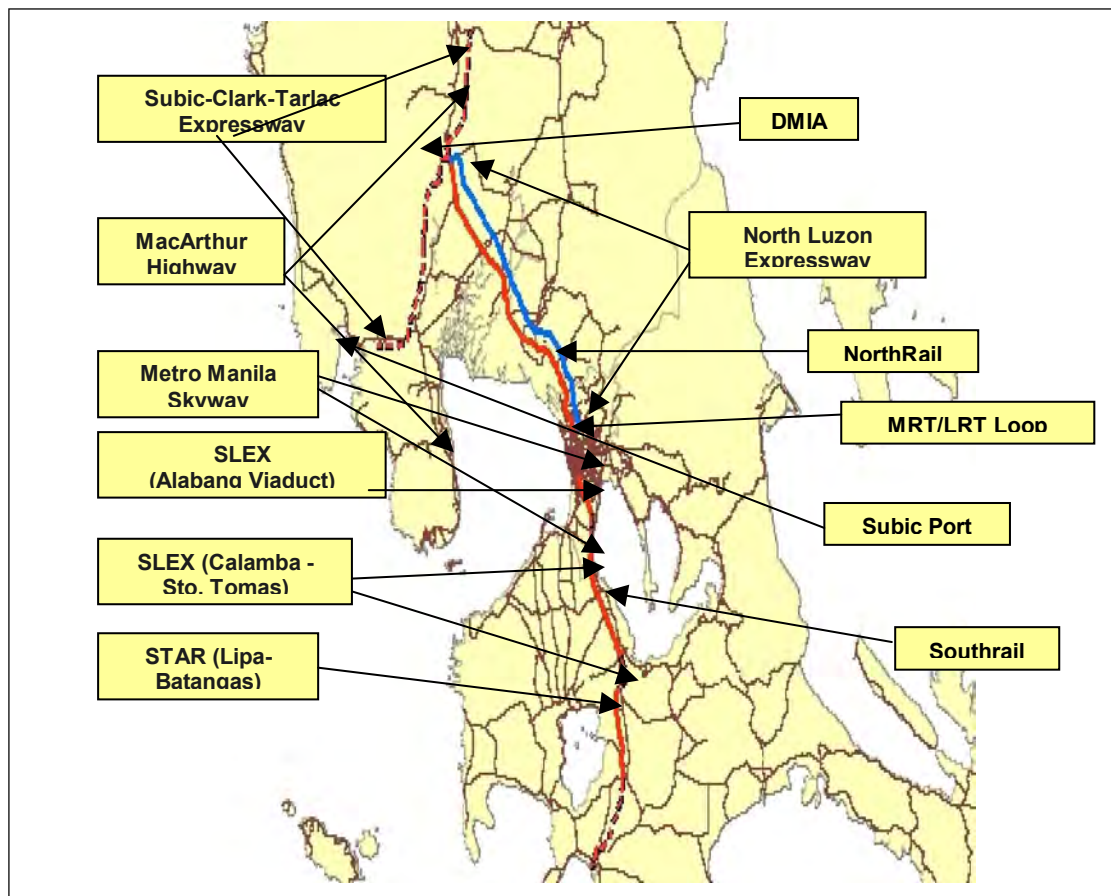
The development of new housing centers outside Metro Manila will be undertaken with the LGUs and the private sector as catalysts guided by their Comprehensive Land Use Plans (CLUPs). Priority areas for new housing development are highly populated and fast-growing urban centers (*Chapter 4: Housing Construction*).

2. Develop Clark-Subic

The Northrail Project will provide efficient transport service between Metro Manila and Central and Northern Luzon thus providing a solution to the metro traffic problem and encouraging the urban sprawl outside the Metro Manila area. The entire Northrail project, when completed, is expected to encourage the dispersal of Metro Manila population towards Central Luzon, and potentially, Northern Luzon.

The widening and improvement of the North Luzon Expressway to be completed by early 2005, together with the proposed widening of MacArthur Highway, will induce decongestion of Metro Manila towards Central Luzon.

Figure 6-2 Projects to Decongest Metro Manila and Develop Clark-Subic



Source: DPWH

3. Develop the Southern Luzon Corridor (PhP21,837 million)

The government shall develop the Southern Luzon/Southern Tagalog Arterial Road Expressway all the way to Batangas Port as an industrial belt south of Metro Manila. It will also complete the Southrail to Bicol route and build dormitory suburbs linked to railroad hubs. This will make housing projects outside of Metro Manila, where land is cheaper and the lifestyle more conducive to family, viable. Once developers see the construction of the transport links breaking ground, they will begin work on the ancillary housing projects.

4. Improve transport within Metro Manila

a. Final Linkage of the MRT/LRT commuter loop (PhP11,424 million)

The mass transport system in Metro Manila will be further enhanced through the implementation of rail-based mass transport system such as the MRT 3-LRT Line 1 Loop as well as the adoption of a

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unified ticketing system for MRT/LRT Lines. LGU involvement in the financing of MRT/LRT projects will also be encouraged.

- b. Rationalization of Metro Manila infrastructure with the following priorities:
 - R-10
 - McArthur Highway
 - Commonwealth Avenue
 - Quezon Avenue
 - Marcos Highway
 - Epifanio de los Santos Avenue (EDSA)
 - C-5
- c. Traffic congestion in Metro Manila and other urban centers will be addressed through traffic management schemes, provision of facilities for safe and efficient pedestrian flow, and the construction of privately funded expressways.
- d. Integrated transfer terminal facilities for provincial buses operating along the northern Luzon-Metro Manila and the southern Luzon-Metro Manila routes shall be established at the northern and southern edge of Metro Manila to reduce and eventually remove provincial public buses from the heavily congested thoroughfares of the metropolis.

5. ***Address critical infrastructure bottlenecks along national roads and bridges to speed traffic out of Metro Manila. Among the priority projects are the following:***

- Skyway Extension from Bicutan to Alabang
- SLEX/STAR
- Manila-Cavite Expressways
- North Luzon Expressway
- MacArthur Highway (Widening)
- Marcos Highway to Antipolo

C. **Tourism Infrastructure: Access to Major Tourism Destinations** (*Chapter 5: Tourism*)
(Roads Component: PhP19,474 million)
(Airports Component: PhP14,650 Million)

Roads leading to major tourism destinations shall be improved and ports and airports shall be rehabilitated/upgraded/constructed to serve as gateways to tourism complexes.

1. Cebu-Bohol-Camiguin
 - Panglao Airport
 - Dalaguete-Badian Road
 - Toledo-Tabuelan Road
 - Barili-Carcar-Bato Road
 - Panglao Roads
 - Bohol Circumferential Road
 - Loay Interior Road, Bohol
 - Jagna, Bohol-Mambajao, Camiguin RORO

2. Clark-Subic
3. Cordillera
 - San Fernando Airport
 - Kennon Road
 - Halsema Highway
 - Baguio City Roads
 - Ifugao Roads
 - Acop-Kapangan-Kibungan Road, Benguet
 - Gruel-Bocod-Kabayan-Buguias Road, Benguet
 - Ilocos Sur-Benguet/Mt. Province Road
 - Mt. Province-Cagayan Road
 - Mt. Province-Pinukpuk, Kalinga Road
 - Kalinga-Abra Road
4. Davao
 - Davao-Samal Island Garden City – Lupon, Davao Oriental RORO
 - MIAA to manage Davao Airport
 - Davao Gulf Development
5. Ilocos: Laoag Airport Terminal
6. Boracay
 - Iloilo Airport
 - Bacolod Airport
 - Create Boracay Commission
7. Palawan: Coron Airport

For other infrastructure, the Zone Master Plan will be the key tool to plan and prioritize the program and spending.

D. Affirmative Action for Peace and Development in Mindanao and Other Highly Impoverished Areas (PhP 66,635 million)

The road network in underdeveloped regions and road leading to conflict-affected areas will be improved to promote development and to help solve the peace and order problems. Technical and financial assistance will be provided particularly to 5th and 6th class LGUs. The priority road projects are:

1. Mindanao Priorities:
 - Malabang, Doblison-Kapatagan-Molave Raod & Monte Alegre-Tukuran Road, Lanao del Sur, Lanao del Norte and Zamboanga del Sur
 - Lake Lanao Circumferential Road
 - Awang-Upi-Lebak-Kalamansig-Palimbang Road, Maguindanao and Sultan Kudarat
 - Basilan, Sulu, Lanao del Sur and Maguindanao Roads
 - Sibuco-Sirawai-Siocon-Baligayan Road
 - Pagadian-Zamboanga Road
 - Pagadian-Ozamis Road
 - Zamboanga West Coastal Road

- Iligan-Aurora Road
 - Iligan-Bukidnon Road
 - 2nd Magsaysay Bridge and Butuan City Bypass
 - Surigao-Davao Coastal Road, Surigao del Sur and Davao Oriental
 - Tagum-Mati-Baganga Road, Compostela Valley and Davao Oriental
 - Cotabato-Gen.Santos Road
 - Rural Road Network
 - ARMM
 - Compostela Valley
 - Caraga Region
 - Western Mindanao
 - Bridge Construction and Replacement
 - Western Mindanao
 - Northern Mindanao
 - Davao Region
 - Caraga Region
2. Bicol: the poorest region outside ARMM Priorities:
- Mabolo Bridge, Naga City
 - Tigaon-Mayong Road, Camarines Sur
 - Ocampo-Tigaon-Goa-Lagonoy-Presentacion-Gachitorenna-Caramoan-Guia Road, Camarines Sur
 - Tinambac-Siruma Road, Camarines Sur
 - Camarines Sur-Tiwi-Legaspi-Manito-Sorsogon Road
 - Caramoan Peninsula Roads
 - Ligao-Pio Duran Road, Albay
 - Pilar-Donsol Road, Sorsogon
 - Catanduanes Circumferential Road
3. Region VIII Priorities:
- Southern Leyte: Himayangan-Silago-Abuyog and Liloan-San Ricardo Roads
 - Eastern Samar: Rural Road Network and Jct. Taft-Borongan Road
 - Northeastern Samar; Pacific Coastal Road from Laoang to Oras
4. Negros-Panay Priorities:
- Hinobaan-Basay & La Castellana-Kanlaon Road, Negros Occidental/Oriental
 - Bayawan-Kalumbayan Road, Negros Oriental
 - Iloilo-Antique Road
 - Rural Road Network
5. Other Priority Rural Road Networks
- Ilocos Sur: Santiago-Lidlidda-San Emilio Road
 - Pangasinan: Lingayen-Labrador Road
 - Pampanga: Baliwag-Boundary-Candaba Road
 - Batangas: San Juan-Laiya Road
 - Quezon: Bondoc Peninsula Roads and Infanta-Marikina Road
 - Aurora: Baler-Casiguran Roads
 - Cordillera: Abra, Benguet, Mt. Province, Kalinga, Apayao, Ifugao Arterial and Secondary roads.

E . Bureaucratic and Legislative Reforms (See Part Five)

Regulatory and legal reforms will be implemented by promoting the independence of the regulator and separate operator and regulator functions and by setting/enforcement of safety, quality, environmental, and legal standards. Moreover, institutional reforms will be implemented to ensure transparency and accountability and to mitigate, if not eradicate, administrative impropriety of respective government agencies, and to resolve conflicting mandates among agencies involved in the infrastructure planning and implementation.

Air Transport. Consistent with the scrap-and-build policy of the national government, the conversion of the Air Transportation Office into a corporate body shall be pursued. An independent oversight unit shall be established within the DOTC to handle economic regulation and safety concerns and an independent accident investigation group will be established, also within DOTC.

Water Transport. The government shall restructure port institution to improve port service. Regulatory functions shall be transferred to an independent regulator (or regulators), which shall have jurisdiction over all ports. The amendment of the PPA Charter will be pursued to address, among other things, the dual role of PPA as port regulator and operator.

Rail Transport. To enhance rail services, the sector's institutions will be restructured to separate the policy, planning and regulation functions from the delivery of train services. This will then enable private sector participation. To achieve this objective, a Strategic Rail Authority/Office will be established in DOTC to be responsible for policy/strategy and regulation. A Track Authority will also be established out of the existing Philippine National Railways and Light Rail Transit Authority, which would own the right-of-way and infrastructure. Private concessionaires would provide all rail services.

Furthermore, the role of the Metropolitan Manila Development Authority vis-à-vis transport agencies will be reviewed to rationalize functions of infrastructure-related agencies.

F. Reforms to Resolve Financing Issues

The framework for private sector participation in government projects shall be reviewed and improved. Particularly, the BOT Law and its implementing rules and regulations shall be reviewed and amended and guidelines will be formulated to provide the overall framework for joint ventures.

A “users pay” culture wherein the road users will be the one to pay at least for the maintenance of the roads shall be developed. Related to this, an autonomous Highway Authority will be created out of the existing DPWH that will manage the national roads. The Road Fund will also be expanded by amending RA 8794 (An Act Imposing a Vehicle User's Charge on Owners of All Types of Vehicles and for Other Purposes) to include fuel levy.

Transport infrastructure projects initiated by the national government (NG) should not be taxed by local governments as LGUs are the primary beneficiaries of these NG investments. Benefits gained by LGUs include increased real property values, increased income taxes from flourishing commercial establishments, increased mobility of its citizens and increased accessibility of the area, without any cost to the LGU.

A special levy or higher property taxes should be considered to capture part of the windfall gains or unearned increments in land and property values which appreciate because of the construction of public roads or other transport infrastructure adjoining the land and property. This will

help the government finance the right-of-way and construction costs and make the benefiting land or property owner contribute to the welfare of the public.

DIGITAL INFRASTRUCTURE

I. SITUATIONER

The liberalization of the telecommunications sector which started in 1989 provided impetus to the evolution of a multioperator environment in the country. By 2002, there were 74 local exchange operators, 14 inter-exchange operators, 11 international gateway facility companies, seven cellular mobile phone operators, 11 radio paging firms, 11 public trunk radio service providers, 19 satellite operators and 32 value-added service providers. In addition, there were 776 cable TV operators with 1,373 networks nationwide. To date, only four cable TV companies (SkyCable, Home Cable, Sun Cable and Destiny) control about 50 percent of the country's total subscriber base. Majority of these cable TV operators, however, are willing to offer Internet and voice services but sorely lack the capital for the purpose.

These developments characterized the growth of the country's digital infrastructure over the past years, as more and more Filipinos gained access not only to telephone lines but also to the Internet. Hence, by the end of 2002, total telephone density reached 28.06 per 100 population and stronger awareness of knowledge and information sharing among individuals and organizations through the Internet was realized.

Despite these gains, major policy and regulatory reforms remain to be done to facilitate further growth of the sector. The absence of clear and concise policies allowing innovative and more efficient services at lower costs has discouraged the entry of new players and further investments in the sector. Moreover, the country's connectivity rates are currently considered among the highest in Asia. This situation is highly noncompetitive, discourages investors, and limits the provision of services to benefit and empower the citizenry, especially the OFWs and their families.

In the case of the country's ICT manpower, the Information Technology and E-Commerce Council, the forerunner of the Commission on Information and Communications Technology (CICT), reported that as of 2003, the lack of well-trained and competent trainers/educators in information and communications technology (ICT) and ICT-related subjects has contributed to the declining quality of education in general and of the country's ICT and knowledge workers. The existence of a non-formal training sector operating without adequate regulation further exacerbated the situation, resulting in wide variances in the quality of ICT training in the country. Moreover, the lack of accurate and comprehensive data on available ICT and ICT-enabled skills in the country has made ICT manpower planning and policy-making even more difficult.

Clearly, there is need to sustain the momentum already gained toward the building of a digital infrastructure to interconnect the entire country and realize the goal of universal access. Hence, efforts in pursuit of this goal will be further accelerated, with the private sector playing a major role in these efforts. Policy and regulatory frameworks will be reviewed and rationalized to make them more responsive to technological and market changes, as an appropriate enabling environment, which is fair for both market players and consumers, will be put in place. ICT will be fully exploited to improve the knowledge and skills of Filipinos nationwide, and to provide opportunities for employment that will uplift the economy.

II. GOALS, STRATEGIES AND ACTION PLANS

A. Reduce Cost of Connectivity

The government will push for the reduction of connectivity costs by allowing an enabling environment to permit new entrants of various telecom players, including but not limited to ISPs, to provide ICT and ICT-related services, thus, promoting market competition.

1. ***The government will continue to promote investments that support the provision of physical infrastructure for high-speed connectivity, high capacity and secured network services at low cost.***

The development of the country's digital infrastructure will be accelerated through continuously optimizing the participation of/partnership with the private sector. Provision of high-speed connectivity at low cost will drive the usage of ICT in all sectors and more importantly, enable the country to transform itself into a knowledge and software development and e-services hub of Asia. Given the availability of domestic broadband network capacity with international connectivity, more access points will be offered both in the urban and rural areas, to provide the population with equal access to the global economy.

Efforts will also be pursued toward achieving the "last mile connection" from the network backbone to the end-user. It will also include the optimal use of existing government networks for public data communication process (e.g. Transco fiber optic transmission lines, TelOf network, etc.). Moreover, possible business opportunities and creative ways to optimize existing or new network and bandwidth capacity will be explored.

2. ***The sustainability of these investments in physical infrastructure will depend heavily on market demand for broadband, which will be achieved by the provision of market attractive value-added features.*** The role that government will play is in the development and provision of e-government content. This will allow government service to be delivered directly to the citizens, both locally and internationally through web technologies.
3. ***A prime market attractive value-added feature of a progressive digital infrastructure is VoIP or Internet telephony.*** Issues relative to opening the market to VoIP will be resolved and a clear legal regime covering VOIP, convergence of web, email and voice services through Internet telephony will be provided. Simultaneously, VoIP services will be rolled out. This will immensely benefit overseas Filipino workers and their families and ensure the accessibility and affordability of these services for all. On the other hand, other prime public service value-added features that include distance education, e-health and the delivery of e-learning to all public schools through the Internet will be pursued and supported through the establishment of community e-centers (CeCs) throughout the country.
4. ***The government will accelerate the deployment and expansion of digital infrastructure, especially to unserved and underserved areas, as well as the convergence of telecommunications, IP technology, broadcast media, cable TV, and other technologies to realize the full potentials of ICT as a tool for knowledge creation and diffusion.***

The government will encourage telecommunications carriers that provide cellular mobile telephone services to disperse new cell sites to make their services connect the entire country. Towards this, the government will ensure the interoperability and interconnectivity of all networks.

5. ***The digital divide within the country will be reduced by establishing more public access points such as CeCs for delivery of e-government and other services to provide universal access to information and communications services in unserved areas, link communities, facilitate trade and commerce, and empower rural communities socially, economically and politically.*** Seed funding will be provided for the development of public access points, which will support the provision of broadband services by the private sector to all municipalities and the connection of all secondary schools where computers will be provided.

In unserved/underserved areas, public access points will be provided to schools, communities, scientific and research centers, health centers and government offices through the establishment of CeCs.

6. ***Gains already realized in the booming ICT and e-commerce industry will be further accelerated.*** The government will expand distribution points for ICT services utilizing all available and appropriate technologies like media, print, broadcast and mobile for faster access to and delivery of government information and services. With the ICT service boom in the country, the government will ensure that all authorized public network operators and other providers of telecommunications services will provide full interconnection at reasonable costs to all ICT service providers.
7. ***The requirements of major government ICT projects will be met.*** The efficiency of internal government processes will be improved through ICT. Existing government network infrastructure will be rationalized to enable sharing and interconnection of network resources among all branches of government to facilitate the seamless transfer of knowledge within the government. Where there are gaps between networks that cannot be addressed by sharing of government resources, the services of the private sector will be tapped to establish the necessary infrastructure “bridges” to close the gaps.

B. Develop ICT Human Resource

The country is well positioned to become a globally competitive knowledge-based economy. However, the government should continue to support and develop the quality of its human capital especially in ICT by providing opportunities for skills development and training and by adopting a national standards certification system comparable with those of the rest of Asia to ensure the supply of quality ICT professionals and workers.

1. ***Fundamental to the development of a globally competitive human resource base is the advancement and modernization of education.*** The schools’ curricula will be consistently designed and updated to equip students with the requisite knowledge and ICT skills. The teaching of Science, Math and English as core subjects and the use of computers will be pursued. Toward this, e-learning programs and technologies will be accelerated to provide alternatives to traditional learning and training methods. Furthermore, wider access to the Internet as a tool for enhancing availability of knowledge will be provided. In addition, industry participation in the form of on-the-job training (OJT) programs will be strengthened in areas

such as the restructuring of OJT learning objectives to enhance the training and skills development process (see also Chapter 18);

2. ***Increasing the quantity and quality of locally available ICT trainors/educators is necessary to meet the fast-growing requirements for quality ICT and knowledge workers.*** In addition, all trainors/teachers must have sufficient knowledge in the use of ICT as a tool for learning.
3. ***Internationally recognized certification programs will be implemented to enhance the competitiveness of the country's ICT professionals and organizations.*** Likewise, new training courses and certification programs will be developed for the five priority areas for ICT services, which are Contact Centers, Animation and Software Development, Medical Transcription, Business Process Outsourcing, Engineering and Design Services (see also Chapter 18 and Chapter 1, Section 7).
4. ***The thriving ICT and e-commerce industries hold promising employment opportunities to Filipinos.*** In relation to this, a sustainable ICT manpower skills survey and tracking system that will provide accurate data on the status of ICT and ICT-enabled skills in the country will be conducted regularly for benchmarking and placement purposes.

C. Pursue Regulatory and Legislative Reforms (See also Part Five)

Regulatory and legal reforms will be implemented by promoting the independence of the regulator and separate operator and regulator functions and by setting/enforcement of safety, quality, environmental, and legal standards. Moreover, institutional reforms will be implemented to ensure transparency and accountability and to mitigate, if not eradicate, administrative impropriety of respective government agencies, and to resolve conflicting mandates among agencies involved in ICT planning and implementation.

1. ***The Department of Information and Communications Technology (DICT) will be established as a venue to achieve a web-based Philippines, capable of participating in – and contributing to – the global economy.*** It will also more effectively coordinate and implement the national ICT development agenda, policies, programs, projects to carry it out. Pending such, the President has issued EO 269 creating the Commission on Information and Communications Technology (CICT), which is not merely advisory in nature but serves as the primary policy, planning, coordinating, implementing, regulating and administrative entity of the Executive Branch on ICT and e-commerce initiatives.
2. ***The National Telecommunications Commission will be strengthened and its independence in performing its regulatory function will be ensured, particularly in carrying out decisions and imposing sanctions and penalties for regulatory noncompliance.***
3. ***The passage of the Convergence Bill will be pursued to address current regulatory issues such as Cable Television Classification and Frequency Spectrum Management that will permit the infusion of much-needed investment capital into the industry and enable the development of cable technology for true convergence.***

4. ***The Public Telecommunications Policy Act of the Philippines (RA 7925) will be reviewed and Congress will be asked to amend RA 7925***, taking into consideration new technological developments, speeding up the realization of universal access goals, achieving adequate distribution of basic telephone services throughout the country and encompassing the needed institutional strengthening, sector reform and ICT expansion goals.
5. ***Security measures will be implemented to protect the integrity of digital infrastructure networks, as well as of information and communications.*** Such measures will protect personal privacy and consumer interest, accuracy and completeness of information and all other processing methods involved by enacting, among others, the Cybercrime and Cyberfraud Prevention Law.

WATER (See Chapters 2 and 3)

CLARK-SUBIC

I. SITUATIONER

The assets of the former military facilities in Subic and Clark hold great development potentials to revitalize regional development. Their ideal geographic location in the central Luzon and the Asia-Pacific is a logistical advantage; their manpower and natural resources are competitive local advantages; their accumulated developed facilities and being duly empowered Special Economic Zones contribute to the desirability of the Clark-Subic area as a prime logistics and transport hub. Developments in Subic will spill over the Clark area in Pampanga, while Clark will have access to sea transport to be provided by Subic port.

II. GOALS, STRATEGIES AND ACTION PLANS

The Clark-Subic shall be the best logistics and service hub in the region. The role of the Clark-Subic area shall be strengthened as the country's multimodal distribution and regional logistics center and major transshipment point of goods and services for domestic and regional foreign distribution. It will be directly linked to Metro Manila and surrounding areas through expressways and railways and to major destinations in Asia and the rest of the world with world-class seaport and airport.

A. Subic-Clark Alliance Development Program

The realization of the Clark-Subic area as the country's multimodal distribution and regional logistics center and major transshipment point of goods and services in the Asia-Pacific region is premised on the development of adequate infrastructure that will enhance the competitive advantage of Subic and Clark as prime investment areas. An expressway shall link the Subic and Clark SEZs to each other, and the corridor shall be linked with Metro Manila and the surrounding provinces through expressways and railways.

The following are among the priority projects for the area:

1. World-Class Diosdado Macapagal International Airport (DMIA)
(PhP 25,000 million) (passenger/cargo, aviation)

Originally designed, built and utilized as a military airport, there is a seeming need to rehabilitate and/or upgrade airport infrastructure and facilities for the airport to be suited for international cargo and passenger airlines operations or civilian aviation as a whole. There is a need to enhance operational capabilities of DMIA as an alternative gateway to the Philippines.

2. World-Class Subic International SeaPort (PhP7,038 million)
(passenger/cargo, shipping)

The project aims to construct a new container port at Cubi Point, Subic, rehabilitate the existing port facilities at the Naval Supply Depot and Boton areas, and procure gantry cranes and other cargo handling equipment including the construction of access roads and installation of new navigational equipment.

3. Hard infrastructure (e.g. power, water, telecom, industrial parks, agri/tourism/residential projects)
4. Soft infrastructure (manpower, housing, health, education, incentives, government services)
5. Multi-modal linkages with Metro Manila and the rest of Central and Northern Luzon

B. Flood Control in the Clark-Subic Area (see also Chapter 3)

1. River Basins in the Clark-Subic Area
 - a. Pampanga River Basin 11,000 sq. km. With Arnedo Dike
 - b. Guagua River Basin 2,000 sq. km. With Pinatubo Megadike (Pasig Potrero River)
 - c. Agno River Basin 6,000 sq. km. With Colibangbang Dike (Tarlac River)
2. Flooding and Causes
 - a. Flood Prone Areas Aggravated by Lahar Deposition
 - b. Limited carrying capacity of the river due to the Narrow Cross Section (width and depth) of the River, which is further reduced by siltation, garbage, informal settlers and encroachment.
 - c. Extraordinarily heavy rainfall
3. Completed and Ongoing Projects
 - a. Pinatubo Hazard Urgent Mitigation Project Phase 1
 - b. Pampanga Delta Development Project Phase 1
 - c. Pinatubo Hazard Urgent Mitigation Project Phase 2
4. Plans and Programs
 - Widening of Gapan-San Fernando-Olongapo (GSO) Road including Sta. Cruz Bridge and Emergency Pilot Dredging, 2005-2008
 - Pinatubo Hazard Urgent Mitigation Project Phase 3, 2005-2010
 - (1) Excavation/dredging of Porac-Gumain River
 - (2) Excavation/dredging of local drainage channel
 - (3) Diversion
 - (4) Raising roads/bridges
 - (5) Excavation/dredging of other major rivers
 - Tarlac River Improvement Project, 2006-2010

- Pinatubo Hazard Urgent Mitigation Project Phase 4 2007-2010
 - (1) Widening of third river channel diversion
 - (2) Excavation/dredging of local drainage channels
 - Pampanga Delta Development Project Phase 2, 2008-2012
 - (1) Dredging: 13,313,752 cubic meters (cu.m.)
 - (2) Embankment: 3,831,504 cu.m.
 - (3) Resettlement Area 198 hectares (has.)
 - (4) Affected Families 6,700
 - (5) Affected Lots 1,221 ha
 - (6) Protected Area 142 sq. km., Population 161,000
 - (7) Flood Mitigated Area 113 sq. km., Population 57,000
5. Pampanga River Basin Watershed Management Plan
- Objective: Double amount of forest cover in 6 years
 - (1) From 24 percent to at least 40 percent of forestlands
 - (2) 52.8 million trees to be planted (8.8 million trees per year)
 - Strategies
 - (1) Establish strong forest protection mechanism
 - (2) Fully utilize LGUs and local communities for reforestation and forest protection
 - (3) Plant forest trees and fruit trees to generate income
 - (4) Ensure complementation of watershed rehabilitation with infrastructure and irrigation projects
 - Operational Milestones
 - ❖ End of 2004 – Operational plans completed
 - ❖ 1st Qtr 2005 – 12.69 million seedlings raised
 - ❖ 2nd Qtr 2005 – Start of planting in May
 - ❖ 3rd Qtr 2005 – 13,540 has. planted with 10.58 million seedlings
 - ❖ End of 2005 – 292,397 has. maintained and protected
 - ❖ End of 2007 – 60 percent of target area planted
 - Equivalent to 31.7 million seedlings planted
 - 292,387 has. maintained and protected
 - ❖ End of 2010 – 100 percent of target area planted
 - Equivalent to 52.8 million seedlings planted
 - 292,387 hectares maintained and protected

C. Creation of Hong Kong-type enclaves to capture long-term investors

The government will securitize portions of Clark and Subic in tandem with a move to provide the covered territories with a special charter of good governance. This is like creating a new Hong Kong or Singapore right within the country's backyard where investors can be comfortable and free from political inference.

If it can be assured that an initial area of 10,000 hectares could be securitized for commercial and industrial users, at around PhP5,000 per square meter, the government should be able to generate PhP500 billion in new wealth for the government, approximating the 75-year leases by law.

Chapter 7

Fiscal Strength

I. SITUATIONER

For over two decades, the Philippine government has been operating on a fiscal deficit, except in the period 1994-1997 when the country posted budget surpluses. These surpluses, however, can be attributed mainly to the privatization proceeds raised during this period. Since then, total expenditures have exceeded revenues, leading to a rising deficit, which peaked in 2002.

To arrest the fiscal problem, the government implemented a number of measures. As implementation of revenue administrative reforms gained steam, the government was able to reduce its deficit to Php199.9 billion in 2003, or 4.6 percent of gross domestic product (GDP), lower by Php2.1 billion against the projection of Php202 billion for the year. This is a clear indication that the country is on the right track in meeting goals within the medium term.

However, more needs to be done. While the decline in revenue effort became a phenomenon among members of the Association of Southeast Asian Nations (ASEAN) after 1997, other ASEAN countries have recovered beginning 2001 while the Philippines' performance has yet to revert to the pre-1997 level.

Revenue effort, which has never gone higher than 20 percent of GDP in the past 18 years and has dropped to 14.6 percent of GDP in 2004, is the second lowest in Asia. We continue to lag behind our ASEAN neighbors. While Thailand has only 17.1 percent revenue effort, it enjoys a slight surplus of 0.4 percent.

Table 7-1 ASEAN Deficit-to-GDP and Revenue Effort, 2003 (in percent)

	Deficit-to-GDP	Revenue-to-GDP
Philippines	-4.6	14.6
Indonesia	-1.9	19.2
Malaysia	-5.5	24.3
Thailand	0.4	17.1

Source: 2003 Asian Development Outlook

The significant deterioration in tax collection effort arose from a confluence of factors, which include, among others, nonindexation of specific taxes, poor implementation of the value-added tax (VAT) which has led to excessive input VAT claims, tax underdeclaration or tax evasion, especially on professional income earned, and the proliferation of tax incentive laws. The nonharmonized incentives of the Philippine Economic Zone Authority (PEZA), Board of Investments (BOI), Subic Bay Metropolitan Authority (SBMA), and Clark Development Corporation (CDC) also resulted in extended incentives as firms shifted to various incentive-giving bodies. Notwithstanding effort to curb smuggling, revenues were lost due to underdeclaration or misdeclaration of imports.

Parallel to the deteriorating revenue collection is the increasing requirements for nondiscretionary portions of the budget like personal services, interest payments and block grants to local government units (LGUs). This put indiscriminate pressure on expenditures. From 1992 to 2004, interest payments have increasingly eaten up shares of the budget. Its share increased from 30 percent in 1992 to 32 percent in the 2004 program. Similarly, the mandated internal revenue allotment (IRA) share accruing to LGUs has more than doubled in terms of the percentage share of the budget from 8 percent in 1992 to 16 percent in 2004. The increased share of interest payments and IRA largely contributed to the contraction in capital spending and other productive expenditures. The Philippines' capital outlay performance vis-à-vis other Asian countries was lowest for 1998-2003, averaging a mere 3 percent of GDP. In view of this, fiscal flexibility is steadily being eroded as revenues shrink and mandated expenditures remain high. Thus, to avert further exacerbating effects of budget inflexibility, there is an urgent need to put in place expenditure measures over the medium term to correct these imbalances.¹

With the widening fiscal deficit, the national government's debt now amounts to PhP3.355 trillion, accounting for 78 percent of its GDP and more than five times the government revenues if creditors were to call the debts in. The government accumulated debt at a rate of 20.3 percent between 1999 and 2000, mainly due to high interest rates and the sudden depreciation of the peso from PhP40.25 to a dollar in 1999 to PhP49.95 to a dollar in 2000. This sudden and sharp depreciation was attributed to loss of investor confidence and the perception of political instability. As a percentage of GDP, debt stock increased from 56.1 percent in 1998 to 78 percent in 2003 and is expected to reach 79.4 percent by end-2004.

The large deficits of government-owned and -controlled corporations (GOCCs) have also pushed up the consolidated public sector deficit (CPSD) to 5.5 percent in 2003. This is expected to rise to 6.7 percent of GDP by the end of 2004. With the overall unhealthy financial situation of some of these state enterprises, especially the National Power Corporation (NPC), public debt amounted to 137.5 percent of GDP, as of end-2003.

Before the National Government (NG) deficit becomes insurmountable, the government must take the necessary steps to reach a balanced budget position. This is why the administration is pushing for these expenditure and revenue reforms to be implemented as soon as practicable.

II. GOALS, STRATEGIES AND ACTION PLANS

The program of restoring fiscal strength is premised on the painful fact that the government could, very soon, no longer afford to subsist on borrowed funds. If the government persists in sustaining national growth through relentless borrowing from foreign and domestic creditors, the interest payments will eat up the share of the budget not earmarked for debt servicing and the delivery of public services and infrastructure will suffer.

The government is determined to put its fiscal house in order. By doing this, investors are assured of a more conducive investment environment. A positive investment climate would translate to increased foreign and domestic capital, infusion of new technologies, and generation of more jobs.

¹ Figures cited are on obligations basis.

Immediate fiscal consolidation will also improve the country's credit ratings for sovereign issues. Any improvement in the credit rating would result in lower cost of borrowing that would enable the government to justify to its creditors a further lengthening of its debt maturities by a few more years.

The country has a six-year plan to balance the budget and deliver institutional reforms for a more financially viable and progressive Philippines.

The Medium-Term Fiscal Program has three policy objectives:

1. Balance the national government budget in six years;
2. Reduce the ratio of CPSD-to-GDP from 6.7 percent in 2004 to 1.0 percent of GDP in 2010; and
3. Reduce the ratio of public sector debt-to-GDP from 136 percent in 2004 to 90 percent by 2010.

**Table 7-2 Fiscal Program, 2004-2010 (ratio to GDP)
With Legislative and Administrative Measures**

	2004	2005	2006	2007	2008	2009	2010
Revenues	14.6	16.2	16.6	16.7	17.5	17.8	18
Tax Revenues	12.8	14.6	15.2	15.5	16.4	16.9	17.2
Revenues	10.2	11.7	12.3	12.6	13.3	13.6	13.9
Bureau of Customs	2.4	2.8	2.8	2.8	3	3.1	3.1
Other Offices	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Non-Tax Revenues	1.7	1.6	1.4	1.2	1	0.9	0.8
Disbursements	18.8	19.8	19.5	18.7	18.6	18	18
Expenditures	16.2	15.9	15.5	14.8	14.6	13.7	13.2
Personal Services	6.2	5.6	5.5	5.2	5	4.6	4.4
MOOE	1.8	1.8	1.9	1.9	2	2	2
Subsidy	0.1	0.1	0.1	0.1	0.1	0	0
Allocation to LGUs	2.5	2.4	2.3	2.3	2.7	2.8	2.8
Interest Payments	5.7	5.9	5.8	5.4	4.8	4.3	3.9
Capital Outlay	2.4	3.2	3.1	3.1	3.3	3.5	4.2
Net Lending	0.2	0.1	0.2	0.2	0.2	0.1	0.1
NPC Requirement	-	0.6	0.6	0.6	0.5	0.6	0.6
Balance	-4.2	-3.6	-2.9	-2	-1.1	-0.2	0
Deficit	6.7	6	5.3	4.6	3.9	3	1
NG Debt	79.4	77.3	73.2	68	61.8	56.9	51.2
Public Sector Debt	136	123	116	108	101	94	90

For fiscal conservatism, the program assumes national government's absorption of NPC debts amounting to P500 billion. However, if the NG assumes only P200 billion, as provided in the EPIRA, interest payments for NPC requirements will go down to 0.3 percent of GDP over the medium term.

Sources: Department of Finance, Department of Budget and Management, and the Bureau of Treasury

A. Revenue Program

The fiscal consolidation program is anchored on steady increase of revenue stream in the next six years through a combination of administrative and legislative measures. Over the medium term, *excluding new legislative measures and given favorable economic conditions*, total revenues are expected to grow at an average rate of 11.6 percent, with tax receipts growing more vigorously at 13.2 percent through a more rigorous implementation of administrative measures.

With the proposed measures in Congress, revenue effort is estimated to climb steadily and reach as high as 18 percent of GDP in the medium term, with tax effort projected to reach 17.2 percent in 2010. The Bureau of Customs (BOC) collection to GDP ratio will moderately improve to 3.1 percent by 2010, relying mainly on improved administrative efficiency.

The Action Plan for revenues consists of improving administrative efficiency and proposed legislative measures.

1. Administrative Measures

Improving administrative machinery shall be achieved through:

a. Periodic adjustment in fees and charges to ensure cost-recovery

Fees and charges will be periodically adjusted on an average rate of 10 percent every year to ensure cost recovery. The government will encourage agencies to improve their revenue collection by allowing receipts from business-type activities (sale of products) and income from board and lodging. These will be used as revolving fund by agencies for the maintenance of their operations.

b. Tariff rate adjustments

An Executive Order (EO) has already been signed, increasing duty on petroleum products from 3 percent to 5 percent. The positive effect of this EO on our revenue-generating program is contingent, however, on the price increases of crude oil.

c. Innovative sources of wealth creation

- Privatization of the NPC (*Chapter 11: Power Sector Reform*)
- Mobilization of investors for Mt. Diwalwal gold mine (*Chapter 3: Environment and Natural Resources*)
- Exploration and development of more oil and gas wells (*Chapter 1: Energy Independence*)
- Relaunching of massive reclamation projects (*Chapter 3: Environment and Natural Resources*)

- Major nationwide reforestation program (*Chapter 3: Environment and Natural Resources*)
- Creation of Hong Kong-type enclaves to capture long-term investors (*Chapter 6: Infrastructure*)

d. Improved enforcement mechanisms to increase efficiency

For the Bureau of Internal Revenue (BIR), voluntary tax compliance shall be encouraged and opportunities for tax evasion and graft removed through the conduct of raffles, industry benchmarking, electronic publication of company tax payment vis-à-vis companies in the industry, and use of third party information. Expanding the large taxpayer services in district offices and creating a tax fraud division will also strengthen tax audit and surveillance.

For the BOC, measures will be geared towards controlling smuggling through the use of container X-rays, computerized tracking of the filing and movement of cargo, and updating of the value reference data. Face-to-face interaction will be minimized and customs procedures simplified through electronic filing and single window processing at a BOC virtual window linked to all agencies.

2. *Legislative Revenue Measures*

The legislative revenue agenda consist of eight measures. These are fair and equitable and would most affect the sectors that could afford to pay more:

- a. **Indexation of the excise tax on ‘sin’ products.** The indexation of excise tax on alcohol and tobacco restores the real value of the excise tax since 1997. It will provide an estimated PhP9.06 billion annually.
- b. **General amnesty.** The government-proposed version requires individuals/corporations to file a statement of assets and liabilities, which can be used as a verifiable benchmark for future tax assessment. It also grants tax amnesty at the rate of 3 percent for residents and 2 percent for nonresidents, based on net worth, with a corresponding declaration of the statement of assets and liabilities by the individual or entities concerned. It is estimated to yield about PhP25 billion.
- c. **Rationalization of fiscal incentives.** The fiscal incentives system will be streamlined to make it an efficient and effective tool for investment promotion. Harmonizing incentives among incentive-giving bodies, namely the BOI, PEZA, SBMA, and CDC, will do this. This will lead to the adoption of a single fiscal incentives law and phasing out of incentives that are inconsistent with World Trade Organization (WTO) rules (e.g., tax credits). The government will also repeal numerous special incentives laws and certain exemptions from VAT such as medical and legal profession. The proposed fiscal incentives rationalization bill is estimated to generate at least PhP5 billion for the government.
- d. **Review of the VAT system.** The government shall increase the VAT rate by two percentage points for two consecutive years (2006 and 2007) only if the VAT-to-GDP ratio does not reach 4 percent in 2005 and 5 percent in 2006. It will push taxpayers to fully comply with their VAT payments, or face a higher VAT rate. For its part, the BIR will be compelled to meet its corresponding VAT targets or face

possible attrition. The estimated yield of this legislative measure is PhP30 billion.

- e. **Tax on telecommunication.** The measure reimposes the franchise tax on telecommunication companies. Additional revenues, estimated at PhP9.1 billion, can be used on important social services such as health and education.
- f. **Excise tax on petroleum products.** The measure increases the specific excise tax rates on petroleum products, except kerosene, by PhP0.50 to PhP2.45. Since 1997, the ratio of excise taxes vis-à-vis prices of petroleum has significantly decreased by almost 50 percent. The ratio further deteriorated at current prices. Given the deterioration, there is a need to adjust the excise taxes back to their previous levels to maintain their real value. The move will yield PhP28 billion in excise taxes.
- g. **Institutionalization of an attrition system.** The measure institutionalizes a system of lateral attrition and a special reward-incentive system for exemplary performance among revenue-generating agencies of government. It allocates an appropriate amount as incentive for exceeding performance standards.
- h. **Adoption of Gross Income Taxation (GIT).** The measure replaces the current net income taxation with GIT of corporations and self-employed individuals at a rate of 10 or 15 percent. It simplifies the income tax structure because taxpayers compute only their gross income. It also eases tax administration and allows a reduction of the tax rate due to a broadening of the tax base. This simple structure will encourage tax compliance. The government will generate some PhP16.76 billion in the process.

B. Disciplined, Efficient Public Spending

Hand-in-hand with the push for revenue reforms is the need to maintain fiscal discipline in government spending. That expenditures have been squeezed tight in the past three years is a matter of record.

The expenditure reform measures in the medium term will focus on (a) rationalizing the scope and function of government agencies through voluntary separation and reengineering; (b) improving budget allocation to focus expenditures towards those areas with the greatest impact and benefit to the greatest number; (c) reversing the decline in public investments to strengthen the economic capital and strictly prioritize capital expenditures for infrastructure to those with the greatest economic returns for the country, as a whole, in terms of ensuring transport and communication linkages, providing base power and water supply, and promoting agribusiness; (d) rationalizing NG spending for devolved services; (e) reducing debt service through debt management; and (f) reducing GOCC deficits.

The specific expenditure rationalization measures shall include both administrative and legislative measures.

1. Administrative Measures

- a. **Austerity programs.** Administrative Order (AO) 103² was issued on August 31, 2004, directing the continued adoption of austerity measures in government. All government departments shall conduct a strategic review of their operations to identify the functions, activities, programs and projects that need to be scaled down, phased out, or abolished and indicate the areas where resources have to be channeled.
- b. **Rationalization of Personal Services** (Chapter 2 – Bureaucratic Reforms). Savings from the rationalization program will be used to fund salary adjustments and the 10-point agenda. After the rationalization program has been completed, hiring of new employees will be minimized except for frontline and core services and population-based positions (e.g., teachers, police and defense personnel).
- c. **Operationalization of the Medium-Term Public Investment Program (MTPIP).** The MTPIP, 2005-2010 shall contain the priority programs, activities, and projects (PAPs) to be implemented by the NG in support of the MTPDP. It is an instrument to monitor NG targets, commitments and resources, in terms of public investments, over the medium term. It serves as a critical input to the annual NG budget formulation, guided by the Medium-Term Expenditure Framework (MTEF) as facilitated through the Development Budget Coordination Committee (DBCC). The MTPIP also sets the tone in resource programming by the Investment Coordination Committee (ICC).

Operationally, the MTPIP will be a three-year rolling list of priority PAPs, ongoing or proposed, regardless of financing source. The MTPIP currently being prepared shall contain the PAPs for implementation in 2005-2007 and shall be updated annually to roll out over the succeeding years until the end of the medium term. The MTPIP shall also be consistent with the fiscal program, for which the PAPs shall be prioritized through the Efficiency and Effectiveness Review Criteria approved by the planning committees.

The Organizational Performance Indicator Framework (OPIF) is being implemented as a mechanism to shift budget allocation from one based on inputs to one focused more on the consideration of outputs and outcomes. The measurement and reporting of the output and outcome indicators of PAPs will greatly enhance the transparency and accountability for public spending. For the medium term, a three-year budget and an OPIF-based budget will be introduced to Congress. Initially, the 2005 budgets of the 11-piloted departments with harmonized major final outputs (MFOs), for which performance indicators have

² The salient features of this order are the following: (a) suspension of all foreign travels, except for ministerial meetings and scholarship training that do not entail any cost to the government; (b) suspension of purchase of motor vehicles, except ambulances and patrol cars; (c) reduction of at least 10% in consumption of utilities; (d) suspension of all expenditure subsidies to GOCCs, OGCEs, and LGUs except those approved by FIRB; (e) conduct of training, seminars, and workshops, except if funded by grants or if the cost may be recovered through exaction of fees; (f) expansion of organizational units and/or creation of positions, except those following 'scrap and build' policy; (g) conduct of celebrations and cultural and sports activities.

been developed, will be submitted to Congress. Formulation of MFOs and public investment programs (PIPs) for the rest of the departments/agencies will be done prospectively up to 2007.

d. **Strengthen the ICC process of the National Economic and Development Authority (NEDA) Board.** Specifically, this entails:

- *Timeliness of ICC review and approval process.* The eight to ten weeks processing period shall be strictly observed, if not reduced. Measures to ensure due diligence in project preparation by the proponent/ implementing agencies will also be instituted. The ICC Secretariat evaluation period of four to six weeks shall be closely monitored;
- *Responsiveness to the MTPDP of public investments for ICC action.* The ICC will be proactive in defining the PAPs it will process rather than wait for submissions and process them on a first come-first served basis. Its calendar of activities or schedule of PAPs for processing will be guided by what is provided in the MTPDP and the MTPIP. Beyond validation of economic and financial viability, PAP evaluation shall include recommendations or options that are cost-effective and/or are drawn out of value engineering; and
- *Greater transparency of ICC actions.* The ICC calendar of activities and action documents will be available electronically through the NEDA website. The government shall vigorously pursue the digitization and archiving of ICC documents to support the electronic posting of ICC documents and facilitate public access to information.

e. **Moratorium on the establishment of GOCCs.** There shall be a moratorium on the establishment of GOCCs and their subsidiaries, except for the Philippine Infrastructure Corporation (PIC). The PIC will operate like an infrastructure fund to jump-start the strategic infrastructure projects crucial to our development program.

f. **LGU autonomy.** The devolution provision of the Local Government Code (LGC) will be fully implemented. It is proposed that the IRA be treated as an automatic appropriation to provide predictability in resources to LGUs. The latter shall be encouraged to build their own infrastructure and provide for basic services rather than depend on the national government agencies (NGAs).

Projects directly assisting LGUs shall be transferred to the Municipal Finance Corporation (MFC), which will be established to serve as a primary conduit of funds for LGUs. This excludes certain projects like the Countryside Bridge program, agriculture and agrarian reform projects, and the *Kapit-Bisig Laban sa Kahirapan*- Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS), which shall continue to be administered by their respective implementing agencies.

The MFC, replacing the Municipal Development Fund, will undertake project implementation at the city, province or municipal level. The idea is for foreign-assisted projects undertaken by NGAs, which directly benefit LGUs, and which constitute assistance in the form of subsidies and relending by the NG, to be transferred to the newly created MFC. Thus, existing loans and grants, or similar assistance to LGUs, shall be transferred or assigned to the MFC.

With local autonomy comes the challenge for LGUs to maximize resources and manage expenditures prudently. LGUs will thus be encouraged to devote 20 percent of their development funds to investment projects and not to consumption-based expenditures.

- g. **Transfer to the General Fund of all Dormant Accounts.** All dormant accounts (except those earmarked for specific projects) of government agencies in servicing banks of the government shall be transferred to the General Fund.

2. *Legislative Measures*

A separate legislative program will be pursued to regulate and reduce expenditures:

- a. **Fiscal Responsibility Bill.** The bill aims to reduce public debt to a more manageable and sustainable level through the imposition of debt cap and the more transparent management and monitoring of public sector debt. The bill involves the policy of no new expenditures without new revenue measures. If enacted, this will impose discipline in the legislation of new expenditure policies and prevent the proliferation of unfunded laws.
- b. **Rationalization/Reorganization program** (see Chapter 2- Bureaucratic Reforms). The legislation of the omnibus reengineering law will be pursued to rationalize the structure of the government machinery and review and refocus the mandate of the departments to support the 10-point agenda. Pending the passage of this proposal, the scope and functions of government agencies shall be rationalized through administrative means to focus the resources of government on vital/core functions, minimize overlaps and duplications, and improve delivery and support systems.
- c. **Rationalization of Retirement and Pension Benefits.** The retirement and pension schemes will be revisited to ensure their sustainability and rein in their claims on the budget. This includes the review of RA 1616, which allows retiring government employees to avail of retirement gratuity paid by the NG.
- d. **Improvement of government corporate performance.** GOCCs with negative retained earnings shall be rationalized and shall be limited. GOCCs shall perform their mandates in the most efficient, effective, and economical manner.

Legislative measures limiting GOCCs' capacity to enter into debts shall reduce the losses they incur. Pending the passage of this law, administrative measures have been passed phasing out redundant and nonperforming GOCCs to cut down on their losses.

To reduce GOCC deficits, four major measures will be pursued:

- Improve collection efficiency and reduce system losses through:
 - ❖ Construction of power substations and rehabilitation of distribution lines in support of National Electrification Administration's system loss reduction program;
 - ❖ Increase of National Home Mortgage and Finance Corporation's (NHMFC) cash collection, improvement of quality of portfolio, design and development of updating/restructuring schemes to increase borrower affordability and undertake selective foreclosure of accounts;
 - ❖ Rationalization of licensing and registration fees of National Housing Authority (NHA) by increasing rates of licensing fees to levels adequate to defray the cost to sustain the program;
 - ❖ Implementation of a Unified Ticketing System for Light Rail Transportation Authority (LRTA); and
 - ❖ Resumption of the implementation of approved domestic vessel and cargo tariff increase and review of port investment expenditures to provide basis for setting cost-based tariff structure;
- Dispose nonperforming loans and real and other properties owned or acquired through:
 - ❖ Divestment of shareholdings and dissolution of NDC companies as well as improvement of lease terms; and
 - ❖ Increase of HGC's disposition of retail and developmental accounts by 50 percent and 10 percent, respectively;
- Enhance other revenue generating efforts through:
 - ❖ Securitization of low and moderately delinquent loans accounts of NHMFC;
 - ❖ Maximization of interest and dividend incomes of NDC from fund investment and sourcing; and
 - ❖ Implementation of LRTA's business property and other nonrail development programs; and
- Rationalize GOCC expenditures through:
 - ❖ Implementation of streamlining program among GOCCs;
 - ❖ Reduction in the maintenance and operating expenditures of Metropolitan Waterworks and Sewerage System (MWSS), Philippine National Oil Company (PNOC), Philippine Ports Authority (PPA); and
 - ❖ Limiting of investment outlay of PNOC to BatMan 1 and NRES projects and no provision for its land and land improvement for 2006-2010 and additional/replacement of vehicles.

C. Debt Management

The Action Plan for Debt Management entails the implementation of a debt reduction plan through: (a) bond exchange to lengthen debt maturity and to manage refinancing risk; (b) maximizing the use of official development assistance (ODA); (c) limiting guarantees for GOCCs; and (e) limiting borrowings to high priority projects. The development of a risk management system within the DOF will support these initiatives to identify, quantify, monitor, and manage NG's exposure to contingent liabilities.

ODA is the preferred source for financing large infrastructure projects that require huge funds, as it is relatively soft with its lower interest rates and longer maturity period. However, unless it is a grant, ODA is usually a loan and increases the budget deficit as other loans do, only with better terms of payment. The government has therefore carefully chosen its ODA-funded projects in the past three years. But to minimize borrowing and lower the deficit in these times of fiscal constraints, the government must be even more selective of the projects to be funded by ODA. The programs prioritized for ODA funding are those that will directly contribute to the 10-point development agenda and the MTPDP 2004-2010.

Table 7-3 Fiscal Program, 2004-2010 (in Billion Pesos)
With Legislative and Administrative Measures

	2004	2005	2006	2007	2008	2009	2010
Total Revenues	676.41	830.83	941.31	1,043.36	1,215.15	1,373.28	1,550.58
Tax Revenues	596.41	750.06	862.09	969.35	1,142.30	1,303.36	1,478.75
BIR	476.31	600.56	697.11	786.81	926.45	1,053.90	1,199.62
BOC	112.58	141.38	156.52	173.71	206.61	239.77	268.96
Others	7.52	8.12	8.46	8.83	9.24	9.68	10.17
Non-Tax Revenues	80	80.77	79.22	74.01	72.85	69.92	71.83
Total Disbursements	874.23	1,015.35	1,103.08	1,170.36	1,294.18	1,387.64	1,550.58
Current Operating Expenditures	754.21	812.16	879.03	929.13	1,014.65	1,062.03	1,131.72
Personal Services	286.34	289.2	308.32	324.07	350	355	376.26
MOOE	83.99	94.59	107.47	118.99	139.02	154.57	172.03
Subsidy	3.85	4.5	4.41	4.1	3.83	3.59	3.38
Allocation to LGUs	114.19	122.19	130.52	146.66	185.23	215.88	244.35
Interest Payments	265.85	301.69	328.31	335.31	336.57	332.98	335.7
Capital Outlays	111.02	164.81	177.99	194.22	231.08	271.62	360.31
Infra and Other Capital	75.41	125.89	136.33	147.89	177.09	214.1	295.22
Equity	1.14	0.19	0.17	0.15	0.14	0.13	0.11
Capital Transfers to LGUs	30.19	34.31	34.82	39.35	49.14	57.4	64.98
CARP	4.28	4.42	6.67	6.82	4.71	--	--
Net Lending	8.99	7.6	10.18	10.68	10.44	10.45	10.32
NPC Requirement	--	30.78	35.88	36.33	38.02	43.54	48.23
Fiscal Deficit(-)/Surplus(+)	-197.82	-184.53	-161.77	-127	-79.03	-14.36	0

Memo Items:

Sources: Department of Finance, Sept. 30, 2004

Department of Budget and Management, Oct. 4, 2004

Bureau of Treasury, Oct. 1, 2004

Chapter 8

Financial Sector

I. SITUATIONER

The development of the financial system is important to mobilize domestic savings and finance investments as growth accelerates.

The Philippines' gross domestic savings to gross domestic product ratio has change little through the past decade from 18.4 percent in 1990 to 20.9 percent in 2003. The depth of the financial system is shallower compared with other Asian countries, with (money supply to GDP) ratio of 39.5 percent, the third lowest in Asia after Laos and Cambodia. One reason for this is the high intermediation cost, which creates a wedge between the interest rates on savings and loans. Government debt papers also dominate the capital market, accounting for almost 93.1 percent of total outstanding issues. In other countries, the private sector issues account for a more significant percentage such as in Malaysia (41.5%), Thailand (17.9%) and Korea (39.1%). The domestic equities market also remains small compared to other Asian countries. The country's stock market capitalization to GDP ratio stood at 28.8 percent in 2003 compared with Hong Kong's 456.2 percent, South Korea's 49.3 percent, Malaysia's 156 percent, Singapore's 162.6 percent, and Thailand's 83.1 percent.

Meanwhile, a weak regulatory framework has undermined the growth of the preneed market.

Table 8-1 Domestic Capital Market

	Savings-to-GDP ^{1/}	Broad Money (M2)-to-GDP	Domestic Market Capitalization ^{2/}	Government Securities-to-Outstanding Debt Issues ^{3/}
	(2003)	(2003)	(2003)	(2004)
Philippines	20.9	39.5	28.83	93.11 (Aug 31)
Malaysia	42.9	108.7	156.04	58.51 (Sep 27)
Singapore	46.7	122.4	162.58	n.a.
Thailand	32.8	95.0	83.12	82.10 (Sep 27)
Indonesia	21.5	53.5	26.24	n.a.
Korea	32.8	124.5	49.27	60.94 (Sep)
Hong Kong	31.6	312.6	456.17	n.a.
China	44.4	189.2	n.a.	n.a.

^{1/} Source: ADB; Philippine data: NEDA

^{2/} World Federation of Exchanges, 2003

^{3/} Country statistical websites

A major concern that emerged in the wake of the 1997 Asian crisis is the country's slow reduction in the level of nonperforming loans (NPLs) compared with other Asian countries. The latter have strong fiscal positions and were therefore able to set up asset management companies that were able to absorb the nonperforming assets using public funds. As of June 2004, the Philippine banking system ratio of NPLs to total loans stood at 13.97 percent, higher than Thailand's 12.4 percent, Malaysia's 7.7 percent, Indonesia's 7.6 percent, and Korea's 2.2 percent. To encourage banks to unload their NPLs, the Special Purpose Vehicle Act was passed in 2002. However, only a few banks have consummated deals to dispose of their assets, as banks have not been willing to sell their assets at steep discounts offered by buyers. The banking system continued to be saddled with its pool of nonperforming assets. Nonperforming assets as a share to total assets amounted to 12.85 percent as of end 2003, slightly unchanged from 14.31 percent in 2001.

Another major concern, which impinges on fiscal sustainability, is the poor financial health of the public pension system. If not rectified, this will eventually translate to a national government bailout, with serious repercussions on fiscal consolidation efforts.

II. GOALS, STRATEGIES AND ACTION PLANS

The primary goal of reforms in the domestic financial system is to mobilize savings to achieve a savings to GDP rate of 25 percent to 30 percent. This will support an increase in investment ratio to 28 percent of GDP, with an increasing amount of resources channeled to support the development of agribusiness, including lending to micro, small and medium enterprises.

Key reforms in the financial market shall focus on: (a) ensuring macroeconomic stability through prudent monetary and fiscal policy (see Chapter 7 for fiscal reforms); (b) promoting a stronger, stable, and deeper financial system; (c) reforming the pension system; and (d) providing easier access to funds by SMEs to achieve the target of tripling lending to SMEs and support their development.

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

Prudent monetary policy is important for price stability. However, inflationary pressures, especially those which arise from supply cost factors cannot be addressed by monetary policy alone since controlling supply and cost shocks through tight monetary policy can undermine growth and ultimately affect inflation itself. Thus, inflation management will necessitate pursuing both monetary policy and measures to ease supply constraints and cost build-up.

1. *Manage inflationary expectations by announcing inflation target and intensifying information dissemination on the concept of inflation targeting and core inflation.*
2. *Mitigate impact of cost-push pressures on the economy:*
 - a. Ensure ample supply of commodities in the domestic market by improving agri-industry productivity; reducing postproductive costs through improvement in logistics and transport system; and timely and adequate importation of necessary basic food items and agricultural inputs (*Chapters 2 and 6*).

- b. Strengthen coordination among public and private stakeholders under the umbrella of the National Price Coordinating Council.
- c. Lessen the impact of imported fuel and energy prices by shifting to least cost source of energy and reducing dependence on imported energy sources. In addition, the government shall promote the use of energy-saving devices and time-of-use demand management practices in the consumption of electricity by industries (*Part II, Chapter 10*).

B. Promote a stronger, stable and deeper financial system

1. *Accelerate reduction of nonperforming assets*

The Bangko Sentral ng Pilipinas (BSP) will accelerate financial sector restructuring by relaxing the rules governing special purpose asset vehicles and providing incentives for banks to offload their idle assets. This will significantly pare down the banks' nonperforming assets.

2. *Prevent and minimize systemic risks by strengthening regulations in accordance with international standards for greater transparency and accountability*

- a. Amend the BSP charter to include immunity of supervisors from law suits, authority to compel banks to implement prompt corrective action and higher capital build-up, shift away from the strategy of forbearance and liquidity assistance, and stronger criminal and administrative penalties for violations of banking laws;
- b. Amend the Insurance Code to empower the Insurance Commission to preempt financial distress or intervene to help resolve financial problems of an insurance company;
- c. Provide the Securities and Exchange Commission (SEC) with adequate legal protection, access to bank records in an investigation, ability to obtain freeze orders, and visitorial powers over regulated companies and their auditors. Furthermore, SEC's enforcement actions shall be strengthened through effective coordination with the Department of Justice, the Supreme Court, the National Bureau of Investigation and the Philippine Judicial Academy by means of enhancing its law enforcements partners' capability to investigate and prosecute securities fraud cases;
- d. Strengthen the framework for quick resolution of financially-distressed enterprises through the passage of the Corporate Recovery Act;
- e. Enhance and rationalize the regulatory framework on investment companies and the sale of preneed plans through the government's support on the passage of the Revised Investment Company Act and the Preneed Code;
- f. Restructure the Cooperative Development Authority into a regulatory body through the amendment of the CDA charter to provide the regulatory framework for the

development of cooperatives nationwide. In addition, capacity building for CDA and other stakeholders shall be pushed in order to implement an effective regulation and supervision of credit cooperatives;

- g. Introduce the risk-based capital adequacy framework for providers of financial services and products under SEC regulation and supervision;
- h. Strengthen consolidated supervision mechanisms via closer cooperation and coordination among financial services regulatory agencies. This is to rationalize the incentive structure for the financial sector and achieve competitive parity across bank and nonbank sectors. The government shall also ensure consistency of rules and regulations intended for promoting a level playing field and that overlaps/gaps in supervision are minimized;
- i. Intensify coordination and consultation among government agencies, market participants and private sector groups. This includes the creation of a Financial Governance Council, establishment of an organized forum to facilitate coordination activities and consultations, and conduct of consultation meetings, trainings, symposia and related activities on a periodic basis;
- j. Implement a coordinated disaster recovery plan to ensure uninterrupted operations or timely reopening of financial sector institutions in the aftermath of a catastrophic event; and
- k. Implement a long-term development plan or blueprint for the Nonbank Financial Sector to promote growth and expand contributions to the economy.

3. Improve liquidity

- a. Establish a Fixed-Income Exchange capable of providing a modern screen-based system for dealers of fixed-income securities. This includes the establishment of a competitive secondary market for corporate debt, a settlement mechanism that supports an appropriate delivery versus payment process, and firm legal ownership of bonds being traded recording of ownership to beneficial owner level;
- b. Encourage new listings of equities in the Philippine Stock Exchange (PSE). This includes listing of Board of Investments/Department of Energy -mandated companies, select government companies, SMEs, and bonds issued to retail investors and overseas Filipino workers. To promote listings, information campaigns and related investment-promotion activities shall be conducted from 2005-2010. Likewise, PSE's competitiveness shall be enhanced by improving liquidity for secondary market transactions and development of in-house "think tank" for new products that can be introduced in the exchange; and
- c. Develop and fasttrack mortgage-backed securities market encouraging the immediate securitization of housing loan portfolios of various government institutions. This can also be done by developing a transition strategy toward nondistortionary housing support programs, standards and systems in lending, underwriting and servicing, and fast and effective collateral foreclosure regime for

mortgage lending.

4. *Protect investor and creditor rights*

- a. Minimize investor risk by improving the settlement, clearing, and custodianship of instruments (e.g., centralized ownership records and elimination of physical certificates, and introduction of national identification numbers). A national financial market infrastructure shall be established that will seamlessly link market activities from trading, clearing and settlement to postsettlement disposition of equity and debt securities. This includes migration from checks to electronic payment system, expansion of delivery versus payment coverage to investor level and across all instrument types, development of custody activities for equity and debt securities, and dematerialization of all securities;
- b. Support amendments to the Corporation Code to enhance minority shareholder rights and provide remedies for corporate malfeasance;
- c. Sustain reforms in corporate governance by aligning corporate practices and financial reporting structures with international best practices. This includes strengthening the role of independent directors for public companies and adopting International Accounting Standards and International Standards for Auditing in SEC's rules and regulations. This also includes implementing certification procedures for at least one officer or director of financing companies, investment houses, fund managers, distributors and mutual fund/investment companies and preneed plan companies certified by examination as compliance officers;
- d. Support the passage of a Credit Reporting Bill. This would permit sharing of information to protect investors and lenders and reduce the cost of borrowings by investors and consumers; and
- e. Pursue amendments to the Consumer Act to include protection against fraudulent consumer financial products and services.

5. *Tap savings through new financial products*

Support the passage of the Personal Equity Retirement Account Act to improve the country's savings rate.

6. *Remove tax distortions*

Harmonize the tax treatment of financial instruments and institutions to support the development of the capital market. This shall include, among others, removing the double taxation of insurance products.

- C. Rationalize government pension and retirement schemes**
- 1. Allow increase of members' contribution to pension fund to narrow the funding gap. This will require the updating of actuarial study that shall be the basis for determining the increase in members' contribution to ensure that the financial condition of pension funds is actuarially sound.*
 - 2. Introduce a clear set of credentials or qualifications that will become the basis for the appointments to the boards of main pension providers, namely SSS and GSIS.*
 - 3. Designate an appropriate agency as the regulator to supervise the activities of pension funds and ensure their viability.*
- D. Increase SME access to financing (Chapter 1: Trade and Investment)**

Chapter 9

Labor

I. SITUATIONER

The labor market is still beset with problems that undermine the Filipino workers' quest for better and decent living. However, the resiliency of the workers led them to negotiate for alternative work arrangement, find self-employment opportunities, and land alternative employment outside the country.

Unemployment remained persistently high in 2001-2003, averaging 11.3 percent over this period. Despite the modest growth in GDP for the same period, growth was not enough to produce ample employment opportunities for the Filipinos as the country's rapid increase in population during the 60s to the 90s resulted in a large increase in the working age population. The labor force also expanded by an average of 3.78 percent or about 1.752 million compared to the net jobs generation of 1.058 million. Employment opportunities are scarce for those who live in the urban areas, for the youth who are unskilled and inexperienced, and for those whose education do not match industry needs.

Unemployment is largely an urban problem where roughly two in every three unemployed are urban residents. This is traced to the insufficient employment and income opportunities in the rural areas that prompts many rural residents to migrate to the cities and progressive regions to find work.

Majority of the unemployed are young people aged 15-24 years old who are unskilled and inexperienced. The youth accounts for almost half of total unemployed (48.7%). Youth unemployment rate is the highest compared to all age groups and is more than twice the national unemployment rate.

Another group of the unemployed are the "educated unemployed" whose skills do not meet the available job requirements. Most of the unemployed during the period were better educated than the employed workforce. Majority of the unemployed had at least a high school education (42.6 %) while those with college education accounted for 34.3 percent. The incidence of unemployment also tended to increase with the years of education. In 2002, only 6.7 percent of those with at least elementary education were unemployed followed closely by those without formal education (9.3%); with at least high school education (13.2%) and with college education (15.4%). Meanwhile, employed professionals, technicians and associate professionals who are considered most valuable to a developing nation, constituted a mere 4.5 percent and 2.7 percent, respectively.

Underemployment is a more serious problem since it cuts across all age barriers and its magnitude is almost twice that of the unemployment rate. It is more of a rural phenomenon as 61.2 percent of the underemployed are in the rural areas mainly because of the seasonal nature of farm employment that prompts workers to ask for more labor hours.

The rise and fall in employment is largely tied to the agriculture sector's performance, with employment trends following the rise and fall in the agriculture sector. Addressing the unemployment problem thus requires either minimizing the fluctuations in agriculture or increasing nonfarm income.

Flexible working arrangements have emerged in the wake of globalization. Companies adopt more flexible work arrangements to compete in the global economy. Employers are restructuring their companies, downsizing workforce and utilizing nontraditional employment practices like the hiring of part-time or temporary workers, subcontracting and business process outsourcing to remain more competitive.

Amidst these changes, labor relations were generally amicable. From 2001-2003, a total of 117 strikes were declared, equivalent to an average of 39 strikes per year, one of the lowest experienced in the country. Disposition rates of cases significantly improved, from 94 percent in 2001 to 100 percent in 2003. Settlement rates also improved. It is noteworthy that neither a reported establishment closed down nor an untoward incidence or violence occurred on the account of a strike.

Employment in the Philippines is largely labor-supply driven as persons who cannot find jobs in the formal labor market end up creating their own employment or land jobs overseas. Over the three-year period, the share of own-account workers has been considerable at 37.7 percent and those who are unpaid family workers at 12.9 percent. Meanwhile, the country was able to generate 2.624 million job orders overseas or an average of 875,000 deployment per year, contributing approximately US\$20.1 billion worth of remittances to the country.

II. GOALS, STRATEGIES AND ACTION PLANS

Labor policies shall be guided by the principles of providing decent and productive employment. Decent and productive employment means that adequate income is generated, rights at work are protected, social protection is provided for, and participation in the democratic process is guaranteed through tripartism and social dialogues. It also means sufficient employment, where all workers have full access to income earning opportunities. Decent employment also entails the continuous improvement of workers' personal capabilities through a build-up in competitive skills and positive work ethics to make him more productive. This will enable workers to fully participate in both economic and social activities, and maximize their human development potential even with the challenges posed by globalization.

Government, committed in the pursuit of decent and productive employment, shall pursue more vigorously the four major employment-promoting strategies: employment generation, employment preservation, employment facilitation and employment enhancement.

Employment generation involves creating, directly or indirectly, new employment opportunities in the domestic labor market.

To support the efforts in job creation, the government shall issue administrative guidelines and propose legislative amendments to the Labor Code to recognize flexible work arrangements (e.g., subcontracting, flexi-work, flexi-wage) especially in business process outsourcing and cooperatives. However, this shall take into consideration the promotion of decent work and respect for core labor standards.

Employment preservation involves enhancing harmonious worker-employer relationship and maintaining existing jobs with remunerative terms and conditions. Industrial peace, which significantly contribute to the preservation of employment, shall be achieved through freedom of association and free collective bargaining, continuing social dialogue, mediation and voluntary arbitration of conflict and

shared decision making mechanisms at the firm, industry, sector and national levels. By developing mutual trust and confidence among the parties, the industrial relations paradigm will shift from one based on confrontation to one based on cooperation resulting to productivity and competitiveness.

To achieve these, government shall ensure 24 hours-7 days-a-week action on labor cases, promote alternative dispute settlement mechanisms at the workplace for both unionized and non-unionized establishments, and continuously educate labor and management on dispute prevention and settlement. To address work contingencies arising from unemployment or loss of livelihood, it shall promote efficiency-enhancing measures, including arrangements or human resource strategies, that minimize employment losses, pursue the establishment of Tripartite Assistance and Supervising Committee, and administer an “Industrial Peace and Stability Fund” to assist displaced workers on a tripartite basis. An electronic labor case tracking and management system shall be installed to support the overall efforts on improving case resolution. Finally, it shall sustain social dialogue as a central element of labor policies, and a means to secure sustainable decent work outcomes.

Employment enhancement involves improving workers’ competency, productivity and work values, work conditions and occupational safety and health, remuneration, and welfare. There is a need for coherent strategies that will ensure basic security and employment while enabling adaptation to rapidly changing circumstances in a highly competitive global market because decent work is not just concerned with the creation of employment, but also employment of acceptable quality.

To enhance labor productivity and competitiveness, government shall showcase productivity improvement programs in micro, small and medium enterprises (MSMEs), including barangay micro business enterprises (BMBEs). It shall promote a culture of self-regulation and voluntary compliance to labor standards through the full implementation of the new labor standards framework, and continuously review its wage policy framework vis-à-vis emerging labor and industry requirements.

Workers are the country’s comparative advantage. There is a continuing need to sustain this advantage by adopting educational, training, and technical/vocational programs that will make labor supply more elastic. In this context, the technical/vocational and maritime training programs shall be continuously improved to meet the critical skills needed in a globalizing economy, as identified through industry signals. For skills training to be of any use, standards for skills certification and assessment of competencies shall be developed based on international standards. In addition to the strategic measures identified in education (Part IV, Chapter 18), effectively addressing the issue of youth unemployment shall be high in the agenda. Thus, youths shall also be provided with opportunities to acquire skills and competencies required by the market through training, expanded apprenticeship and learnership programs, special program for employment of deserving students, and emergency employment for the out-of-work/ out-of-school youths in Metro Manila. Assistance to other workers who are discriminated from work, such as persons with disabilities and occupationally disabled workers shall also be intensified to enhance their employability, whether in wage or self-employment.

To provide protection against vulnerabilities in work, government shall intensify its efforts in providing social assistance to working children, women, assets less/ landless rural workers, informal sector workers, and OFWs including their families or dependents. These measures shall include the implementation of focused, community-based and integrated interventions to reduce the incidence of child labor, particularly in hazardous occupations and abject conditions of work; training and capability building program for women under livelihood convergence strategies; and strengthening the capability of labor and management to jointly implement workplace family welfare programs that promote health, nutrition, responsible parenthood, balancing family and work life, among others.

Government shall further intensify its advocacy and capability-building activities to increase the number of workers in the informal sector (WIS) covered by the DOLE Social Protection Program for WIS.

The protection and welfare of OFWs is a shared responsibility of the sending as well as the host countries, and this will be a core principle in promoting markets and cultivating bilateral ties with labor-receiving countries. For this purpose, government shall pursue forging of bilateral agreements in cooperation with the private sector to secure the employment, security and protection of OFWs (Part V, Chapter 24). It shall further sustain the implementation of a comprehensive social service package for OFWs onsite, expand the reintegration program for them including their families and dependents, and intensify country-specific predeparture orientation seminars. The fight against illegal recruitment shall be sustained through the Presidential Task Force on Illegal Recruitment, and by implementing performance appraisal system of all licensed recruitment agencies. Finally, Tripartite Consultative Councils will be set up to institutionalize OFW and private sector participation in overseas employment.

Employment facilitation involves facilitating access of Filipino workers to employment opportunities and alternatives, whether locally or abroad. Overseas employment remains to be a legitimate option for the country's workforce. As such, government shall fully respect labor mobility, including the preference of workers for overseas employment. Protection shall be provided to Filipinos who choose to work abroad and programs for an effective reintegration into the domestic economy upon their return shall be put up.

To address the apparent mismatches in jobs and skills, the major Public Employment Service Offices (PESOs) shall be interconnected to strengthen the labor market information system. Alternative job search modes, such as the use of SMS technology shall also be set up to increase workers' access to information on job vacancies. Policies and procedures on overseas employment shall continue to be streamlined. By electronically linking the 12 government agencies involved in OFW documentation, the documentation process cycle time, requirements, and cost shall be reduced by 50 percent.

Changes in the socioeconomic, political, and global landscapes have significantly altered the world of work. These changes prompted the need to revise the 30-year old Labor Code to provide more flexibility at the workplace, and promote decent work and respect for core labor standards.

Amendment of the Labor Code shall focus on the five major areas of social partnership; protection to labor through just and humane conditions of work and adequate social security protection; employment promotion; promotion of productivity; and promotion of shared responsibility and providing adequate machinery for negotiations, dispute settlement and prevention.

Specifically, the amendments should emphasize on innovation in the workplace, productivity and performance rather than simply governing employee-employer relations. There is a need to promote shared responsibility in resolving conflicts, as well as ways to simplify the settlement and resolution of labor disputes, with strong incentives for alternative dispute resolution and private sector participation. This way, employers and workers need not waste resources in costly litigation.

Furthermore, the creation of a Local Employment Authority shall also be proposed to address the need for an integrated and more efficient employment policy and planning for the domestic labor market.

Chapter 10

Energy Independence

I. SITUATIONER

A. Indigenous Energy Production (2001-2003)

The total indigenous energy production in 2003 increased by 8.6 percent reaching 140.3 million barrels of fuel oil equivalent (MMBFOE) as compared to its 2002 aggregate of 129.5 MMBFOE. The bulk of the increase may be attributed to the increased production of natural gas from the Malampaya gas field which enabled the country to enhance its energy self-sufficiency level increase from 51.3 percent in 2002 to 53.9 percent in 2003.

Domestic oil production declined by 0.3 MMBFOE in 2003 from the 5.0 MMBFOE registered in 2002. Both Nido and Matinloc oilfields have ceased production in September 2003 in view of the closure of the Caltex refinery, which was the main user of the crude oil produced from these fields. Furthermore, no oil was harnessed from the Malampaya Oil Rim in the same year since the field is currently under economic evaluation for commercial development.

Relatedly, total gas production from the San Antonio and Malampaya gas fields as of end-December 2003 reached 94,802.9 million cubic feet (MMCF) as compared to the 2002 output of 62,205 MMCF. Condensate production from the Malampaya gas field in 2003, on the other hand, amounted to 4.9 million barrels (MMB) as against 3.3 MMB in 2002.

Geothermal energy remains a significant source of power comprising 18.6 percent of the country's power requirements in 2003. For the year, power generation from this energy resource reached 9,822 gigawatt-hours (GW) translating to about 16.9 MMBFOE displacement. Further exploration and development of geothermal fields resulted in the drilling of ten wells in various geothermal areas in the country.

Hydropower contributed 13.6 MMBFOE to the country's total indigenous supply in 2003. This registered an 11.9 percent-increase from its year-ago level.

Meanwhile, the intensified exploration and development program for the country's coal resources enabled the coal sector to surpass its 2003 production target by 11.2 percent with the actual production level of 6.7 MMBFOE. This is mainly due to the increased output of the Semirara Mining Corporation (SMC) as well as the renewed interest in small-scale coal mining in Cebu and Zamboanga provinces. SMC, the largest open cut coalmine in the country, produced a total of 6.2 MMBFOE of coal from its Panian pit in Semirara Island, Antique.

¹ Self-sufficiency level is obtained by taking the ratio of indigenous production over primary energy supply, net of exports, bunkering and stock change.

Energy Independence

Moreso, renewable energy such as biomass, solar and wind continue to play a major role in the gross energy requirements of the sector. The total supply from these renewable sources posted a moderate growth of 4.8 percent from 76.8 MMBFOE in 2002 to 80.3 MMBFOE in 2003.

The total energy consumption of the country increased from 250.8 MMBFOE in 2002 to 268.16 MMBFOE in 2003 with an energy self-sufficiency level reaching 53.87 percent (as indicated in Annex 10-1: Assessment of the 2001-2004 MTPDP Targets). From 38 percent in 2002, the renewable power share in the power generation mix swelled to 42 percent in 2003.

B. Oil Industry

As of August 2004, about 374 players are engaged in different downstream activities of the oil industry which is a 25.5-percent increase from 2002. The country has a total demand of 0.289 million barrels/day or 0.36 percent of the world oil demand while the current supply inventory is at 14,481 million barrels (MB) translating to a 50-day supply. The prevailing price range in Metro Manila as of September 10, 2004 is shown in Table 10-1.

Table 10-1 Prevailing Price Range in Metro Manila

Product	Price Range (PhP)	Unit
Unleaded Gasoline	26.38-26.68	liter
Kerosene	21.51-21.96	Liter
Diesel	20.88-21.33	Liter
LPG	331-369	11 kgs

Source: DOE

C. Oil Price Status and Its Impact on Domestic Pump Prices

The country's domestic oil prices are generally based on international prices with Dubai [Freight on Board prices] as benchmark for crude oil price in Asia and the Mean of Platts in Singapore as basis for finished products. International oil prices have hit an all-time high largely due to steep demand from China and India in light of their increased economic activities. The declining spare production and refining capacity and speculative trading activities such as the terror alerts in the US, unresolved tax problems between the Yukos and the Russian Government, and sabotage activities on Iraqi pipelines further contributed to the increase in worldwide oil prices. For the month of January 2004, Dubai crude oil prices were estimated at US\$27.93 per barrel while the present price has now reached an estimated US\$35 per barrel. As government has no control over international oil price surges, this predicament should be viewed as a price problem rather than as a supply problem. As a rule of thumb, every US\$1 change in crude oil product cost results in a corresponding adjustment of PhP0.38 per liter in domestic pump price. Since the government has no resources to subsidize oil prices, there are the resulting increases in the domestic prices of oil products. However, compared to other oil importing countries, the Philippines still has one of the lowest pump prices as presented in Table 10-2.

**Table 10-2 Comparative Pump Prices, in Peso/Liter
(As of 1 October 2004)**

Country	Unleaded Gasoline	Diesel
Hong Kong	85.84	51.46
South Korea	66.64	42.29
Singapore	50.31	30.23
New Zealand	46.61	24.17
Australia	43.52	44.89
Thailand	29.59	19.81*
Philippines	26.43	21.63
US	28.46	29.87

* Diesel price in Thailand currently subsidized

Source: DOE

D. Industry Conditions

A comparison of industry conditions between the regulated and deregulated oil industry is presented in Table 10-3.

Table 10-3 Comparison of Industry Conditions, Pre- and Post-Deregulation

REGULATED MARKET	DEREGULATED REGIME
1. Only three companies in operation. (All are refiners)	1. Entry of 73 new players. (All direct importers)
2. Practically, all supplies were locally sourced with refinery utilization reaching more than 85 percent.	2. Clean Air Act requires importations of higher quality fuels, the quality of which local refiners cannot meet.
3. Thermal power plants (Sucat, Malaya, Tegen) were in full operation, thus, the higher demand for bunker fuel.	3. Decrease in the demand for bunker fuel, following decommissioning of thermal plants which modified the demand mix to favor importation of lighter crude.
4. Demand mix similar to hydroskimming yield of Dubai which is heavy crude.	4. No OPSF, No subsidy.
5. Government subsidy (Oil Price Stabilization Fund) to stabilize prices.	5. Power of choice for consumers.
6. Guaranteed return of 6 to 10 percent.	6. No guaranteed return. Business risks on the part of the players.

Source: DOE

E. Deregulation at Work

Despite world oil crude price increases, the downstream oil industry conditions seem to have improved after its deregulation. More players are now in the market providing better competition and improved quality products and facilities as well as ancillary services. New investments in bulk and retail businesses have also increased. The industry now boasts of 182 operational LPG refilling plants, 3,801 gasoline stations, 10,341 MB of storage capacity and 117 strategically situated depots, of which 11 are import/export terminals. Areas outside Metro Manila have also benefited in terms of wider access to petroleum products. In sum, oil deregulation has enhanced the consumer's power of choice.

Table 10-4 Number of Gasoline Stations (Outside Metro Manila)

	Dec. 2003	Dec. 2002	% Increase
Luzon	2,021	1,943	4.01
Visayas	622	617	0.81
Mindanao	611	608	0.49
TOTAL	3,254	3,168	2.71

Source: DOE

II. GOALS, STRATEGIES AND ACTION PLANS

A. Energy Independence Strategy

Energy independence can only be achieved through a predictable energy policy that promotes a level playing field. The government should set clear and transparent policy directions. Consistent policies among the three branches of the government (i.e., executive, legislative and judicial) should also be achieved. In addition, continuity in policy directions should be enforced in light of long gestation period of energy projects.

The implementation of critical and strategic energy infrastructure projects is the key strategy towards achieving energy independence. Activities on this entail expansion of oil and gas exploration/production activities, renewable energy development, alternative fuel development, and strong strategic alliances.

1. Increasing Oil and Gas Exploration

Intensive promotion of oil and gas exploration like that of the Malampaya oil and natural gas field should be pursued. The Department of Energy (DOE) will expand the country's oil and gas reserves by 20 percent in the next 10 years. Studies have shown that the Philippines has a vast potential for energy developments. Results of the Philippines Petroleum Resource Assessment showed that the country has an estimated nine billion barrels of fuel oil equivalent of total recoverable petroleum resources. Figure 10-1 shows the potential Philippine sedimentary basins. The oil and natural gas reserves in the country could be developed, supported by a business-friendly decision of the Supreme Court (SC) on hydrocarbons exploration, not just mining. Shell, which invested US\$4 billion to US\$5 billion when it took over the Malampaya field from U.S. Occidental Petroleum, would have fully recovered its cost by 2005. That means the Philippine government share of about US\$500 million a year of US\$10 billion over 20 years could begin to go up by 2005. Aside from this, the first Public Contracting Round (PCR -1) was launched in August 2003 offering 46 contract areas, while PCR-2 will be launched in 2005. Two blocks were bid by BHP Billiton, Amerada Hess and Occidental Petroleum. In addition, the Philippine National Oil Company (PNOC) has signed a Memorandum of Understanding with China to undertake a three-year oil exploration research in certain areas of the South China Sea. More investments are expected to be generated if the Supreme Court (SC) will reconsider its ruling on the Mining Act of 1995 which declared the Act's provisions as unconstitutional and void. Such decision has trimmed down the list of investors for the PCR. In view of this, DOE shall advocate for SC reconsideration inasmuch as the petroleum service contracts issued pursuant to the Oil and Exploration Development Act of 1972 contain provisions on the protection and welfare of the country and its resources.

Figure 10-1 Potential Sedimentary Basins in the Philippines



Source: DOE

Intensified exploration and development of domestic coal will be a continuing thrust of the government. The DOE will conduct studies to identify additional coal exploration areas to boost the production of local coal. The exploration and development of idle coal areas will be promoted to address the projected increase in coal demand with the programmed commissioning of mine-mouth coal-fired power plants in the country. Indigenous coal production of 45.2 million metric tons is expected to fuel coal-fired power plants scheduled for commissioning during the period. This includes indicative mine-mouth coal-fired power plants located in Cebu, Sultan Kudarat, Antique, Cagayan, Surigao and Isabela.

To address environmental concerns, DOE shall encourage the operation of coal power plants to only those that utilize clean coal technologies.

2. Strengthening of PNOC

It is also crucial that the PNOC and its concerned subsidiaries be strengthened to spearhead the development of indigenous energy resources.

The PNOC needs to be restructured and transformed into a world-class petroleum company to increase its competitive edge in discovering new indigenous energy resources and in building global partnerships and collaborative undertakings.

The PNOC-Exploration Corporation will be technically upgraded to increase the discovery of new oil and gas reserves in the country. The PNOC-Energy Development Corporation (PNOC-EDC) will lead the country towards the goal of becoming the top geothermal producer in the world through

strategic alliances with the private sector. Other PNOC subsidiaries will also undergo similar upgrading, to wit: PNOC-Petrochemical Company will play a key role in the revival and strengthening of the country's midstream petrochemical industry through the establishment of a naphtha cracker plant; and PNOC Shipping and Transport Company will modernize its fleet through strategic alliances with private sector to bring fuel to demand centers.

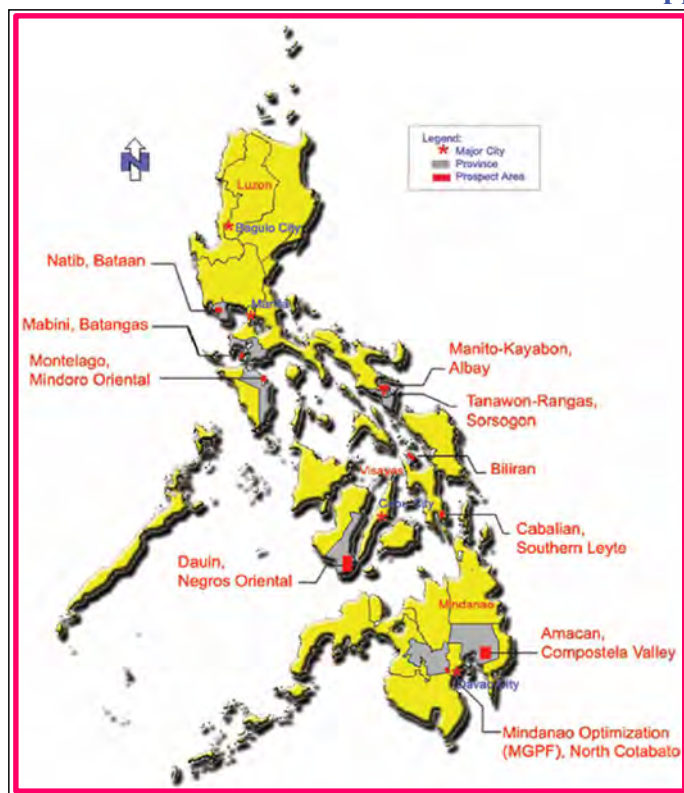
3. Pursuing the Development of Renewable Energy

For renewable energy development, the government has to strive to be the geothermal energy world leader, largest producer of wind power and solar manufacturing hub in Southeast Asia. In addition, the development of hydropower plants and biomass projects should be continuously pursued.

a. Geothermal Energy

Recent studies indicated that the country has 2,047 megawatt (mW) proven reserves and 4,790 mW potential reserves. Meanwhile, the full utilization/optimization of the already known fields such as the Bacman in Albay, Tongonan in Leyte, Palinpinon and Mambucal in Negros and Mt. Apo in Davao should be undertaken. Active promotion of geothermal exploration through Geothermal Bid Round should be continuously pursued in which geothermal sites are offered and bid out to private investors for their development. The first bidding round (extended until November 2005) offers 10 prospective geological sites with 300-510 mW potential capacity. Figure 10-2 shows the location and capacity of said existing geothermal plants.

Figure 10-2 Geothermal Plants/Resources in the Philippines

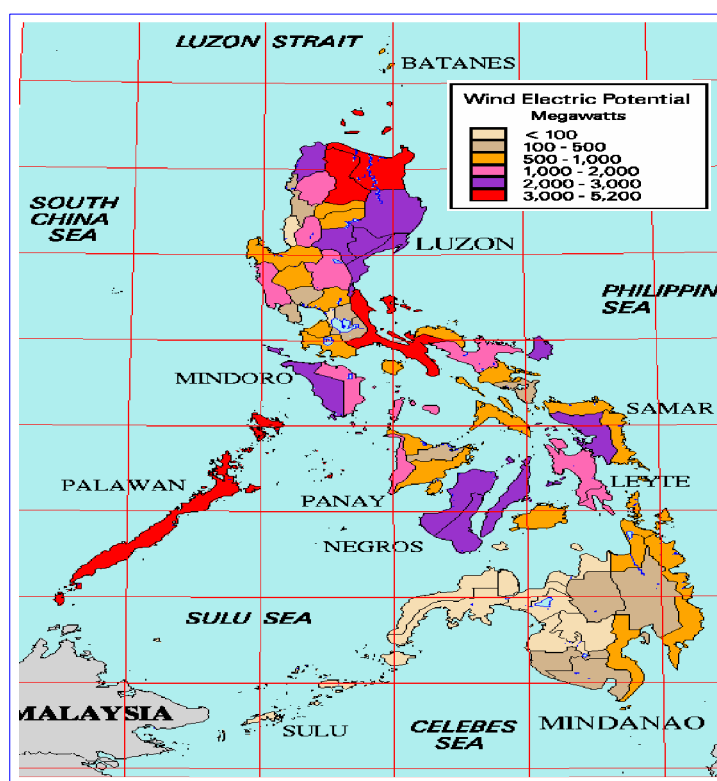


Source : DOE

b. Wind Energy

With the country's 1,038 wind sites having a potential capacity of 7,404 mW, the country can be on its way to become the leading producer of wind energy in Southeast Asia as seen in Figure 10-3. Within the next ten years, the government aims to install about 417 mW of wind-based power projects. At present, several studies are being conducted by PNOC-EDC to verify their viability. In June 2004, the first wind power investment kit that highlights the various opportunities for developing 16 wind power areas with an aggregate potential of 345 mW was launched. The groundbreaking of Northwind's 25-mW Wind Power Project in Bangui, Ilocos Norte was also held in April of the same year while the first commercial wind-diesel hybrid project in Batanes was inaugurated in August 2004. By 2008, Luzon will host three major wind farms, namely, Caranglan in Nueva Ecija, Mauban in Quezon, and Pagudpud in Ilocos Norte.

Figure 10-3 Wind Energy in the Philippines



Source: DOE

c. Solar Energy

Located just above the equator, the country has vast potential for solar energy. Energy from the sun has become a popular source of electricity specifically in off-grid barangays to counter the prohibitive cost of extending power transmission and distribution lines and difficulty of transporting generator to remote areas.

Highlighting the efforts of the energy sector on the promotion and use of solar energy is the award bestowed to PNOC's Solar Home Distribution Project as it garnered the first prize in the Energy Globe Awards in Linz, Austria. On the other hand, the Sunpower Solar Wafer Fabrication

Plant located in Laguna Technopark in Sta. Rosa, Laguna was inaugurated in April 2004. The US\$30-million plant manufactures high-efficiency photovoltaic cells and is expected to produce an equivalent of 25 mW in its initial year of operation increasing to 150 mW within the next five years. The plant can supply six percent of the world's total available market for photovoltaic industry, boosting the country's bid to become a solar manufacturing hub in Southeast Asia. The Sunpower project plans to distribute 30 percent of its production to the local market thereby significantly decreasing the cost of manufacturing solar panels.

d. Hydropower Energy

Hydropower will be continuously developed through integrated and intensive exploration, development and management of these resources. Within the next ten years, the aim is to double the generating capacity from hydropower resources using the more acceptable run-of-river type of development.

The West Japan Engineering Company (WestJEC) and TransAsia Corporation have shown interest in the conduct of feasibility studies for the Timbaban and Villasiga Hydropower Projects. WestJEC has likewise conducted another study on the 18-MW Catuiran Hydropower project in Mindoro. For mini-hydropower development, several projects are being pursued in coordination with the local government units (LGUs) which include the 560-kilo watt (kW) Hinubasan in Surigao, 750-kW San Luis in Aurora, 960-kW Cantingas in Romblon and the 2.5-mW Sevilla in Bohol.

At the microhydropower level, the Government of Japan through the Japan International Cooperation Agency (JICA) has financed several projects in 2003. These include the Grass Roots Grant Aid Program which involves the construction of the 35-kW Cagaluan and the 18-kW Pantikian microhydropower plants in Kalinga Province, Development Study Program in Northern Luzon which identified 40 microhydropower sites for possible inclusion in the DOE's microhydropower database, and construction of micro-hydropower plants for electrification of upland dwellers in northern Luzon which will install 14 micro-hydropower plants amounting to PhP296 million for 19 unenergized off-grid barangays. A detailed feasibility study on this project will be conducted by JICA in 2005. JICA has likewise financed the establishment of the microhydropower testing center at the De La Salle University which will provide latest technological development thereby enhancing capability of local turbine manufacturers and fabricators.

e. Biomass

The country should strive to promote the development of biomass projects considering its abundance. The increased utilization of biomass will contribute to the government's agenda on energy independence. In line with this, DOE is pursuing the development of the 30-mW bioenergy project of Talisay Bioenergy Inc. and the 50-mW bagasse cogeneration station of Victorias Bioenergy Inc.

The 30-mW bioenergy project situated in Talisay City, Negros Occidental will utilize bagasse as supplemented with cane residues and woodchips. This project, which is expected to contribute to the carbon emission reductions program of the government, shall create a market for commercial tree plantations, provide employment for local people and provide the local community with a reliable electricity source. It is targeted for commissioning in 2007. On the other hand, the 50-mW bagasse cogeneration station will be located alongside the existing sugar mill and refinery complex in Victorias City, Negros Occidental that will use bagasse from the Victorias Milling Corporation (VMC),

supplemented by cane trash residues and woodchips during offseason fuel. The said plant shall provide process steam and electrical power requirements to VMC mills and export surplus electricity to the local electrical distribution system. It is targeted for commissioning in 2008.

f. Clean Development Mechanism and the Emerging Carbon Market

Last November 2003, the Philippines ratified the Kyoto Protocol in support of climate change efforts both in the local and international arena. The Department of Environment and Natural Resources (DENR) was designated as the national authority for the Clean Development Mechanism (CDM), by virtue of Executive Order (EO) 320 dated June 25, 2004, with the DOE taking the lead role in evaluating energy-related projects prior to their endorsement to/registration with the United Nations Framework Convention on Climate Change–CDM Executive Board. The CDM is a project-based mechanism that aims to reduce greenhouse gas emissions. Meanwhile, some industrialized countries like Germany have initiated the establishment of carbon funds which will be used to purchase carbon emission certificates (CER) to comply with their pledged reduction levels in GHG emission under the Kyoto Protocol. It will be advantageous to the country to actively participate in the emerging carbon market as a seller of CERs since it will boost the development of indigenous resources in line with the energy independence agenda.

4. *Expanding the Use of Natural Gas*

The use of natural gas should be expanded in the power sector through the conversion of existing and decommissioned power plants like the Malaya, Sucat and Limay power plants and the construction of greenfield power plants. In the transport sector, buses can run by compressed natural gas (CNG), while combined heat and power systems can be introduced in industrial and commercial applications. The necessary gas pipelines and associated facilities such as the Batangas-Manila (Figure 10-4) spur line and the Liquefied Natural Gas (LNG) terminals should be constructed by 2007 and 2008, respectively, to convey the gas fuel to the demand points. The CNG buses will start plying major routes from Manila to Laguna by first quarter of 2005 while the mother-daughter stations should also be established during this period. In line with this, local bus operators should sign purchase contracts for 140 units of CNG buses from China by September 2004. For the industrial sector, the combined heat and power (CHP)² systems should be introduced by 2008.

² CHP is the simultaneous production of electricity and heat using a single fuel that can be burnt in a boiler. The heat produced from the electricity generating process is captured and utilized to produce high and low steam which can be used as a heat source

Figure 10-4 Proposed Batangas-Manila Natural Gas Pipeline



Source: DOE

5. Developing Fuel Blends

Accelerated development of fuel blends such as coco-biodiesel and ethanol should be resorted to boost the energy independence agenda. With regard to the acceleration of the Coco-biodiesel Program, Memorandum Circular No. 55 was issued on February 9, 2004, “Directing all departments, bureaus, agencies and instrumentalities of the government, including government-owned and controlled corporations, to incorporate the use of one percent by volume of coconut methyl ester in their diesel requirements.” This program was officially launched in April 2004 with commercial utilization commencing in July.

The government of Thailand through the Petroleum Authority of Thailand will help the country conduct a thorough study on the possibility of developing ethanol as a fuel additive. In addition, Petron Corporation has signified interest to take the lead in undertaking initial studies in determining the standards for the use of ethanol and viability of its implementation. The first Philippine Fuel Ethanol Alliance was founded with DOE, Department of Agriculture and Sugar Planters Association of the Philippines, Sugar Regulatory Administration, and Center for Alcohol Research and Development Foundation Inc. as members.

6. Forging Strategic Alliances

Strong strategic alliances should be forged like the cooperation with Thailand for the possible use of Subic as a regional storage facility, joint development efforts on upstream exploration with our neighboring countries, and arrangements with Russia as new oil suppliers and China, Australia and Indonesia as primary coal suppliers.

7. Undertaking Research Programs

Research and development for renewable energy systems have to be undertaken in support of the energy independence agenda. A web-based GIS on renewable energy including picohydro resources database as well as the compendium of biogas systems should be established to be spearheaded by DOE and the Department of Science and Technology. Other activities that need to be considered include: (a) the development of localized component kits and prospecting for local manufacturers of natural gas vehicles; (b) deep cycle battery; (c) small-scale biogas system technology validation and information packaging; (d) standardization of Balance of System; and (e) windmill technology validation and design improvement.

B. Energy Efficiency and Conservation

The foregoing supply-side strategy must be accompanied by demand-side strategy to optimize the use of scarce resources. To save more on energy, the Energy Efficiency and Conservation Program was launched on August 25, 2004 by DOE. This program aims to help mitigate the impact of rising oil prices, reduce expenditures on fuel and power, and contribute to environmental protection program. In line with this, mandatory implementation of the following programs will be pushed: (a) the use of CNG for transport buses; (b) biofuels as mandatory fuel blends; (c) expansion of energy labeling to include other appliances, vehicles, electrical devices and equipment; (d) shift to energy efficient lighting in residential, commercial and industrial establishments; and (e) fuel consumption reduction among government agencies.

Public cooperation will be encouraged in terms of voluntary agreements like anti-idling, carpooling, “carless” day schemes, etc., partnership with fast food chains, ecozones, industries and companies, wider implementation of Energy Labeling and Efficiency Standards (e.g., fuel efficiency rating labels in auto dealer showroom, etc.), and Energy Audits and Demand Side Management.

In detail, the Energy Efficiency and Conservation Programs are the following:

1. Fuel Efficiency Guide Labels in Motor Vehicle Dealer Showroom

The program aims to promote consumer awareness on fuel vehicle efficiency by encouraging car manufacturers and assemblers to display in their showrooms the fuel economy rating results of their entries in the previous DOE fuel economy runs. This would allow clients to consider fuel vehicle efficiency aside from the brand model, color, engine displacement or horsepower/torque rating in purchasing a vehicle.

2. Energy Labeling and Standards for Appliances and Equipment

The energy labeling and standards program aims to improve the efficiency and performance of appliances, equipment and other energy consuming devices. As a consumer protection measure, an

energy label allows the consumers to compare the energy cost of competing brands and models of similar sizes and capacities. The projected cumulative savings under this program is estimated at 7.6 MMBFOE in the next ten years.

3. Government Enercon Program

The foremost objective of the program is to reduce electricity and fuel consumption by 10 percent in all government offices. It also aims to assist government agencies in instituting efficient energy management to reduce their expenditures on fuel and electricity by introducing energy efficient technologies and practices which include among others, the integration of energy efficiency concepts into the procurement practices of government agencies. The potential energy savings under the program is projected at an aggregate of 2.9 MMBFOE for the next ten years.

4. Energy Management Programs

These services are geared to assist the industrial and commercial establishments in determining the most cost-effective approaches towards the judicious and efficient utilization of energy.

5. Energy Audit

Energy audit of industrial and commercial establishments and government buildings will continuously be implemented in partnership with the energy service companies. The conduct of 36 energy audits per year will contribute total potential cumulative savings of 2.8 MMBFOE in 2005, 4.2 MMBFOE in 2010 and 4.7 MMBFOE in 2014.

6. Partnership for Energy Responsive Companies (PERCs) and Partnership for Energy Responsive Ecozones (PEREZ) programs

The PERCs and PEREZ programs are government-private sector partnerships aimed at assisting companies in lowering energy costs through various energy efficiency services offered by the DOE such as energy audit, energy briefing and energy consumption monitoring and evaluation.

7. Heat Rate Improvement of Power Plants

The heat rate³ improvement program reduces the amount of fuel consumed and minimizes the air pollutants emitted by power generating plants. This is made possible with the provision of technical assistance, training and improved information access to enhance a power plant's life, reduce operating costs and ensure reliable power reserves. Institutional (i.e., coordination among power plants, credit support and competitive financing schemes) and operational (i.e., operational information system, sustainable system for continuing heat rate improvement program on a nationwide scale) improvement is expected to be achieved by the program in compliance with the heat rate standards set by the Energy Regulatory Commission (ERC) at 10,850 British Thermal Unit per kilowatt-hour (BTU/kWh) and 9,773 BTU/kWh for oil-fired and coal-fired power plants, respectively. Increasing savings of 0.3 MMBFOE in 2005, 0.4 MMBFOE in 2010 and 0.6 MMBFOE in 2014 are expected to be achieved from this program.

³ Heat rate is the amount of heat added (Btu) to produce a unit amount of work (kWh). HR is inversely proportional to the efficiency of a plant. [El-Wakil, M.M. (1984) *Powerplant Technology*. New York: McGraw-Hill]

C. Financial Requirement for the Energy Independence Agenda

The total financial requirement of the plan activities related to the energy independence agenda (i.e., based on the 10-point agenda and its enhancements) is estimated at about PhP55 billion. This ballpark figure, however, does not include the estimated cost of the development of the petrochemical industry (with the establishment of a naphtha cracker plant), hydropower plants as discussed above and promotion of local coal using clean coal technology.

D. Legislative Agenda

The following legislative bills are critical to the fulfillment of the foregoing strategies:

1. **Alternative Fuels Utilization Bill** is proposed to further promote the wider utilization of alternative fuels to expand the market for coconut oil and other agricultural products, create more jobs and increase the income of farmers, improve air quality and enhance countryside development. It also aims to aggressively reduce the country's energy dependence on energy imports through fuel switching from oil to natural gas, and other alternative fuels such as coco-methyl ester, autogas and ethanol.

2. **Natural Gas Bill** aims to institutionalize regulatory mechanisms and provide statutory basis for concerns which are presently beyond the purview of existing laws. It will also promote natural gas as a secure, stable and clean source of energy as well as encourage competition by liberalizing entry and fair trade measures.

3. **Ethanol Bill** is proposed for the development of ethyl alcohol as an alternative transport fuel to reduce the impact of rising oil world prices as it can reduce the consumption of imported petroleum products by 60 percent. It mandates government and private financial institutions to provide credit to farmers and cooperatives who will participate in the mass production of raw materials for ethanol.

4. **Renewable Energy Bill** provides for the guidance and procedures for the preferential treatment of renewable resources in terms of interconnection and dispatch.

5. **Liquefied Petroleum Gas (LPG) Bill** is proposed for the provision of stringent safety standards and penalty/sanctions to violators. This will give more teeth in implementing sanctions to violators and establishing safety standards for consumer protection.

Assessment of the 2001-2004 MTPDP Targets

2001-2004 MTPDP Targets	Accomplishments as of 2003
Energy self-sufficiency from 45% in 2000 to 52% by 2004	53.87% energy self-sufficiency
Aggregate installed generating capacity from 13,264 mW in 2000 to 15,479 mW by 2004	15,132 mW installed generating capacity
Construct additional 6,885 circuit km of transmission lines	41.8 circuit-kilometers installed; 750 MVA Substations
Number of barangays served from 33,602 or 80.1% in 2000 to 38,849 or 92.6% by 2004	As of July 2004, 38,285 barangays energized or 91.27 % of total potential 41,945 barangays
Construct additional 44,780 circuit km of distribution lines and 56 units of 5 MVA and 43 units of 10 MVA substation distribution facilities from 2001 to 2004 to enhance reliability of service	187,000 ckt-kms and 3,280 MVA installed
Reduction of system losses by setting caps on recoverable system losses allowed to private utilities and electric cooperatives to 9.5% and 14%, respectively	Average Distribution System Losses
	Private Utilities - 10.67%
	Electric Cooperatives - 15.08%
Potential savings of about 24.2 MMBFOE	9.47 MMBFOE energy savings
Comply with the provisions of the Clean Air Act	Energy sector has active participation on different inter-agency activities

Chapter 11

Power Sector Reforms

I. SITUATIONER FOR 2001-2004

The period was characterized by the increase in the utilization of indigenous energy resources that raised the country's energy self-sufficiency level from 45.1 percent in 2001 to 51.1 percent in 2002 and 53.9 percent in 2003. The 2003 level exceeded the 2004 MTPDP target of 52 percent (see Annex 10-1). This growth is attributed mainly to the continued implementation of the stringent policy on lessening the country's dependence on imported energy through the utilization of indigenous fuels for new power plants and the retirement of aging oil-based power plants.

The commissioned plants in 2001-2004 have provided a capacity addition of 3,717.40 mega watts (mW). Of this amount, 2,790 mW are from natural gas and 905.4 mW from large hydro, which are indigenous and renewable. The commissioning of these plants alongside the retirement of oil-based plants resulted in the increase in the country's total installed capacity from 13,402 mW in 2001 to 15,132 mW in 2003.

Supply-demand scenario for 2001-2004 and 2005-2010 are presented in Tables 11-1 and 11-2.

Table 11-1 Supply-Demand Scenario for 2001-2004 (in mW)

	2001	2002	2003*	2004*
<i>Philippines</i>				
Demand	7,497	7,721	8,537	9,069
Existing Dependable Capacity	11,209	12,909	13,404	14,035
Reserve Margin**	33%	40%	36%	35%
<i>Luzon</i>				
Demand	5,646	5,823	6,365	6,728
Existing Dependable Capacity	8,523	10,223	10,521	11,086
Reserve Margin**	34%	43%	40%	39%
<i>Visayas</i>				
Demand	898	903	1,006	1,063
Existing Dependable Capacity	1,377	1,377	1,424	1,520
Reserve Margin**	35%	34%	30%	30%
<i>Mindanao</i>				
Demand	953	995	1,166	1,278
Existing Dependable Capacity	1,309	1,309	1,460	1,429
Reserve Margin**	27%	24%	20%	9%

* Demand for 2003 and 2004 includes embedded generators.

**Reserve margin is the percentage of existing dependable capacity above the peak demand

Table 11-2 Supply-Demand Scenario for 2005-2010 (in MW)

	2005	2006	2007	2008	2009	2010
<i>Philippines</i>						
Demand	9,603	10,157	10,768	11,425	12,127	12,953
Existing Dependable Capacity	13,959	14,134	14,109	14,109	13,899	13,249
Committed	240	100	210	50	0	0
Req'd Capacity Additions	100	50	100	100	0	1050
<i>Luzon</i>						
Demand	7,109	7,515	7,977	8,480	9,020	9,674
Existing Dependable Capacity	11,086	11,086	11,086	11,086	10,876	10,226
Committed	25	40				
Req'd Capacity Additions						1,050
<i>Visayas</i>						
Demand	1,120	1,182	1,255	1,330	1,410	1,495
Existing Dependable Capacity	1,445	1,445	1,420	1,420	1,420	1,420
Committed	140	60		50		
Req'd Capacity Additions				100		
<i>Mindanao</i>						
Demand	1,374	1,460	1,536	1,615	1,697	1,784
Existing Dependable Capacity	1,429	1,604	1,604	1,604	1,604	1,604
Committed	75		210			
Req'd Capacity Additions	100	50	100			

Source: DOE's Draft Power Development Plan 2005-2010

Based on a new bottom-up approach (Distribution Development Plan aggregates), the country will need at least a total of 5,450 mW from 2005 to 2014. Currently, the country's power system requires a reserve margin of at least 13.2 percent. As indicated in Table 11-1, it appears that there is no problem in supply with a 35-percent margin for the entire country in 2004. But looking at the major grids, Mindanao is at a critical level with only a 9-percent reserve margin. This is with the assumption of higher demand with the reopening of the National Steel Corporation. Correspondingly, an additional 100 mW peaking capacity is needed at any given time of simultaneous usage of electricity. Power barges may be initially installed to meet the requirement for the mean time (see Table 11-3 for the estimated construction period of power plants per type). If baseload power plants will be used, two years at the very least will be needed before it can be commissioned.

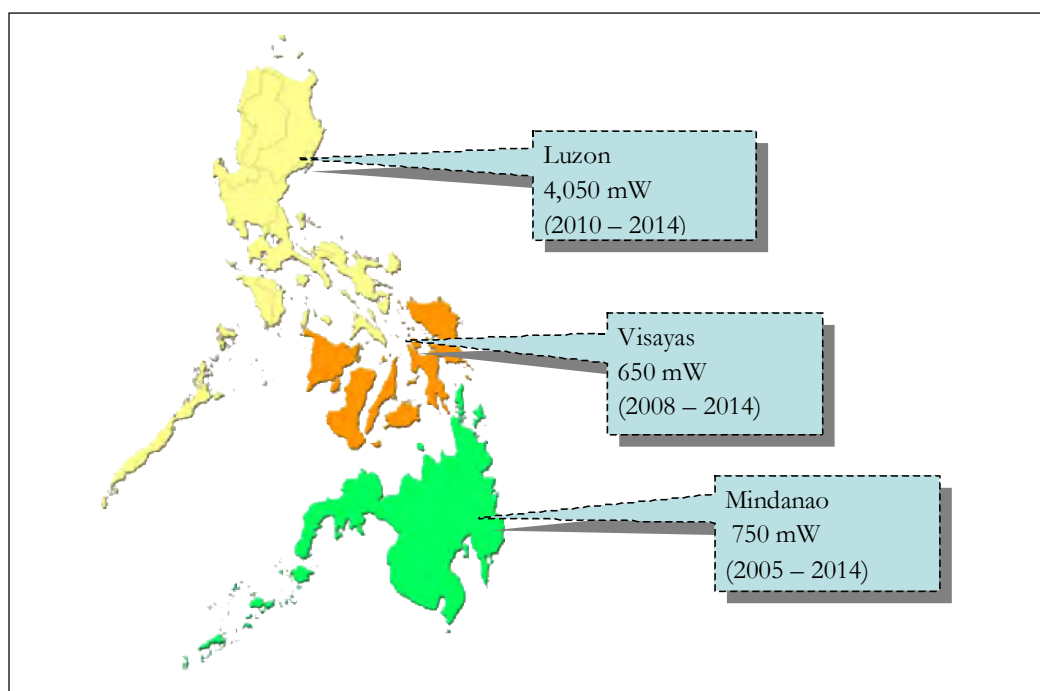
Luzon and Visayas, though exhibiting an adequate margin of 39 percent and 30 percent respectively in 2004, are dependent on the capability and reliability of the transmission and interconnection lines in Luzon and Visayas. Most of the plants in Luzon are located in the southern part while the load growth is in Metro Manila and nearby urban areas. In the Visayas, 45 percent of the generating capacities (i.e., 1,520 mW) are in Leyte-Samar which are being transferred to the rest of the Visayas sub-grids and Luzon via submarine cable.

Table 11-3 Estimated Years to Construct Power Plants

Type of Power Plant	Years to Construct
Coal	6
Hydropower	5
Geothermal	5
Diesel (High Capacity)	4
Gas Turbine	4
Wind	4
Diesel (Low Capacity)	1
Power Barge	8 months

In summary, the country's power supply requirement for the period 2005-2014 is 5500 mW as detailed in Figure 11-1.

Figure 11-1 Philippine Power Requirement



Source: DOE

At present, the merit order of dispatch which is based purely on variable cost (i.e., fuel cost) for the different types of power plants is ranked as follows: (a) run-of-river hydropower; (b) geothermal; (c) coal; (d) natural gas; (e) bunker C; (f) diesel; and (g) pump-hydropower.

A. EPIRA Implementation Status

The liberal changes associated with the restructuring of the electric power industry are being implemented slowly but steadily to ensure the smooth transition and adaptation of the power industry into a competitive electricity market. These include:

1. Unbundling of electric power rates

The review by the Energy Regulatory Commission (ERC) of the rate unbundling application is now nearing completion. As of September 2004, the ERC has already approved 133 rate unbundling applications out of 141 applications, which include the NPC, TransCo, 116 electric cooperatives and 15 private distribution utilities. Rate unbundling has brought transparency in the pricing of electricity.

2. Removal of cross subsidy

The removal of interregional cross-subsidy began in September 2002. Likewise, intra-regional grid cross subsidy was reduced by 1/3 of the original subsidy on September 26, 2003 and another 1/3 by September 26, 2004. Both inter-grid and intra-grid cross subsidies are expected to be phased out by September 26, 2005 in accordance with the ERC timeline. Removal of interclass subsidy will be phased out by October 2005.

3. Lifeline Rates

As a socialized pricing mechanism for the marginalized electricity end-users, the ERC is mandated to set the lifeline rate per distribution utility which will be exempted from the cross-subsidy phase out for 10 years unless extended by law. Its implementation depends on the petition of distribution utilities. At present, ERC has set the lifeline rates for 112 out of 139 or an estimated 81 percent of the distribution utilities.

4. Condonation of debts of electric cooperatives

The ERC has granted provisional approval on all loan condonation applications of the 118 electric cooperatives (ECs) in the total amount of PhP18 billion. These loans were further verified and audited by the Power Sector Assets and Liabilities Management Corporation (PSALM). The resulting savings due to the removal of the amortization payment of the EC loans translated to an average reduction of PhP0.2092/kWh in the rates of ECs which is reflected as a separate item in the consumers' electric bills as approved by ERC.

5. Review and renegotiation of NPC-IPP contracts

The review and renegotiation of the contracts entered into by NPC with the independent power producers (IPPs) have been essentially completed as of the end of 2003. Of the 35 contracts, PSALM has concluded negotiations on 20 contracts with expected savings amounting to US\$2.95 billion in nominal terms or US\$1.036 billion in discounted present value. These savings translate to an equivalent reduction of PhP0.098/ kWh over the remaining life of the contracts.

6. Imposition of universal charge

Two components of the universal charge are now reflected in the electricity bills, namely, the missionary electrification at PhP0.0373/kWh and the environmental charge at PhP0.0025/kWh. These components used to form part of the NPC's basic rate.

7. *Establishment of wholesale electricity spot market*

The Philippine Electricity Market Corporation has been constituted as a nonstock, nonprofit corporation which is tasked to undertake the preparatory work and initial operation of the Wholesale Electricity Spot Market (WESM). As the governing body of the WESM, PEMC under the supervision of DOE shall establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale and purchase of electricity and ancillary services in the Philippines in accordance with laws, rules and regulations.

The registration process for the WESM participants will begin by December 2004, while the trial operation of the WESM in Luzon is expected to commence in June 2005 to test the rules, systems and procedures of the WESM, as well as ensure market participants readiness.

8. *Privatization of NPC assets*

The PSALM has facilitated the privatization of four mini-hydroelectric plants of NPC, with a total capacity of 7.3 MW at US\$3.76 million. These plants are Talomo on March 25, 2004, Agusan River on June 10, 2004, Barit on June 25, 2004 and Cawayan on September 30, 2004.

9. *Privatization of TRANSCO*

Likewise, PSALM is looking forward for the privatization of the transmission assets of National Transmission Corporation (TRANSCO) through concession. After two failed bids in 2003 and initial discussion with interested investors in the third quarter of 2004, PSALM is now initiating preparations for the concession to be publicly bid.

10. *Adoption of performance-based rate setting (PBR) methodology*

The ERC has developed the PBR to institutionalize efficiency in the electric power industry. PBR is basically a performance and efficiency-based methodology where the utilities are regulated based on how they perform. If the utility companies are more efficient, they get more rewards in return. Asset optimization and improved efficiency are assured since the regulated entity retains the savings.

The PBR methodology is adopted because of its relevance in the restructuring of the Philippine electric power industry. Currently, capital expenditures are not adequate, resulting in poor service standards. The PBR deviates from the traditional Return-on-Rate Base (RORB) methodology which uses historical costs. As such, there is no incentive to implement efficiency measures. The PBR, on the other hand, uses forecasts, thereby providing the appropriate incentives to regulated entities to further improve efficiency in order to realize savings, while maintaining reasonable rates and improving the quality of service.

For the transmission sector, the Transmission Wheeling Rate Guidelines, a PBR methodology, was promulgated by the ERC on May 29, 2003. For the distribution sector, ERC also intends to consider the adoption of PBR, for the privately owned distribution utilities. This methodology is provided in the draft Distribution Wheeling Rate Guidelines which is due for promulgation by January 2005.

11. Rural and missionary electrification

As of July 2004, 38,285 barangays representing 91.27 percent of the total 41,945 barangays in the country have been electrified (as seen in Table 11-4) despite the limited funding from the government. This accomplishment can be attributed to the continued support of IPPs which provided the advanced financing of electrification costs. These IPPs can recover later such costs through the facility of Energy Regulations No.1-94.

As regards the electrification level by region, Luzon has the highest electrification level having energized 19,741 barangays out of 20,476, representing 96.4 percent. Visayas, on the other hand, is the second, having energized 10,386 barangays out of 11,443 barangays, while Mindanao has the lowest electrification level of 81.37 percent, having registered 8,158 barangays out of 10,026 barangays electrified. Of the provinces in Mindanao region, it is the Autonomous Region for Muslim Mindanao (ARMM) that has the lowest electrification level of 64.1 percent. A more detailed electrification by region is presented in Table 11-5.

Table 11-4 Barangay Electrification Level (As of July 2004)

	Coverage	Energized/ Completed	% Energization	BALANCE
Total Phils.	41,945	38,285	91.27	3,660
ECs	35,980	32,462	90.22	3,518
MERALCO	4,317	4,241	98.24	76
PIOUs/LGUs	1,648	1,582	96.00	66

Source: DOE

Table 11-5 Electrification Level by Region (As of July 2004)

Region	Energized Barangays	Unenergized Barangays	Total Barangays	Level of Energization
I	3,250	15	3,265	99.54%
II	2,180	131	2,311	94.33%
CAR	1,104	68	1,172	94.20%
III	3,071	28	3,099	99.10%
IV-A	3,928	81	4,009	97.98%
IV-B	1,298	158	1,456	89.15%
V	3,217	254	3,471	92.68%
NCR	1,693	-	1,693	100.00%
SUB-TOTAL (LUZON)	19,741	735	20,476	96.41%
VI	3,757	293	4,050	92.77%
VII	2,918	85	3,003	97.17%
VIII	3,711	679	4,390	84.53%
SUB-TOTAL (VISAYAS)	10,386	1,057	11,443	90.76%
IX	1,450	453	1,903	76.20%
X	1,823	197	2,020	90.25%
XI	1,089	69	1,158	94.04%
XII	1,001	191	1,192	83.98%
ARMM	1,569	876	2,445	64.17%
CARAGA	1,226	82	1,308	93.73%
SUB-TOTAL (MINDANAO)	8,158	1,868	10,026	81.37%
TOTAL (PHILIPPINES)	38,285	3,660	41,945	91.27%

Source: DOE

The ultimate objective of the power sector reforms is to reduce the cost of electricity and make it competitive with the rest of the region without sacrificing adequacy, reliability and quality. The restructuring is also envisioned to assist existing and emerging industries maintain a competitive advantage in the Southeast Asian region. However, current financial and institutional concerns and challenges, which are rooted in the historical governance and political economy of the electric power industry, continue to place the power sector in an extremely difficult position. Power reforms take time so the government needs to immediately act to address the urgent power requirement. Government does not have the resources to subsidize power and fuel costs and build new power plants, refineries and other facilities. Among these concerns and challenges are the following:

- huge financial losses of the NPC;
- slow implementation of power market reforms including privatization of transmission facilities of the TransCo and generating plants of NPC;
- prices heavily dependent on external factors (e.g., foreign exchange and fuel cost);
- high distribution system losses;
- poor performance and high systems losses of electric cooperatives;
- declining private sector investments; and
- sustainability of rural electrification programs.

II. GOALS, STRATEGIES AND ACTION PLANS

To resolve these concerns or at least mitigate their adverse effects, the government will develop and implement a number of responsive policy thrusts and strategies where the private sector is encouraged to participate. For the planning period, the government shall build on gains during the initial stages of implementation and strengthen its efforts in the creation of a transparent privatization process and an investment climate attractive to investors.

A. Address NPC Losses

1. Assurance of successful privatization of TransCo, NPC generation assets and NPC IPPs

The privatization of transmission and generating plants has become a must rather than a choice.

The privatization of NPC, through the sale of its generation assets and the TransCo concession, is among the most urgent of important nontax revenue-generating measures. Cleaning government's books entails putting an end to the fiscal drain caused by inefficient corporations. NPC's privatization is expected to bring in US\$4-5 billion. The proceeds from NPC's sales will free government resources from subsidizing NPC towards public services and social reforms. The sale of NPC will require the national government's assumption of NPC debts amounting to not more than PhP500 billion as called for under the EPIRA. Therefore, a determining factor in the achievement of the fiscal target is the successful privatization of NPC.

With regard to TransCo privatization, PSALM and TransCo shall secure a nationwide congressional franchise for and in behalf of the concessionaire. Privatization shall be by concession for 25 years subject to review and renewal for a maximum of another 25 years, with government retaining ownership of the assets. Purchase considerations shall include deferred payments. The Transmission Wheeling Rate Guidelines has been promulgated to institutionalize the Performance-Based Rate Methodology in the transmission business.

NPC generation assets shall be grouped for privatization, (with some plants being sold individually) taking into account investor preferences; scale of operations and financial viability of the Genco clusters; synergies, efficiency and market power/competition policy; supply/demand conditions in certain grids; and energy development objectives and policies. Investors would be allowed to bid for more than one proposed grouping, subject to market share limitations as stipulated in the EPIRA, and PSALM would pick the combination that maximizes proceeds. The privatization would be in the form of an asset sale (including equipment, spare parts and other items) free of debt, with the investor having as much flexibility as possible on the use of the asset and hiring of employees.

The Transition Supply Contracts (TSCs) will be negotiated with all existing PSALM/NPC customers. The TSCs will then be assigned to NPC/PSALM-owned generators and those IPPs which are also controlled by NPC/PSALM. The TSCs will assure a minimum market for the NPC/PSALM generation assets and will enhance the value of generation assets intended for sale and further operation.

PSALM will privatize at least 70 percent of NPC generation assets by end of 2005.

2. Transfer of management and control of at least 70 percent of total energy output of power plants under contract with NPC to IPP administrators should be accomplished by 2006.

The transfer of management and control of energy output of IPPs to the IPP administrators is to be effected only with the operationalization of the WESM by December 2005. The preparations of the initial Terms of Reference for the IPP Administrators, Eligibility Documents and Instruction to Bidders have been completed. Meanwhile, the review of implementation details by PSALM and its advisors is ongoing.

3. Debt absorption of NPC by the national government

Executive Order (EO) 370 directs the Department of Finance (DOF) in consultation with the Department of Budget and Management (DBM) and the Commission on Audit (COA), to address and resolve all issue relating to the assumptions by the National Government (NG) of NPC's financial obligation, that is (a) identification of specific debts to be assumed and determination of the levels of annual debt absorption; (b) the arrangements between PSALM, NPC and NG; (c) the proper treatment and recording of the transactions in the books of accounts of the NG and NPC; and (d) the implementation of the assumption by the NG of NPC's financial obligations.

The NG shall absorb portion of NPC current debts by no more than Php200 billion. At such level of debt absorption as provided in the EPIRA, interest payments for NPC requirements will go down to 0.3 percent of the gross domestic product (GDP) over the medium term.

4. Formulation of pricing policy

Tariff adjustment of NPC generation rate should be done to reflect the true cost of power production. ERC shall formulate a pricing policy and a regulatory environment that makes returns and risks manageable for investors.

5. Explore financial engineering methods

Loan restructuring must be continued by stretching the repayment period for IPP obligations of NPC and pursue payment of stranded debt and stranded contract costs through the collection of universal charge.

B. Strive to reduce electricity rates

1. Facilitate the establishment of the WESM and introduce open access and retail competition

Market competition in bulk power generation sold through the WESM with open access to transmission and distribution lines is expected to reduce electricity prices. The WESM will be implemented to establish a competitive, efficient, transparent and reliable market for bulk electricity where (a) a level playing field exists among WESM participants; (b) trading of electricity is facilitated among WESM participants within the spot market; (c) third parties are granted access to the power network in accordance with the EPIRA; (d) prices are governed as far as practicable by commercial and market forces; and (e) efficiency is encouraged. The commercial operation of the WESM will start in December 2005. Related to this is the start of Luzon market trial in June 2005 and development of market rules for Visayas and Mindanao in 2006. Also, the implementation of the open access will allow the end-user to have a choice of suppliers of electricity and thus promote retail competition.

It is expected that the implementation of open access for end-user with a monthly average peak demand of at least one mW for contestable market will commence in July 2006 for Luzon. The reduction of the contestable threshold level to 750 kW will take place in July 2008 for Luzon. The ERC may further reduce the threshold level to 500 kW and thereafter to at least 250 kW. The final threshold level will be determined by ERC upon evaluation of the performance of the market.

2. Strengthen the electric cooperatives and distribution utilities

To provide quality, reliable and cheaper electricity service particularly in the rural areas, the following shall be attained:

- lowering of system distribution loss from 15.08 percent in 2003 to 13 percent in 2005 and 9 percent by 2010
- reduction of household service interruptions by 25 percent by 2010
- reduction of nonpower cost by 10 percent by 2010
- increase in number of category A+ and A of electric cooperatives by 10 percent in 2010
- establishment/creation of a Management Academy by 2005 (in cooperation with existing government facilities such as the Development Academy of the Philippines, the Local Government Academy, and other interested educational institutions)
- offering of Investment Management Contracts (see Item C.4)

3. Reduce claims on the universal charge with respect to stranded costs

For the IPPs of NPC, PSALM shall continue to diligently seek to reduce stranded contract costs by concluding the ongoing negotiations/discussions with the parties concerned for the remaining nine IPP contracts by 2005.

4. *Provide competitive power rates/time-of-use electricity pricing*

The government will introduce time-of-use (TOU) pricing of electricity. TOU pricing is a rate design methodology that approximates the true cost of electricity at the different times of the day (over a 24-hour period) and different days of the week which would in turn simulate a competitive spot market and allow NPC (and eventually the Genco investor) to realize a reasonable return on investment. By 2005, the metering market rules should have been developed.

5. *Eliminate cross-subsidy*

Intergrid, intragrid and interclass cross-subsidy will be removed by 2005. Phase out of cross-subsidies will eliminate market price distortions. The industrial and commercial consumers will enjoy reduced rates. For generators/utilities, the benefits of this are the optimum dispatch of base-load plants and financial viability of peaking plants; whereas for customers, this will ensure that there is no subsidization between high and low load factor customers and no subsidization between offpeak and peak users of electricity. ERC has completed the evaluation for the removal of interclass cross subsidies and will be released simultaneously with the approval of loan condonation to mitigate the effect on residential users. Finalization of this activity is expected to be completed by October 2005.

C. *Encourage private sector participation*

1. *WESM and retail competition with open access provision*

Under the EPIRA, power generation was deregulated to mobilize private sector capital and management expertise within a competitive environment. Buying and selling of bulk electricity including ancillary services will be made through the WESM. To allow indiscriminate dispatch by any participating private generation company to any consumer under full market competition, open access to transmission and distribution lines is a must. The private sector may engage as well in retail competition to cater to the electricity demands of end-consumers in various forms such as supply aggregators and bilateral suppliers.

2. *Privatization of NPC-SPUG existing areas*

The first pilot privatization of an NPC-SPUG area is targeted in December 2004. Complete privatization of the 14 first wave SPUG areas is expected by December 2005. Fourteen island provinces and municipalities of the existing areas of NPC-SPUG which have been identified for complete private sector participation by 2005 are listed below.

- | | |
|--------------------------|-------------------------|
| • Marinduque | • Catanduanes |
| • Occidental Mindoro | • Bantayan Island, Cebu |
| • Oriental Mindoro | • Siquijor |
| • Palawan | • Camotes Island, Cebu |
| • Masbate | • Basilan |
| • Romblon | • Sulu |
| • Tablas Island, Romblon | • Tawi-Tawi |

3. Waived and missionary electrification areas

Distribution utilities (DUs) have a social obligation to provide electricity to all communities in their franchise areas. However, in areas which are remote and unviable for on-grid electrification, a DU may waive its obligation and open such areas for management and service of the private sector or qualified third parties (QTPs). Qualified third party implementation of some waived areas by ECs is projected by December 2004 and the pilot bidding is also expected to commence by then.

The provision of electricity in remote and unviable areas that the franchised distribution utilities are unable to serve shall be opened to the private sector known as the QTPs. It is envisioned that the QTPs shall provide the needed funds in areas deemed as missionary through the effective leveraging with the limited public sector resources. To facilitate entry of QTPs, Circular No. DC 2004-06-006 was issued on June 18, 2004 prescribing the qualification criteria for the QTPs. DOE is likewise finalizing a Circular that would prescribe the participation guidelines including policies on subsidies.

Meanwhile, a five-year Missionary Electrification Development Plan that shall embody the framework for how government and the private sector can collaborate to achieve the set goals of the Expanded Rural Electrification Program will be formulated by DOE.

4. Investment Management Contracts (IMC) for ECs

The concept of the IMC is to bring in capital and management expertise of a private sector in managing and supervising the operation of electric cooperatives (ECs). An IMC is a kind of concession contract being proposed as a way for ECs to improve electrification service. In this scheme, the EC enters into an IMC with an operator-investor where the investor shoulders risk capital while given management control of the EC. In return, the investor receives remuneration from the EC commensurate with its inputs provided to the improvement of the EC. Another IMC scheme being contemplated is that the operator-investor will be competitively selected, and will be required to invest risk capital. It is targeted that at least six IMC transactions will be completed and 15 guarantees will be issued for ECs by 2011.

5. New and efficient energy infrastructures to be built with the provision of window for investment opportunities in the power generation and distribution sector

With the annual publication of the supply and demand profile of each distribution utility, private sectors can readily see the business opportunities in the power generation market.

D. Ensure sufficient and reliable power supply and system efficiency improvement

To ensure sufficient and reliable power supply to end-consumers, it is crucial that TransCo projects which address transmission line constraints be prioritized. TransCo is tasked to improve and expand its transmission facilities, consistent with the Grid Code and the Transmission Development Plan, to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission network. The existence of transmission constraints could lead to less than optimal dispatch. The presence of transmission constraints would defeat one of the objectives in the establishment of WESM because competition will be limited for some of the players. TransCo, therefore, needs to prioritize its projects, with the decongestion of the major transmission highways as the primary objective. TransCo's capital

expenditure (CapEx) program which will be finalized soon shall identify these priority transmission projects to be implemented during the planning period.

E. Pursue total barangay electrification

Included in the EPIRA's declaration of policy is "to ensure and accelerate the total electrification of the country." In support of this policy, all the 3,660 unenergized barangays shall be provided with electricity by 2008.

The total financial requirement for barangay electrification is estimated at PhP975 million. Meanwhile, the estimated cost for transmission projects that are designed to address network capacity constraints will be determined upon approval of TransCo's CapEx Program.

Annex 11-1

Financial Status of the National Power Corporation

The operations and financial conditions of NPC until end of 1997 were viable and satisfactory. However, due to the significant devaluation of the Philippine peso brought about by the Asian financial crisis, NPC has incurred significant losses amounting to PhP3.2 billion in 1998. In 2002, aside from the net income loss, NPC started to suffer operating losses due to the insufficient generation rates. Moreover, the power purchased cost adjustment of PhP1.25/kWh was capped to PhP0.40/kWh on May 8, 2002 and there was non-recovery of the natural gas fuel and operating expenses of ineligible IPPs. Another factor is the significant increase in coal and oil prices during the last five years. Given this situation, NPC will continue to incur operating loss unless reasonable recovery of actual operating costs is allowed.

The liabilities of NPC consist of its obligations to the independent power producers (IPPs), external debts and fuel purchases. All these liabilities will be managed on a dynamic basis, focusing on strategies that will protect against risks on liquidity, currency and interest rate risks through appropriate and cost-effective ways such as but not limited to foreign exchange cover and hedging, subject to concurrence by the Bangko Sentral ng Pilipinas. In 2003, NPC liabilities totalled PhP1,309 billion, of which PhP715 billion are IPP obligations and PhP594 billion are external debt. IPP obligations arise from the stranded costs of existing IPP contracts, wherein 15 “ineligible” IPP contracts face liquidity risks because these will not be recovered by the universal charge pursuant to the EPIRA and the remaining “eligible” IPP contracts face currency risks because the universal charge is peso-denominated while the IPP contracts are in foreign currencies.

External debt obligations have totalled US\$9.5 billion. Projected debt service from 2004 to 2036 is US\$14.5 billion with US\$9.5 billion in principal and US\$5 billion in interest payments. External debt obligations face the following risks:

- **Liquidity:** The bulk of the debt matures within the next 11 years, 2004-2014. Highest debt servicing will be in the years 2008 -2010 at US\$4.457 billion.
- **Currency:** The debt portfolio has three major currencies, namely, US dollar, Japanese yen and the euro. Historical averages and forward rates indicate depreciation of the peso against these currencies. Furthermore, there is a mismatch between the revenues received in pesos and the debts paid in foreign currencies.
- **Interest rate:** Interest rates are predominantly fixed at 73.98 percent of the debt portfolio in fixed rates. Fixed rate liabilities face opportunity losses on interest rate savings when rates fall. Floating rate liabilities face losses if rates rise.

Fuel purchases in 2003 amounted to PhP36,918 million. Fuel consumption for 2004 and 2005 are projected at PhP56,881 million and PhP59,590 million, respectively. Given the significant levels of fuel purchases, NPC is very sensitive to price volatilities and availability of fuel in the market, thus, the need to cover for such volatilities and fuel availability uncertainties.

Given the precarious financial condition of NPC, several cost cutting measures are already being implemented.

- Prioritization of capital expenditures
- Cost cutting in operating expenses
- Increase in plants operation efficiency
 - Heat rate improvement in Luzon Grid from 9,829 Btu/kWh in CY2002 to 9,717 Btu/kWh in 2003
 - Forced outage reduction from 3.42 percent in 2002 to 2.58 percent in 2003
- Competitive pricing due to adoption of electronic bidding of fuel procurements
- Continued implementation of Economic Load Dispatch in Luzon
- Reduction in manpower complement
- Maximization of the use of local coal thru blending with imported coal
 - Increased use of Semirara coal from 1.2 to 1.5MMT
 - Blending implemented in Sual and Masinloc

Chapter 12

Responding to Basic Needs of the Poor

I. SITUATIONER

A. Poverty Situation

Poverty incidence worsened to 34 percent in 2000 from 33 percent in 1997. The number of poor individuals increased by 2.59 million from 23.95 million in 1997 to 26.54 million in 2000. In particular, subsistence poverty or the number of poor Filipinos in the country who could not afford to meet their food requirements has increased by 751,000.

Philippine poverty is basically rural poverty since almost three out of four (or 73%) of the total number of poor in the country reside in the rural areas. The poverty level in rural areas is much higher at 48.8 percent against 18.6 percent in urban areas. This means almost 5 out of 10 rural residents are poor compared with almost 2 out of 10 urban residents.

Poverty in the regions has generally worsened, with Regions V, VI, VII, IX and the Autonomous Region in Muslim Mindanao (ARMM) posting substantial increases in both poverty and subsistence incidences.

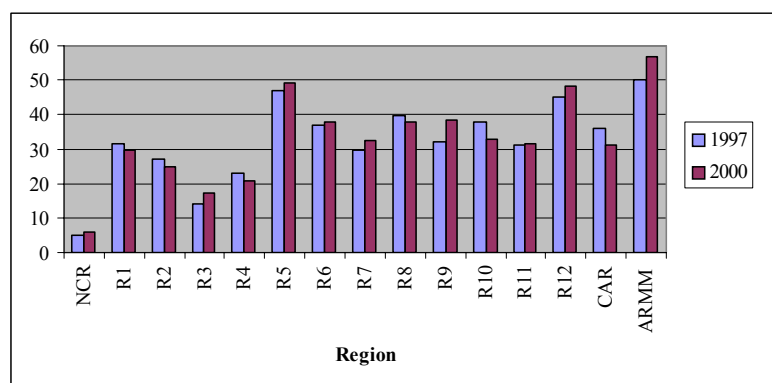
Rural poverty remains tied to the state of agriculture and the environment. The rural poor, consisting mainly of small and landless farmers, farm workers, fisherfolk and indigenous people, continue to lack access to productive resources including land, credit, technology and rural infrastructure. This situation of impoverishment has led them to adopt unsustainable practices. It, moreover, fails to inspire in them the capability or desire to diversify into activities that result in new and higher value products. Thus, productivity in agriculture remains low while the degradation of the environment continues.

Poverty reduction policies, programs and strategies thus give the highest priority and focus to rural and agricultural development by: (a) supporting rural enterprises and rural cooperatives; (b) constructing more farm-to-market roads; (c) providing greater access for farmers and indigenous people to land, credit and technology; (d) lessening the exploitation of farmers and fisherfolk by middlemen; (e) more strategic, effective and timely interventions and safety nets during natural disasters and economic shocks; and (f) improving the quality of life of the rural poor (see Chapter 2: Part I).

1. Poverty in the Regions

It has been observed that the level of poverty is more severe in the Bicol Region and almost all the regions in Mindanao. The ARMM, in particular, registered a poverty incidence of almost 60 percent in 2000, the worst among the regions. In contrast, majority of the regions in Luzon are less impoverished (Figure 12-1).

Figure 12-1 Poverty Incidence, By Region



Sources of Basic Data: 1997 and 2000 Family Income and Expenditure Surveys (FIES) (NSO).

Poverty measures disaggregated at the provincial level highlight the disparities in poverty incidence among the different regions of the country in 2000. These show that majority of the poorest provinces in terms of income are found in the ARMM while those with the lowest incidences are in Luzon, particularly Regions I to IV (Table 12-1).

Table 12-1 Ranking of Poor and Least Poor Provinces

POOREST PROVINCES			LEAST POOR PROVINCES		
Rank*	Province	Poverty Incidence	Rank	Province	Poverty Incidence
1	Sulu	63.2	68	Davao del Sur	18.2
2	Masbate	62.8	69	Nueva Vizcaya	15.9
3	Tawi-tawi	56.5	70	Pampanga	14.4
4	Ifugao	55.6	71	Benguet	14.1
5	Romblon	55.2	72	Cavite	10.2
6	Maguindanao	55.1	73	Bataan	9.9
7	Lanao del Sur	55	74	Laguna	8.6
8	Sultan Kudarat	54.3	75	Rizal	8
9	Camiguin	53.1	76	Batanes	7.5
10	Camarines Norte	52.7	77	Bulacan	5.4

Source of Basic Data: 2000 Family Income and Expenditure Survey,

* Rank 1 indicates the highest poverty

While poverty exists in all regions and provinces in the country in varying levels, the ARMM and the Bicol Region, being the poorest, need more economic and anti-poverty interventions, not only in terms of bigger budgets but also greater and more extensive capacity-building of their respective local government units (LGUs). Partnerships among LGUs, national government agencies, the private sector, civil society organizations especially those from the basic sectors and communities, must be intensified and institutionalized as well (See Chapter 4, *National Harmony: The Peace Process*) for

more strategic measures in infrastructure to alleviate poverty in Mindanao and Bicol; and (*Chapter 13, National Harmony: Automated Elections on peacebuilding and conflict resolution*).

The ARMM Social Fund for Peace and Development projects as well as Region V's Bicol River Basin Development Project – both of which are funded by the World Bank, need to be given special attention and implemented immediately. The latter project was revived by the President in September 2004 through Executive Order (EO) No. 359.

2. Transient Poverty

Another feature of poverty in the country is that a significant number of the population suffers from what is called transient poverty. Studies show certain groups (roughly one-fifth of the poor in 2000) moving in and out of poverty since 1997, thereby differentiating them from those identified as the “chronic poor.”

In 2002, households surveyed in the Family Income and Expenditure Survey (FIES) in 1997 and the Annual Poverty Indicators Survey (APIS) in 1998 and 1999, were included in a panel table that was constructed mainly to observe movements of income groups in terms of their income status (Table 12-2).

Table 12-2 Chronic and Transient Poverty: Income Movements of Poor and Nonpoor Households, 1997-1998

1997	1998	1999	Pattern	Magnitude	Proportion
Poor	Poor	Poor	PPP	3,881	21.7
Poor	Poor	Nonpoor	PPN	665	3.7
Poor	Nonpoor	Poor	PNP	578	3.2
Poor	Nonpoor	Nonpoor	PNN	488	2.7
Nonpoor	Poor	Poor	NPP	1,551	8.7
Nonpoor	Poor	Nonpoor	NPN	1,154	6.4
Nonpoor	Nonpoor	Poor	NNP	1,277	7.1
Nonpoor	Nonpoor	Nonpoor	NNN	8,303	46.4
TOTAL				17,897	100

Source: Celia Reyes, “The Fight Against Poverty: Have We made an Impact”, (2002).

The panel table above shows the different patterns exhibited by the same households surveyed from 1997 to 1999. A total of 17, 897 households were surveyed continuously for three years, out of a total average sample size of 40,000. For purposes of comparison, 1999 was used as the ‘reference’ year. Interestingly, households who were poor in 1999 were not necessarily poor in previous years. There was a set of households that was poor throughout all the three periods (1997 to 1999) but a portion of those who were poor in 1999 were either nonpoor in 1997 or in 1998, or both. This study classified those who were poor in all three years as undergoing chronic poverty while households who were poor in 1999 but were previously nonpoor, either in 1997 or 1998, or both, were described as transient poor.

Households falling into this transient poor category formed 19 percent of the total panel households or 3,406 households. This suggests that a significant portion of households – those that are nonpoor – became vulnerable to shocks as the years covered in the study had two crises: the El Niño phenomenon and Asian financial crisis. Furthermore, the 22 percent of nonpoor households in 1997 became poor in 1998 reflect those who immediately succumbed to the effects of the crises. Looking at the profile of the panel household respondents, those who were more prone to transient poverty had the following characteristics: (a) low educational attainment of household head; (b) a large family size; and (c) occupation of the household head was in the agriculture sector.

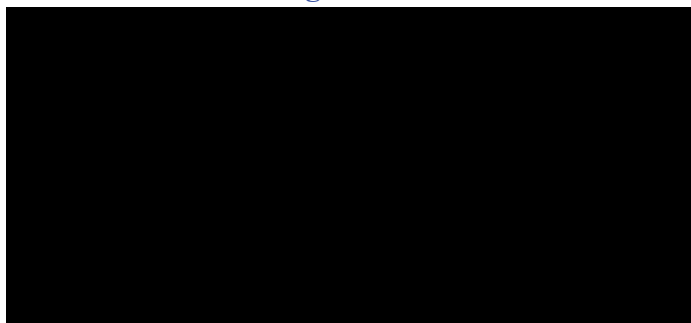
The above data suggest that the poor must not be treated as a homogeneous group and that poverty alleviation measures towards the chronic poor must be different from those being used for the transient poor. Greater study and better analysis of this phenomenon would result in the refinement of the antipoverty strategies and safety nets for the transient and chronic poor.

3. Income and Welfare Disparities

In terms of income distribution, the Philippines' Gini coefficient (a measure of income inequality) improved slightly from 0.4881 to 0.4822¹.

However, compared with some of the country's neighboring Asian countries, the Philippines exhibits greater disparity in income distribution i.e. the gap between upper income groups and lower income groups is wider (Figure 8). This is a disturbing indication that benefits from economic growth and productive resources in the country are distributed unequally, with more going to the rich than to the poor. Again, the government's propoor agenda and policies must address this to ensure that the benefits of development and growth are more equitably shared among all Filipinos.

Figure 12-2



Source of Basic Data: 2004 UNDP Human Development Report

It has been observed that regions with the highest poverty incidence do not necessarily have high levels of inequality. In fact, the ARMM which registered as the poorest region in 2000 had the lowest Gini measure compared with the NCR with its relatively high level of inequality. The areas with severe inequality, or where the gap between the rich and the poor is widest, were found in the Visayas, particularly Regions VII, or Central Visayas and VIII, or Eastern Visayas (Table 12-3).

¹ The Gini coefficient is a number between 0 and 1 and that which is closer to 1 indicates a more unequal distribution of income.

Table 12-3 Regional Gini Coefficients, 2000

Region	Gini coefficient	Region	Gini coefficient
NCR	0.4451	Region VII	0.4691
CAR	0.4439	Region VIII	0.4807
Region I	0.4071	Region IX	0.4732
Region II	0.4227	Region X	0.4794
Region III	0.3591	Region XI	0.4318
Region IVA	0.4086		
IVB	0.4076	Region XII	0.4631
Region V	0.4455	ARMM	0.3171
Region VI	0.4594	CARAGA	0.4118

Source: National Statistical Coordination Board (NSCB)

Welfare disparity between urban and rural areas are also felt in terms of access to essential services. The ARMM is the most disadvantaged region in this respect, particularly in terms of accessibility to electricity and clean and safe water sources. About one-third of the families in region, irrespective of income level, use water coming from community water systems or tube/piped wells.

Aside from the poor, there is also a growing number of vulnerable groups in the country who are continuously threatened and marginalized by social, economic and environmental pressures as well as by natural disasters and economic shocks. These groups include women in especially difficult circumstances, children in need of social protection, disadvantaged youth, persons with disabilities, older persons, workers in the informal sector, indigenous peoples and upland settlers, dysfunctional families, victims of disasters and calamities, landless farmers/rural workers/farm workers, fisherfolk in coastal, marine and freshwater ecosystems, persons adversely affected by socioeconomic risks and shocks, workers in the formal sector vulnerable to work hazards and arrangements, and returning migrant workers.

The results of the 2002 Annual Poverty Indicators Survey (APIS) show that majority of the families (53.9%) perceived their quality of life to have not changed in the previous 12 months while 15.3 percent and 30.8 percent felt they were better off and worse off, respectively (Table 12-4). Among the reasons cited by families for their better conditions in life were more earnings, better health, and new jobs with higher salary.

On the other hand, reduced income, increased food prices, and loss of jobs were the reasons given in describing situations as worse off. The family's most common means of coping with their worse-off situations were changes in eating patterns, increase in working hours, and assistance from friends.

Table 12-4 Family's Perception on Welfare

Family's Perception	2002	1999
Total Families ('000)	15,925	14,746
<i>In the last 12 months</i>		
Better Off	15.3	13.8
Worse Off	30.8	33.9
About the same	53.9	52.3
<i>In the next 12 months</i>		
Improve	34.6	29.4
Stay the same	51.7	50.1
Worsen	13.7	20.5

National Statistics Office (NSO)

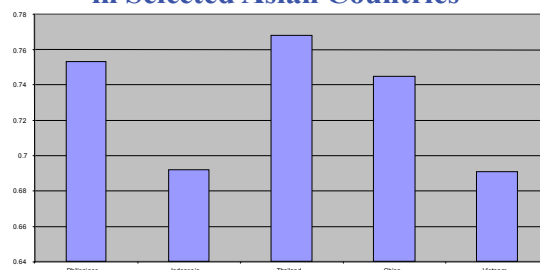
4. Poverty and the Human Development Index (HDI)

Poverty, being a multidimensional construct that goes beyond income measurements, the UN Human Development Index (HDI) summarizes a composite index of life expectancy, adult literacy rate, combined primary, secondary and tertiary gross enrolment ratio and GDP per capita, among others. In terms of the HDI, the country has improved its rating from 0.735 in 1995 to 0.753 in 2002, or an increase of 2.4 percent.

With a multidimensional framework, the government is in a better position to assess the poverty situation, understand the determinants and causes of poverty and design strategies best suited to the situation.

Compared with some of the country's Asian neighbors, namely Indonesia, Thailand, China and Vietnam, the Philippines posted a relatively higher level of human development except for Thailand (Figure 12-3).

Figure 12-3 Human Development Index (HDI) in Selected Asian Countries



Source of Data: 2004 UNDP Human Development Report

Consistent with the poverty situation patterns in the country's regions, provinces in Mindanao particularly the ARMM had the lowest HDI ratings while those in Luzon had the highest (Table 12-5).

Table 12-5 Provincial Human Development Indices

PROVINCES WITH LOWEST HDIs			PROVINCES WITH HIGHEST HDIs		
1	Sulu	0.351	68	Isabela	0.649
2	Tawi-tawi	0.39	69	Pampanga	0.665
3	Basilan	0.425	70	Batangas	0.683
4	Ifugao	0.461	71	Ilocos Norte	0.684
5	Maguindanao	0.461	72	Laguna	0.709
6	Lanao del Sur	0.464	73	Batanes	0.717
7	Agusan del Sur	0.482	74	Rizal	0.733
8	Samar (Western)	0.511	75	Cavite	0.735
9	Lanao del Norte	0.512	76	Bataan	0.746
10	Sarangani	0.516	77	Bulacan	0.76

Source: 2000 Philippine Human Development Report.

B. Health Situationer

Despite the poverty situation, the Family Planning Survey (FPS) indicates there has been a general improvement in the health status of Filipinos as evidenced by the decline in infant mortality rate (IMR) from 48.9 per 1000 live births in 1998 to 29 per 1000 live births in 2003. Reductions in

prevalence of underweight were also observed among 0-5 and 6-10 year old children from 32 percent in 1998 to 27.6 percent in 2003, and 30.2 percent in 1998 to 26.7 percent in 2003, respectively (Table 30). In addition, fertility rates steadily fell over the last 30 years. In 2002, the average number of children for women (married and unmarried) was 2.1 while that for currently married women was 3.5 (NSO Family Planning Survey, or FPS, 2002). These estimates were similar to figures derived from the FPS of 1996, 1997, 1999, 2000 and 2001.

Table 12-6 Major Health Indicators

Indicators	Actual 1998	Latest Data
Life Expectancy (in years)	67.4	69.8 ^a
Male		67.2 ^a
Female		72.5 ^a
Infant Mortality Rate (per 1,000 livebirths)	48.9	29 ^b
Maternal Mortality Rate (per 100,000 livebirths)	172	Not available
Crude Birth Rate (per 1,000 population)	29.5	25.6 ^b
Crude Death Rate (per 1,000 population)	6.3	4.8 ^c
Male		5.6 ^c
Female		3.9 ^c
Pre – natal Care (% of pregnant women who sought pre-natal care)	62.5	87.6 ^b
Post-natal Care (% of women who sought post natal care)	70.6	Not available
Immunized children (in %)	89	70-90 ^b
Access to Safe Water Supply (in %)	78.1	80 ^d
Access to Sanitary Toilet Facility	80.8	86.1 ^d
Health insurance coverage (in %)	38	78 ^e
Prevalence of underweight preschool children aged 0-5 years old (%)		27.6 ^f
Prevalence of underweight school children aged 6-10 years old (%)	30.2	26.7 ^f
Prevalence of anemia (%)		
Infants 6 mos. to <1 yr	56.6	66 ^f
Pregnant women	50.7	43.9 ^f
Lactating women	45.7	42.2 ^f

Sources of Data:

a- 2003 projections based on the 1995 Census of Population and Housing;

b- 2003 National Demographic and Health Survey;

c- 2000 Census of Population and Housing;

d- 2002 Annual Poverty Indicators Survey;

e- Philippine Health Insurance Corp.

f- 2003 National Nutrition Survey (Preliminary results), DOST-FNRI

Responding to the Basic Needs of the Poor

While fertility rates have been falling, the NSO observed that 20 percent of the close to 20,000 women surveyed in the 2002 FPS “were not using any method of family planning and reported that they did not want any more children or preferred to space births”. This gives an estimate of 2 million women with unmet family planning needs, of which 50-70 percent might be classified poor. They will be the target of a nationwide door-to-door family planning campaign in early 2005.

In terms of health expenditures, its share as a percentage of GNP has been decreasing from 3.3 in 1999 to 2.7 in 2002. The distribution, accessibility and availability of low cost medicine as well as the coverage and benefits of social health insurance have remained limited. Public and private sector partnerships need to be further harnessed, and technical assistance in the delivery of health, nutrition and population development services especially at the local level should be provided. In addition, regulatory capacities of health institutions should be strengthened to ensure quality health products, services and facilities.

C. Gender and Development

In the gender dimension, available UN data show that the Philippines has slightly improved its advancement of women’s rights and concerns. The Gender Development Index (GDI), a composite measure of various development indicators (including health, educational attainment, life expectancy) to show disparities between sexes, reveals that gender development in the Philippines has slightly improved from 0.748 to 0.751, from 2001 to 2002 (Table 12-7).

Table 12-7 Gender and Development in the Philippines

Year	GDI Rank	GDI Value	Life Expectancy		Adult Literacy Rate		Combined enrollment ratio		Estimated earned income	
			Female	Male	Female	Male	Female	Male	Female	Male
2001	66	0.748	71.6	67.6	95	95.3	81	79	2,838	4829
2002	66	0.751	71.9	67.9	92.7	92.5	82	81	3144	5326

Sources: 2003 and 2004 UNDP Human Development Reports.

In terms of the Gender Empowerment Measure (GEM) the country has slightly improved from 0.539 to 0.542, but its ranking went down from 35 to 37 (Table 12-8).

Table 12-8 Gender Empowerment in the Philippines

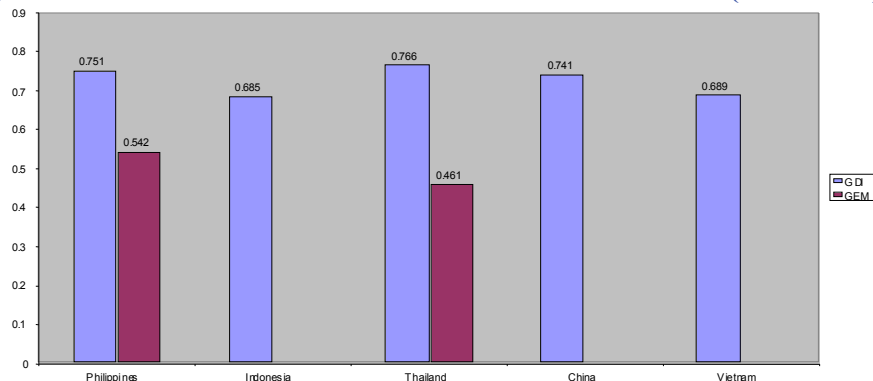
Year	GEM Rank	GEM Value	Seats in parliamentary held by women	Female legislators, senior officials, and managers	Female professional and technical workers	Ratio of estimated female to male earned income
2001	35	0.539	17.20%	58%	62%	0.59
2002	37	0.542	17.20%	58%	62%	0.59

Sources: 2003 and 2004 UNDP Human Development Reports.

Compared with various countries, Filipino women have a higher enrolment ratio in educational attainment than Filipino men. It is also interesting to note that women live longer than men in this country. These differences notwithstanding, particularly in economic and political participation, women earn much less compared to men and the proportion of women elected into public office, particularly in the Legislature, is much lower.

In comparison with other Asian countries, the Philippines is faring well in terms of gender development and empowerment. It is doing better than Indonesia and Vietnam in its GDI and is showing better progress in terms of its GEM as compared with Thailand (Figure 12-3).

Figure 12-4 GDI and GEM for Selected Asian Countries (Year 2002)



Sources: 2003 and 2004 UNDP Human Development Reports

One of the most noticeable gaps in data when it comes to gender is the absence of direct, sex-disaggregated measurement of income poverty. While several researchers in the country have attempted to observe poverty incidences among male and female-headed households, the data proved to be inconclusive and prone to error given the problem concerning the surveys' definition of household head.

However, given the wide inequality of incomes between gender as shown in the UN's GDI (59:100 is the ratio of estimated female earned income to male earned income), it could be inferred that women are poorer than men, which has led to the statements that "poverty has taken on a woman's face" or that there is a "feminization of poverty." Efforts to have sex-disaggregated data collected and analyzed must be intensified to examine the different roles and positions of women and men.

Since women are the majority target of microfinance initiatives, programs should aim not just to reduce income poverty, but to empower women as well. Women's active participation in decision making ensures that programs are sensitive to women's specific needs and roles especially as wives and mothers, that they exercise control over their microenterprises and also benefit personally from them.

D. Empowering the Poor and the Vulnerable

During 2001-2004, the government implemented major policy and institutional reforms and key programs aimed at protecting and empowering the poor and the vulnerable groups. Its banner program for poverty reduction consisted of a comprehensive and integrated convergence approach, called the *Kapit-Bisig Laban sa Kahirapan* (KALAHI). This propoor strategy sought to: (a) improve access to and quality of human development and social services; (b) ensure fuller and meaningful participation of the basic sectors in governance and decision making in all levels of government; (c) accelerate urban asset, agrarian land and ancestral domain reforms; d) provide greater social security and protection of the poor and identified vulnerable groups from violence; and (d) enhance employment, livelihood and entrepreneurial opportunities for the poor.

Significant achievements were made particularly in the area of ‘convergent’ and integrated delivery of social services. This can be attributed to the sustained commitment of LGUs, cooperation and assistance of national government agencies, infusion of external assistance and more meaningful partnership with local civil society organizations, the private sector, and the beneficiaries.

Full and effective implementation of this strategy was hindered by problems such as budgetary constraints and delays in fund releases, and the low appreciation and commitment of some LGUs in investing on social protection interventions (e.g. health insurance for the indigents). In this regard, the government faces the following challenges: (a) full localization of the Comprehensive and Integrated Delivery of Social Services (CIDSS) approach; (b) fund sufficiency for KALAHI programs; (c) strengthening of livelihood and entrepreneurship interventions; (d) affordability and accessibility of social security/health insurance; (e) adequacy and responsiveness of social safety net measures; (f) full advocacy and enforcement of laws and policies; and (g) data adequacy and timeliness, including sex-disaggregated data, where appropriate.

On governance and decision making, efforts have been exerted to institutionalize the meaningful participation of civil society in governance. Examples of this are the participation of the 14 identified Basic Sector Groups in the national and regional structures of the National Anti-Poverty Commission (NAPC). These groups have also been active partners in programs of national agencies such as the National Commission on the Role of Filipino Women (NCRFW), Council for the Welfare of Children (CWC), National Youth Commission (NYC), Presidential Commission for the Urban Poor (PCUP), Bureau of Fisheries and Aquatic Resources (BFAR), Presidential Agrarian Reform Council (PARC), and the National Council for the Welfare of Disabled Persons (NCWDP). Civil society groups have also participated in local development and other decision-making processes at the barangay and municipal levels.

However, some of the mandated mechanisms for civil society participation at the local level are still to be fully implemented. Hence, the challenge to both government and civil society is to ensure that the full and quality participation of the latter is achieved, sustained and guided by transparency, accountability and openness. Capacities of the basic sectors must also be enhanced to enable them to ensure their quality participation in the development process.

There is also a need to strengthen the capacity of indigenous cultural communities (ICCs) as well as to provide for basic sector representation in local legislative councils. The Department of Interior and Local Government (DILG) has already issued a memorandum on civil society representation in local special bodies.

LGUs, through the Local Poverty Indicators Monitoring System (LPIMS) should be able to identify the needs of their constituents especially the poor, and encourage their participation in governance, especially in making decisions on the appropriate poverty alleviation programs or projects to be implemented in their localities.

E. Poverty and Education

On education, poverty continues to weaken access of families and individuals to formal and alternative learning systems. This is aggravated by the continuing decline of the quality of formal basic education provided by the state and private sector (*Chapter 18: Education*).

F. Housing

Performance of the housing sector has been modest relative to the huge housing need of 3.6 million for the period 2001–2004. Against the total target of 1.2 million units of housing assistance or shelter security units, the housing sector provided 822,823 shelter security units or an accomplishment rate of 68.6 percent. For land tenure for the urban poor, socialized housing (below PhP225,000), and low-cost housing (PhP225,000-PhP500,000), against a target of 900,000 units for 2001-2003, the sector delivered 707,240 shelter security units or an accomplishment rate of 79 percent (Chapter 4: Housing Construction).

G. Asset Reform

On agrarian reform, the slight reduction in the operating targets compared with the projected targets in the previous MTPDP was attributed to increased acquisition values of the privately-owned lands, and constraints in the budget for land compensation. The Supreme Court decision on the Marcos ill-gotten wealth in 2001 (PhP38 billion) has been ordered to be given to the government for land acquisition, distribution and development while a certain amount shall be legislated for compensation of human rights victims during Marcos' Martial Law Regime. The government is likewise looking at the possibility of using the fund for ancestral domain reforms.

Efforts on the titling of ancestral domains were undermined by continuous dislocation of ICCs from their ancestral lands due mainly to large development projects (including mining projects), overlaps in existing and/or potential claims on property rights, and conflicts in the implementation of policies on land tenure and resource use. Other gaps include: (a) the lack of accurate data on the actual extent and location of ancestral domains nationwide; (b) lack of institutional capacity for ancestral domain and land delineation and mapping; (c) need to capacitate indigenous peoples (IPs) and their communities in coming up with their own development plans; and (d) the need to make local development consistent and sensitive to ancestral domain plans. Congruence will be advanced through the judicious securing of free, prior and informed consent (FPIC) of concerned IPs as mandated in EO 270-A.

For aquatic resources reform, the claim of small artisanal fisherfolk over municipal waters was strengthened with the issuance of the long-awaited delineation guidelines from the Department of Agriculture (DA). In general, the order calls for the exclusive use of municipal fisherfolk of aquatic waters within 15 kilometers from the shoreline. The DA, however, could not issue the next set of delineation guidelines because of the filing of a declaratory relief by commercial fishers with the courts. The challenge now is for DA to assist in the resolution of the issue and push through with the guidelines that will cover all concerned municipalities.

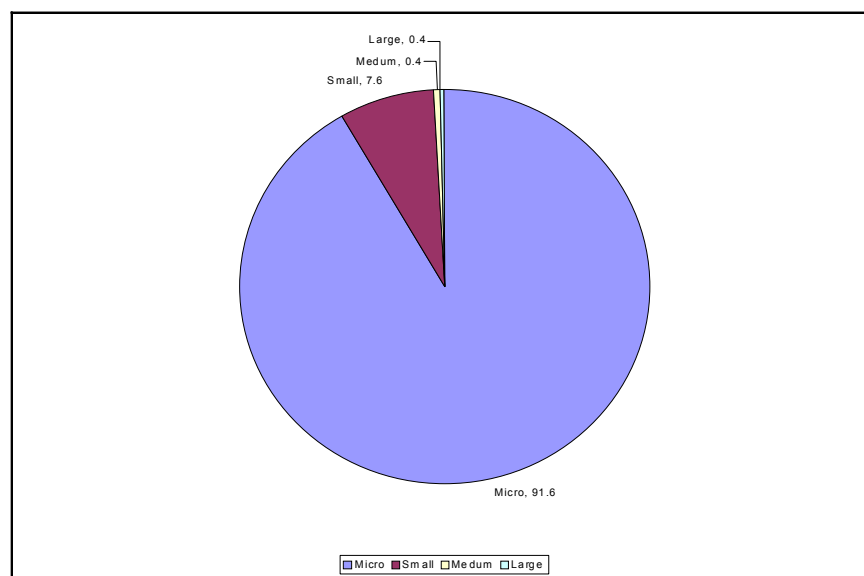
H. Microenterprise Development

In a recent report from the Department of Trade and Industry, microenterprises comprise around 91.6 percent of the country's businesses (Figure 12). The strengthening of this sector would positively affect the country's economy. In addition, microfinance is one of the main strategies and has proven to be an effective tool in alleviating poverty.

In view of this, there is a need to prioritize initiatives towards microenterprise development: diversification of products and skills, improvement of productivity, increase in value-added output, and

greater access to market to bridge the very wide gap between microenterprises and SMEs (See Part I, Chapter 1).

Figure 12-5 Share of Sectors to All Businesses



Source of Data: Department of Trade and Industry (DTI) presentation entitled "Current Situation of SMEs and the SME Development Plan" (May 2004).

Several factors have contributed to the growth of the microfinance industry in the country such as: (a) the encouragement given by government to the private sector to go into microfinance; (b) the shift of government agencies from retail to wholesale delivery of microfinance services and towards capability of conduits and beneficiaries; (c) adoption of market-oriented financial and credit policies (EO 138), banking rules flexibility for microfinance operations, particularly the New Banking Act of 2000 and other BSP Circulars related to microfinance; (d) provision of additional capital both for on-lending and capacity-building; and (e) the formulation of microfinance performance standards, among others. All these have provided an environment conducive to growth and viability of existing and new microfinance institutions (MFIs), which include rural banks, cooperatives, NGOs, and people's organizations.

The wholesale portfolio of the People's Credit and Finance Corporations (PCFC), which is tasked to mobilize resources and deliver financial services to MFIs, grew significantly with funding support from external sources. As of June 2004, the government financial institutions/government-owned-and-controlled-corporations (NLSF, TLRC, SBGFC, BSP, with PCFC as the main lending arm) have released a cumulative amount of Php6.882 billion of microfinance loans to 1,536,697 poor clients through the various MFIs.

For the same period, the PCFC alone reported an outstanding loan portfolio of about Php2.5 billion, which it had lent through 191 private institutional conduits reaching 1,575,439 million microborrowers in 80 provinces, 115 cities and 1,495 municipalities nationwide. The repayment rate of PCFC's conduits averaged 99 percent while repayment rate of end-borrowers stood at 95 percent.

Capability-building needs of MFIs have been supported through several donor-funded programs, like the NAPC-UNDP Microfinance Sector Strengthening Project (MSSP), the USAID funded Microenterprise Access to Banking Services (MABS), Cooperative Union Empowerment and Strengthening (CUES), among others. However, the funds for the People's Development Trust Fund (PDTF) have yet to be allocated from the general appropriations for the capability building of MFIs and the development of microenterprises as mandated by the Social Reform and Poverty Alleviation Act of 1997 (RA 8425). A concessional loan of PhP100 million from National Livelihood Support Fund has also already been released to jumpstart PDTF operations. Likewise, grants of US\$250,000 from the Asian Development Bank (ADB) and US\$900,000 from AUSAID for the MSSP-Phase 3 and a US\$300,000 donation from the North-American Association of Filipino-Americans for the PDTF seed fund are in the pipeline.

A major task ahead is to widen the playing field for microfinance providers by: (a) encouraging new players to enter the market and providing them with training to build capacity to expand services; (b) enticing existing microfinance providers to reach over large numbers of the enterprising poor, especially in the hard-to-reach areas, including poor families in identified KALAHIs; and (c) strengthening and mobilizing cooperatives.

The institutional capacity of microfinance institutions remains a significant constraint to expanding outreach and ensuring its efficiency and effectiveness as a mechanism for poverty alleviation, especially for women who comprise an overwhelming majority of its clientele. To make microfinance a sustainable and holistic tool in poverty alleviation, there is still a need to integrate other social services (insurance, family planning services) and other concerns (gender empowerment, etc) into the MFIs' program and within the KALAHIs Framework, with microfinance as the entry point.

I. GOALS, STRATEGIES AND ACTION PLAN

Meeting the basic needs of the masses is one of the top priorities of the Arroyo Administration. Efforts shall thus be intensified to achieve the Millennium Development Goals (MDGs) particularly in the areas of poverty reduction and human development through a broad and strategic partnership among all concerned stakeholders, especially LGUs. This entails giving priority attention to the poor and other vulnerable groups and placing them in the mainstream of development by broadening their access to quality basic social services, livelihood and providing them a voice in decision making, eliminating their vulnerability to adverse shocks, and improving their ability to cope with them.

A 2001 review of poverty reduction programs in the country by a group of researchers and members of the academe (Razon-Abad, Gregorio-Medel and Brillantes) concluded that the following principles could mean the success or the failure of these programs: "clear policy framework, focused targeting, link to the minimum basic needs of the poor, clear implementation plan, convergence, community participation, transparent and participatory monitoring and facilitative bureaucracy."

Through Memorandum Circular No. 33, President Arroyo stipulated that the government's overall poverty strategy is the KALAHIs with its five antipoverty thrusts at both the policy and program level, namely; (a) acceleration of asset reform; (b) provision of human development services/social services; (c) livelihood and employment; (d) social protection and security from violence; and (e) participation of the poor in decision-making. Furthermore, the KALAHIs approach embodies the convergent, focused implementation of this strategic thrust especially in the barangay/community level with the participatory involvement of the community itself.

To meet the basic needs of the masses and ultimately promote social justice, the following priority strategies and activities shall be pursued:

A. Livelihood

Livelihood activities shall be further enhanced to generate employment, increase household income, and strengthen the local economy. Three million entrepreneurs shall be supported through microfinance and two million hectares of land for agribusiness, which shall, in effect, contribute to the creation of 10 million jobs in six years.

1. ***Expansion of microfinance initiatives.*** Loans for the poor shall be tripled for the self-employed, microenterprises and hard-to-reach areas including agrarian reform zones (ARZs) and IP communities, among others (See Chapter 1 on Trade and Industry).
 - a. Encourage more credit cooperatives, microfinance NGOs, thrift and rural banks and cooperative banks to participate and offer microfinance products and services; adopt microfinance best practices; and institutionalize mandatory savings for microfinance borrowers as demonstrated by programs like the Microenterprise Access to Banking Services (MABS), the Association for Social Advancement (ASA) and Credit Union Empowerment and Strengthening (CUES), Helping Reach Their Aspiration Through Micro Credit (HIRAM), among others;
 - b. Develop a training module for LGUs acting as wholesalers of microfinance rather than retailers;
 - c. Develop gender-responsive microfinance services and products including training, product development, market access, new technologies, social insurance, women's health and family planning, and other basic services (e.g. housing and pension) in partnership with LGUs, NGOs and POs in the communities;
 - d. Fully fund and operationalize the People's Development Trust Fund (PDTF), the fund mandated by Republic Act (RA) 8425 for the capability building needs of microfinance institutions (MFIs) and the poor so they could have access to their services;
 - e. Fully implement the performance standards for effectiveness and viability of MFIs and cooperatives in savings and credit services;
 - f. Facilitate access of rural, informal sector and displaced workers to Kalinga sa Manggagawa Fund;
 - g. Institutionalize the SME Unified Lending Opportunities for National Growth (SULONG) Program through an EO mandating government financial institutions (GFIs) to set aside funds for MSMEs. SULONG is designed to give SMEs greater access to short- and long-term funds by simplifying and standardizing the lending procedures of GFIs, shortening the list of documentary requirements to further facilitate the lending process, creating a wider borderless financing system, and lowering the effective cost of borrowing by SMEs under more liberal requirements. Concerned agencies include DTI, DBP, LBP, National Livelihood Support Fund, Philippine Export and Import Credit Agency, Quedan and Rural

Credit Guarantee Corporation, Small Business Guarantee and Finance Corporation, and SSS accredited rural and thrift banks;

- h. Establish an effective Credit Bureau to minimize loan delinquency among microfinance borrowers; and
- i. Provide enabling legislation or regulatory environment that will encourage growth of the microfinance sector.

2. More livelihood and entrepreneurship opportunities for the poor

- a. Pursue and expand livelihood convergence projects/models through expenditures on areas with the greatest impact to the poor and vulnerable sectors in terms of increased income and sustained livelihood such as DOLE's Poverty Free Zones, Women Workers' Employment and Entrepreneurship Development (WEED), Promotion of Rural Employment through Self-Employment and Entrepreneurship Development (PRESEED); DSWD's Self-Employment Assistance-Kaunlaran Program; TESDA's Community-based Training for Enterprise Development; and livelihood projects of other agencies like DTI, DAR, DA, DENR, TLRC;
- b. Increase access of MSMEs to information on business opportunities, productivity improvement, "worktrepreneurship" development, and provision of technical assistance visits to improve working conditions. DOLE's Worktrepreneurship Development Program is a community-based approach to harnessing and improving the entrepreneurial potential of the "worktrepreneurs" who are the self-employed workers who have put up, financed, managed and worked in the operation of their own microenterprises which currently employ household members;
- c. Strengthen livelihood and entrepreneurship program for returning Overseas Filipino Workers (OFWs) and their families, Muslim communities, IP communities and rebel returnees; and
- d. Widen opportunities for the youth in productive enterprises through entrepreneurial skills training scholarships (e.g. Youth Entrepreneurship Financing Program, Youth Entrepreneurship Program).

B. Asset Reform

As part of social justice, asset reform shall be hastened to expand the endowments of poor people in order to secure entitlements to food, education and health care. To do this, government, civil society and private sector initiatives shall speed up the completion of agrarian reform, managing urban land reform, financing socialized housing, and intensifying ancestral domain reform and development.

The passage of the Land Administration and Management Authority Act which provides the institutional infrastructure to manage asset reform programs and provide security of land tenure for farmers and artisanal fisherfolk, indigenous cultural communities and urban poor shall be pursued. This Act shall enable the major asset reform programs – agrarian reform, ancestral domain recognition, and urban land and housing development - to provide greater social equity by providing a unified land

database, delineation and mapping services, rationalized and fair land valuation, and transparency in land acquisition transactions.

1. Agrarian Reform

The government shall maintain CARP as a flagship program and complete land acquisition and distribution (LAD) component and leasehold by 2008. This shall be pursued hand-in-hand with the creation of peaceful environment that is conducive to business development in the countryside. Development interventions shall also be provided to the landless farmers and farmworkers to transform them into viable small landowner-cultivators and agri-based entrepreneurs contributing significantly to national development and economic growth.

The Department of Agrarian Reform (DAR) as lead CARP implementing agency shall pursue the following:

- a. Follow-up on the passage of the Farmland as Collateral (FAC) Bill in close coordination with the concerned POs, NGOs, and civil society. The proposed legislation seeks to provide proper environment for the flow of credit to the agricultural sector, and better access of agrarian reform beneficiaries and other small farmers to formal credit and /or financing for their agribusiness endeavors. This also proposes safeguards to prevent landownership reconsolidation and prevent diminution of the gains achieved under the CARP;
- b. Advocate for the passage of the National Land Use Act to secure agricultural lands for the nation's food requirements, and evaluate land conversion status to facilitate distribution of remaining CARP lands;
- c. Set more precise targeting activities for land acquisition and distribution (LAD) and leasehold operations for the next planning period to ensure completion of LAD by 2008, the period covered by the Comprehensive Agrarian Reform Law (CARL);
- d. Institute innovations (e.g., focus advocacy initiatives and incentives to provinces where LAD balances are greatest, pursue mediation, conciliation as low cost means of alternative dispute resolution, computerization of land records, establishment/ operationalization of one-stop shop in land titling) to facilitate CARP implementation towards accelerating LAD administration, swift delivery of agrarian justice, and rationalization of Program Beneficiary Development (PBD) in convergent areas such as Agrarian Reform Communities (ARCs) and KALAHI Agrarian Reform Zones;
- e. Utilize the Agrarian Reform Fund (ARF) which includes the Marcos ill-gotten wealth for the completion of land acquisition and distribution by year 2008. The fund will also be utilized to pursue land development and agrarian reform beneficiaries development, and sustain and safeguard the gains already achieved under CARP;
- f. Utilize the coco-levy fund to provide credit to small coconut farmers and their families, to develop fully the potential revenues of relatively new coco-based products like virgin oil, cocopeat, coco geo-textile, coco-fiber, coco-diesel, and to provide capacity building for small coconut farmers' cooperatives and organizations;

- g. Establish security measures (e.g., issuance of policy instruments on the non-reversion of land titles already awarded to ARBs) to protect the tenurial rights and ownership of the agrarian reform beneficiaries (ARBs);
- h. Maximize generation of program funds to ensure replenishment of agrarian reform funds, e.g., privatization of assets, ODA (especially grants) and private sector-ARC partnership schemes;
- i. Build capacity for enhanced program collection of agrarian reform beneficiaries (ARBs) amortization payments to facilitate beneficiaries' acquisition of lands from CARP (e.g. install LBP amortization schemes, provide incentives for farmers with improved payment performance, and conduct of land tenurial improvement services);
- j. Enhance assistance of foreign donors on land registration/titling, LAD and Program Beneficiary Development (PBD) funding preferably at greater concessionality than current assistance considering CARL-mandated collection terms (30 years, 6 percent per annum interest rates);
- k. Capacitate the agrarian reform beneficiaries (ARBs) with knowledge and skills to enable them to adopt and use modern technologies to improve productivity and to train them on how to harness the power of group action and cooperativism to enhance their access to basic services and achieve market leverage;
- l. Ensure harmonization of programs, systems, and procedures among DA, DAR, LGUs and other CARP implementing agencies (CIAs) for the convergence of efforts in agrarian reform areas;
- m. Ensure complementation of the regular budgets of DA, DAR, LGUs and other CARP implementing agencies, i.e., DENR, DPWH, DTI, DOLE, Land Registration Authority (LRA), LBP, and National Irrigation Administration (NIA) for the convergence of efforts in ARCs and other agrarian reform areas through the further rationalization of fund allocation per major final outputs (MFOs) of concerned agencies, channeling more funds to LAD, support and legal services;
- n. Provide measures to safeguard and sustain the gains already achieved under the CARP, e.g., monitoring of CARP implementation violations, and resolution of second generation problems and other emerging conflicts/cases;
- o. Intensify and rationalize social marketing including public information, public relation and program advocacy, specifically on the gains of the program and its impact on the lives of the ARBs; and
- p. Issue additional guidelines on the delineation of municipal waters for the prioritization of artisanal fisherfolk.

2. *Urban Land and Asset Reform*

- a. Pursue urban land and asset reform by unlocking “dead capital” of the poor by providing security of tenure of informal settlers occupying alienable and disposable government land

suitable for housing through the issuance of legal titles or other rights-based instrument to legalize their tenure thereon, which they can use to raise capital. This approach will be guided by De Soto¹ reforms on property rights for the poor;

- b. Continue to provide technical assistance to 1,610 LGUs in the formulation and updating of Comprehensive Land Use Plans (CLUPs) in support of the rationalization of land uses: protection, production, settlements; and
- c. Increase resources for full implementation of the Community Mortgage Program (CMP) and other land tenurial programs for the informal sector and proclamation of alienable and disposable government land suitable for housing of the poor to provide shelter security to 568,725 households.

3. Ancestral Domain Reform

- a. Pursue comprehensive mapping, delineation and titling of ancestral domains/lands; increase resources to fast-track the issuance of Certificates of Ancestral Domain Titles (CADTs) and Certificates of Ancestral Land Titles (CALTs) through the implementation of the Comprehensive Delineation Action Plan and continue existing policy dialogues between NCIP, DAR and DENR in the harmonization of policies implementing the Indigenous Peoples Rights Act, the Comprehensive Agrarian Reform Law, the Forestry Code, the Philippine Mining Act of 1995, and the National Integrated Protected Areas System, and complete the registration of CADTs/CALTs with the Land Registration Authority;
- b. Implement the statutory requirement of Free, Prior and Informed Consent (FPIC) and expedite the process to projects in ancestral domains and lands with demand for priority employment of IPs in the projects and other social and economic benefits for the indigenous cultural community concerned;
- c. Provide IP communities with financial and technical assistance in the formulation and implementation of Ancestral Domains Sustainable Development and Protection Plans (ADSDPPs);
- d. Integrate ADSDPPs in all local development plans and formulate IP master plan; and
- e. Institute policies/measures that will ensure protection of the rights of IPs/ICCs and compliance to the principles of Free, Prior and Informed Consent (FPIC) while removing unnecessary bottlenecks in the implementation of rules and procedures governing mining investors and operators.

² *De Soto reforms – reforms on property rights whereby poor informal settlers are provided security of tenure through the issuance of legal rights for the lands they are occupying, which rights they can use as well as their other assets as collateral to raise capital for microenterprises. The De Soto principle is attributed to Dr. Hernando de Soto, President of Peru's Institute of Liberty and Democracy, in his book entitled "the Mystery of Capital".*

4. Essential Services

Improving accessibility and affordability of quality social services is essential to ensuring social justice and meeting the basic needs of every Filipino. The provision of essential services, namely: clean water, power, education, and health and nutrition (low cost medicine, micronutrient supplements), and housing shall constitute the vital government interventions aimed at raising productivity, generating jobs, reducing poverty, and promoting social justice.

Table 12-9 Essential Services and the Millennium Development Goals

Indicators	Latest Data	2010 Target	MDG Target 2015
Eradicate extreme poverty and hunger			
Proportion of families below subsistence threshold	13.1 ^a	8.98	10.2
Prevalence of underweight preschool children aged 0-5 years old (in %)	27.6 ^b	21.6	17.25
<u>Provide basic amenities</u>			
Access to Safe Water Supply (in %)	80 ^c	92-96	86.8
<u>Reduce child mortality</u>			
Infant Mortality Rate (per 1000 live births)	29 ^d	17	19
Under-five Mortality Rate (per 1000 live Births)	40 ^d	32.24	26.7
<u>Improve maternal health</u>			
Maternal Mortality Rate (per 100,000 Live births)	172 ^e	90	52.2
Prevalence of men/women/couples practising responsible parenthood (using natural, modern or artificial methods; in %)	48.9 ^d	60	100
<u>Combat major diseases</u>			
TB case detection rate and cure rate (in %)	61 ^f 78 ^f (as of 2003)	70 85	-- --
Malaria morbidity rate (per 100,000 population)	48 ^f (as of 2002)	24	--
HIV prevalence	? 1% [†]	? 1%	--

Table 12-9 shows some of the major indicators under Essential Services and the corresponding targets at the end of the planning period. Major strategies and activities are spelled out in the succeeding section to attain these targets in the medium term. Notably, the indicators on poverty and hunger, safe water supply and health are also being used to monitor the country's progress in terms of attaining the Millennium Development Goals (MDGs) by 2015. Based on the country's socio-economic performance, it can be inferred that there is a high probability of meeting the goals and targets related to eradication of extreme poverty; improvement in access to safe drinking water; reduction of child and infant mortality rates and morbidity rates from tuberculosis and malaria by 2015. On the other hand, there is a need to double or triple government efforts to attain the goals and targets on maternal health care, nutrition and family planning services by 2015.

a. Clean water for the entire country (*Chapter 3: Environment and Natural Resources*).

Potable water and sanitation services shall be provided for the entire country by 2010, prioritizing the 200 waterless barangays in Metro Manila and 200 waterless municipalities.

b. Power (*Chapter 10: Energy Independence*)

The provision of power in all barangays and municipalities in the country shall be pursued as a development strategy to address the survival and enabling needs of the poor. Hence, the provision of power supply services shall be undertaken in partnership with LGUs, private sector, NGOs, and the communities.

c. Education (*Chapter 18: Education*)

The country's investment in education and training of its people shall increasingly depend on an active partnership between the government and the private sector. Learning opportunities at all levels whether formal, nonformal and informal, made available under this partnership, shall strive to provide highly functional education and training.

d. Health

The health care delivery system, adopting the rights-based and life-cycle approach, shall be responsive to the needs of the population, especially the poor. Collaboration among national government, LGUs and the private sector including NGOs shall be strengthened to ensure access to and provision of quality health, nutrition, and population and development services. Moreover, sectoral plans such as the Medium-Term Philippine Plan for Action for Nutrition (MTPPAN), Philippine Population Management Program Directional Plan (PPMP-DP), and the National Objectives for Health (NOH), shall be updated to support the major strategies and activities outlined herein. The following health priorities will be pursued:

- Reduce the cost of medicines commonly bought by the poor to half of their 2004 prices and make these available nationwide through a distribution network as determined by DOH, in coordination with the PITC. The mechanisms to reduce the prices of medicines include the following:

- ❖ Making low cost medicine available in facilities and outlets of the public sector nationwide and not just to the present 72 DOH hospitals and 530 LGU hospitals and health centers. These low cost medicines can either be imported (from India or other countries) or locally sourced;
 - ❖ Encouraging government partnership with the local pharmaceutical industry and encourage their meaningful participation towards provision of low cost medicines for government procurement or direct sale to the public;
 - ❖ Creating a regulatory environment that ensures a level playing field and fair competition among the various players in the pharmaceutical industry. This includes increasing the effectiveness of the Intellectual Property Office and the Bureau of Foods and Drugs in resolving patent issues;
 - ❖ Encouraging greater use of generic products. This will include social advocacy on the demand side and, local sourcing and local production of generic medicine on the supply side; and
 - ❖ Supporting community-based initiatives such as Botika sa Barangay and similar undertakings that increase the availability of over-the-counter medicine and home remedies.
- b. Expand health insurance particularly for indigents through premium subsidy
- Sustain the enrolment of five million indigent families to enable them to have access to essential health packages through the following:

Mandate the enrolment of indigents into the sponsored sector by their respective LGUs;

Sustain and increase national government and the Philippine Charity Sweepstakes Office (PCSO) support for the enrolment of indigents into the sponsored sector;

Provide incentives for the private sector to sponsor the enrolment of indigents into the sponsored sector; and

Prioritize the enrolment of indigent farmers, fishermen and other agricultural industry members into the sponsored sector.
 - Enhance the access of PhilHealth members and dependents particularly indigent members and their dependents to their PhilHealth benefits through the following:

Revise the benefits to make it responsive to the needs and health-seeking behavior of the indigent members;

Increase the support value of PhilHealth benefits for hospital admission in the service wards;

Implement intensive advocacy and information, education and communication (IEC) efforts on benefits coverage and availment to reach the widest audience possible; and

Facilitate the accreditation of hospitals, rural health units, health centers and other health facilities to ensure access of members especially indigent members to quality health care services.

- Increase the coverage to 85 percent of the population by 2007 and sustain such coverage to 2010 through the following:

Conduct a massive information campaign on enrolment;

Explore the integration of community-based health financing mechanisms such as the PHIC organized group interface (POGI) program, cooperatives and community-based organizations;

Issue guidelines for the accreditation of organized groups such as POs and cooperatives as collecting agents for the expansion of the reach and sustainability of premium payments.

- c. Strengthen national and local health systems through the implementation of the Health Sector Reform Agenda (HSRA)

- Institute health regulation reforms including the following::

Ensure safety and quality of medicines, food and other food products, health products and devices, technology, facilities and services including alternative health care;

Increase the number of compliant health products, technology and facilities services;

Advocate, disseminate and enforce Good Manufacturing Practice Guidelines;

Strengthen implementation of nutrition labeling in processed food products;

Improve licensing, regulation and accreditation of health products, services and facilities; and

Monitor outlets for drugs, health products, etc..

- Implement hospital reforms
 - ❖ Promote fiscal and managerial autonomy and pursue legislative and administrative approaches to facilitate hospital restructuring and rationalization:
 - 100 percent income retention of DOH-managed hospitals
 - 25 percent of hospitals are implementing cost-sharing schemes
 - 100 percent of health facilities are licensed by DOH

- Pursue public health program reforms
 - ❖ Strengthen health promotion and disease prevention and control programs :
 - Achieve and maintain fully immunized children coverage to 95 percent;
 - Achieve and maintain sputum positive TB case detection rate of 70 percent and cure rate of 85 percent
 - Widen the choice and reach of family planning services and increase the prevalence rate of men and women/couples practicing responsible parenthood using either modern, natural or artificial methods to 60 percent by 2010
 - Contain HIV/AIDS prevalence to 1 percent or less for groups at high risk for HIV infection (sex workers and their clients, injecting drug users, men having sex with men)
 - Reduce malaria morbidity rate by 50 percent from 48 cases per 100,000 population in 2002 to 24 cases per 100,000 population by the year 2010
 - Implement micronutrient fortification of foods
 - Rice: Iron Fortified
 - Cooking Oil: Vitamin A fortified
 - Flour: Iron, Vitamin A fortified
 - Salt: Iodine fortified
 - Sugar: Vitamin A fortified
 - Heighten advocacy for the provision of adolescent health services including sexuality education and counselling
 - ❖ Secure financing for priority public health programs/services by increasing investments and institutionalizing performance-based financing
 - ❖ Develop and strengthen managerial and technical capability on public health of health workers/program managers especially at the local level
- Continue health financing reforms
 - ❖ Achieve universal coverage under the National Health Insurance Program (NHIP) by massive enrolment through advocacy and promotion of social health insurance as a means for health financing
 - ❖ Increase NHIP coverage to 85 percent of the total population by 2007
- Implement local health systems development
 - ❖ Organize functional interlocal health zones (ILHZ) from 48 percent in 2004 to 100 percent in 2010 in HSRA convergence sites including systems for resource sharing, procurement, information, hospital networking, patient-referral system, etc.

Responding to the Basic Needs of the Poor

- Increase functioning ILHZ from 48 percent in 2004 to 100 percent in 2010 of the organized ILHZ in HSRA convergence sites
- Increase Sentrong Sigla certified rural health units to 70 percent in 2010.
- ❖ Develop/upgrade lower level health facilities (rural health units, health centers) especially in 4th to 6th class LGUs and ensure PHIC accreditation.

d. Improve the Health Care Management System

- Develop and operationalize a sectoral Human Resource Development and Management Plan to include the following:

Improve quality of health professionals by making health professional education (curriculum and skills) at par with international standards

Implement deployment programs to complement health human resource needs of underserved areas

Strengthen and expand Doctors to the Barrios program and similar initiatives

Collaborate with major stakeholders: DOLE, DFA, academe, CHED, health professionals organizations to address brain drain and future reintegration of returning health workers

Standardize training, registration, regulation and accreditation process

e. Improve health and productivity through R&D

- Promote, implement and monitor the activities of the Philippine National Health Research System (research, research ethics, research management, research utilization, capacity building, system governance, and resource generation);
- Conduct health R&D in priority areas in support of HSRA such as natural products development for priority health problems, development of vaccines and pharmaceutical products, development of other technologies, processes for priority health problems, development of telehealth/bioinformatics;
- Conduct periodic national health and nutrition demographic surveys and surveillance activities;
- Institutionalize health, nutrition and population information systems; and
- Monitor and evaluate health, nutrition and population development programs

f. Establish drug treatment and rehabilitation centers and expand existing ones. The Comprehensive Dangerous Drugs Act transfers the supervision of all drug treatment and

rehabilitation centers to DOH. This is in recognition that drug abuse is not just a social ill; it is a medical and health problem that must be met.

- Operationalize a standard system for drug testing centers through dissemination and enforcement of operating manuals for treatment and rehabilitation of drug users, and offer the test at a lower rate;
- Intensify primary prevention on drug addiction through advocacy and IEC activities and strictly enforce the (DDA); and
- Establish secondary (treatment) and tertiary (rehabilitation) care services for persons with drug abuse problems in all regions

e. Protection of the Vulnerable

The vulnerable members of the society shall be given preferential access to social assistance, social protection and safety nets.

1. Children in need of special protection

- Support the Bright Child Program as a holistic approach in providing interventions on food and nutrition, health, early education, and psycho-social programs

An estimated six million children in need of special protection and proactive support for their education and health needs led the Council for the Welfare of the Children (CWC) to launch the Bright Child. The line agencies in the Council such as the DepEd, DOH, DILG and DSWD as well as the LGUs shall align their programs to focus on the child and the family and avoid compartmentalized implementation of their programs.

- Put greater emphasis on child health and nutrition
 - ❖ Continue and expand coverage of the following major programs on child health and nutrition: Expanded Program on Immunization, Garantisadong Pambata Campaign/Micronutrient Supplementation, Breastfeeding and Complementary Feeding Program, Newborn Screening Program, Bright Child, among others;
 - ❖ Review existing nutrition programs and identify more cost-effective nutrition interventions including the full implementation of the Action for Nutrition Improvement (ANI) Program;
 - ❖ Improve targeting of beneficiaries to ensure that the most at risk areas are served (rural areas, ARMM). Particular attention should be provided to the needs of children in situations of armed conflict;
 - ❖ Intensify advocacy and IEC activities on child care and nutrition including the dissemination and strict enforcement of nutrition-related laws (e.g. Food Fortification Act, Act Promoting Salt Iodization Nationwide); and

- ❖ Strengthen local level capabilities on generation of resources, social mobilization, program management, monitoring and evaluation, and comprehensive planning that considers child health and nutrition as a priority area.
- Provide food and nonfood (e.g., out-of-pocket costs for school attendance, livelihood assistance for parents, value formation sessions for both parents and children) support for learning programs to ease school drop-out rates in poor communities;
- Strengthen monitoring mechanisms, particularly the local councils for the protection of children, on the implementation of laws for children in need of special protection. As of September 2004, there are 11 laws protecting the rights and welfare of children such as antitrafficking, antidomestic violence, and antichild abuse. The Barangay Councils for the Protection of Children shall be the guardians at the community level to ensure that children are protected and have access to welfare services provided by national laws and international covenants;
- Strengthen centers and institutions that address the survival, protection and rehabilitation needs of children in need of special protection, including those community-based structures (e.g., Street Children Village, Therapy Center for Abused Children, Reception and Study Center for Children) through review of standards, improvement in the administrative management and resource augmentation from external sources such as donors and private sector (e.g. Friends of Elsie Gaches). The aim is to make these centers as centers of excellence by 2007 so that the other institutions of the private sector can use them as models;
- Develop social technologies to respond effectively to the adverse effects of globalization on children such as children as victims of pedophilia, cyber pornography, and trafficking. LGUs shall lead implementation of social technologies developed aside from tried and tested strategies. There will be continuing capability building in the areas of rehabilitation of perpetrators of domestic violence, paracounselling, provision of psycho-social interventions for abused children and rape victims;
- Improve existing frontline services to prevent children from being victimized, abandoned and neglected. The travel clearance services shall be computerized for faster and more accessible transactions especially for OFWs who want their children to visit them, and for agencies responsible for child tracking. Adoption and foster care services will be processed in six months or less by 2007 to ensure that babies will have families before they become toddlers;
- Implement focused, community-based, and integrated interventions to reduce the incidence of the worst forms of child labor particularly in hazardous occupations and abject conditions of work (e.g. National Program Against Child Labor);
- Implement an enhanced Program for Children Involved in Armed Conflict (CIAC), consistent with the vision of children as zones of peace and the policy that CIAC should be viewed and treated as victims of armed hostilities rather than as criminal offenders; and

- Review and revise existing policies in addressing the CIAC issue, in support of the International Convention and Protocol on Child Rights.

2. Youth with special needs

- Improve rehabilitation and correctional centers and institutions, including their programs, for youth offenders and drug dependents (e.g., Regional Rehabilitation Centers for Youth Offenders). Corrective programs will emphasize life skills and value reformulation and synchronize these with capacity building for economic well being in entrepreneurship or employment. Administrative management of these centers and institutions will be enhanced especially in resource generation. The goal is for these centers/institutions to become centers of excellence by 2007.
- Strengthen the capacity of LGUs to provide halfway house services for reformed substance abusers and youth offenders. Faith-based organizations, religious leaders, social welfare and development NGOs, and civic associations will be harnessed for community-based interventions to assist reformed youth;
- g. Implement emergency employment for out-of-school and out-of-work youths in Metro Manila;
- h. Enhance productivity and employability of youth through training, capability building and special employment program for deserving youth (e.g. Special Program for Employment of Students, Expanded Apprenticeship Program, Work Appreciation Program, a youth-oriented employment program especially in poor communities in highly urbanized areas to be undertaken by DSWD in partnership with the Philippine National Police);
- i. Strengthen efforts on reducing demand for drugs by the youth by intensifying preventive measures with the youth taking a more proactive role (e.g. peer-to-peer group activities, strict implementation of the Dangerous Drugs Act) and institutionalizing antidrug/substance abuse messages in the curriculum;
- j. Promote a values-based approach and holistic healthy lifestyle that goes beyond sports and physical fitness;
- k. Intensify advocacy for the full implementation of policies/laws pertaining to youth with special needs especially youth offenders, youth with disability, youth in ICCs, drug-dependent youth, abused/exploited youth, and children/youth caught in armed conflict (e.g. provision of separate detention cells for young people in conflict with the law as well as separate cells for young boys and girls. The goal is to have separate facilities in all provinces and municipalities by 2010); and
- Lobby for the passage and implementation of the Comprehensive Juvenile Justice Bill by 2006. This legislation shall be youth friendly and sensitive to the complications of being poor and young. It shall emphasize the corrective measures more than the punitive ones thus providing for a new lease on life for these young people.

3. Women in especially difficult circumstances
 - Emphasize maternal health, women's health and nutrition, responsible parenthood
 - Broaden the availability of preventive and curative care services for mothers and women to support their enhanced quality of life and decrease the occurrence of preventable illness and death. These services include among others:
 - ❖ Adequate nutrition, to include specific micronutrients (Fe) to fight anemia
 - ❖ Care of pregnant women before, during, and after delivery of the child (safe motherhood)
 - ❖ Responsible parenthood counseling, family planning services and breastfeeding counseling to include the Mother-baby friendly hospital initiative
 - ❖ Prevention of abortion and management of its complications
 - ❖ Prevention and treatment of all types of infections, including those which are sexually transmitted (e.g. HIV/AIDS)
 - ❖ Prevention and treatment of infertility
 - Prevention and treatment of degenerative diseases and cancer
 - Mainstream through advocacy and IEC the four pillars (responsible parenthood, respect for life, informed choice, birth spacing) of the National Family Planning Program to include methods of family planning within the bounds of law, religious belief, and cultural values;
 - Empower women through effective IEC and social support (e.g. PhilHealth Insurance) for wider access to and effective use of the available services. Similarly, promote programs for women and men to address issues of gender sensitivity, adolescent health, and the prevention of violence against women and children;
 - Effectively LGUs in providing the basic services for mothers and women as enumerated above. Similarly, develop partnerships with all sectors to improve services for mothers and women at home, in the community and in the workplace;
 - Strengthen the capability of labor and management to jointly implement workplace family welfare programs that promote family health and nutrition, maternal health, responsible parenthood, balancing family and work life, and others (Family Welfare Program-DOLE);
 - Support the passage of the Responsible Parenthood Through Education Bill;
 - Improve targeting of beneficiaries, especially the poor and marginalized women in the rural areas, including those in the informal sector, indigenous and Muslim women, to ensure underserved areas are provided with services;
 - Implement the National Action Plan to eliminate violence against women (VAW) by:
 - ❖ Providing capacity-building activities to enable health workers and other frontline workers to respond to the needs of women and children who are victims and survivors of violence

- ❖ Developing and implementing standardized documentation system to track VAW cases and services; and
- ❖ Continuing the protection and rehabilitation of women and girl children victims of VAW.

Intensify training and capability building programs to increase women's opportunities for self-employment under a livelihood convergence strategy, particularly in competitive, high-value adding industries and agricultural activities (e.g. Productivity Skills and Capability Building Program for Disadvantaged Women, Women Workers Employment and Entrepreneurship Development under the Poverty Free Zones, Women's Centers);

Improve centers and institutions geared towards the protection and rehabilitation of women in especially difficult circumstances (e.g., women's help desks, community-based residential care, substitute homes) through upgrading of case management methodologies, and capacity building programs for women victims to include skills production, marketing and managing enterprises of products/businesses. Administrative management of these centers especially record keeping functions, shall be computerized. Resource generation efforts shall be focused on strategic partnership with private sector and civic groups (e.g. Congressional Spouses Foundation Inc., Senate Spouses Foundation); and

Intensify enforcement and monitoring of women-related laws (e.g. Anti-Rape Law, Anti-Sexual Harassment Law, Anti-Trafficking Law, Anti-Violence Against Women and their Children Act, etc.

4. Persons with Disabilities

- Improve the structure and management of centers and institutions devoted to the rehabilitation, education, training and employment of persons with disabilities (PWDs) including the occupationally disabled workers (ODWs), through new social technologies that effectively and appropriately address physical and spiritual brokenness. This will ensure that the staff of the centers will be able to provide a well-rounded and sustainable life skills upgrading for the PWD under their care. The partnership with the private sector shall be strengthened in order to increase the resources for the programs that develop the PWD capacity to live as independently as possible;
- Implement the Tuloy Aral Walang Sagabal (TAWAG), including children with disabilities in day care centers and expanding special education (SPED) program with the help of private sector;
- Intensify implementation and monitoring of PWD laws and policies particularly, the Accessibility Law, the National Plan of Action for the New Decade of Persons with Disability, and the policy on employing PWDs to at least 10 percent of the workforce in government offices. Sanctions and rewards shall be developed to increase compliance to the Accessibility Law. The policy of hiring PWDs to government offices shall be fully enforced over the next six years. As local mechanisms for monitoring these laws and policies, the Office of Persons with Disability Affairs (OPDA) shall be organized in all municipalities by 2010; and

- Expand capacity building program for PWDs in terms of services (e.g. access to capital for entrepreneurship) and beneficiary areas in coordination with TESDA to ensure synergy of training and capital provision efforts of the government. The compliance to the policy of employing at least 10 percent of the workforce in government offices come from the PWD sector shall be enforced over the next six years.

5. Older Persons

- Improve the structure and management of centers and institutions, including community-based care, aimed at providing residential care, day services for older persons to include supplemental feeding and psycho-social intervention, as well as productivity improvement adjusted to the peculiar needs of the older persons. Physical and medical needs shall be provided jointly by the government and the private sector;
- Fully implement the Expanded Senior Citizens Act by 2010. The 20 percent discount in most of the services given by private establishment, i.e., medicine, hospitals, restaurants, boat and airplane fares shall be monitored and the sanctions provided by the law shall be instituted; and
- Strengthen POs for older persons to lobby for more benefits (e.g., livelihood, Botika sa Barangay).

6. Indigenous peoples (IPs)

- Provide educational assistance to poor but deserving IPs;
- Document Indigenous Peoples' Children-Caught in Armed Conflict (IPC-CIAC) cases and collaborate disarmament, demobilization, rehabilitation and reintegration (DDRR) of IPC-CIAC with other government agencies;
- Provide ICCs/IPs with legal assistance in litigation involving community interests;
- Provide for health programs and services to the ICCs/IPs, including enrolment in the National Health Insurance Program;
- Promote indigenous health knowledge and practices and the use of traditional medicine;
- Promote and encourage cooperatives in accordance with beliefs, traditions and customs of the ICCs/IPs;
- Provide indigenous women/youth and older persons with programs/projects for the improvement of their socioeconomic conditions;
- Formulate and implement a program of action which will bring agro-technological development among the ICCs/IPs building upon existing customary practices and traditions;

- Deliver socioeconomic services to the ICCs/IPs communities including but not limited to infrastructure, extension, credit, financing, marketing and other social services;
 - Enhance skills among IPs for socioeconomic productivity, opportunities and self employment particularly through traditional livelihood programs such as loom weaving, ethnic bead-making, and other traditional craft; and
 - Create the Tribal Barangays and ensure mandatory representation of IPs in local policy-making bodies and legislative councils.
7. Dysfunctional families
- Develop and enhance programs geared towards strengthening family roles and responsibilities and family values (e.g. Parent Effectiveness Service; Responsible Parenthood; Marriage Counselling; Family Life Enrichment; Empowerment and Reaffirmation of Parental Abilities; Special Service for Solo Parents; Value Formation Education; Family Drug Abuse Prevention Program); and
 - Continue to provide technical assistance, capability building and augmentation support in the implementation of community-based programs for the poor, vulnerable and disadvantaged families.
8. Victims of Disasters and Calamities (See Chapter 5, Environment and Natural Resources)
- Strengthen emergency response capability, particularly at the local level, through an improved delivery of humanitarian assistance to disaster affected populations, including the development of a set of minimum standards on humanitarian assistance and improve the tool in conducting Damage Needs and Capacity Assessment; and
 - Promote culture of resilience through continuous training and education, including dissemination of readily understood information materials on disaster risks and protection options to citizens and integrate disaster risk reduction in school curriculum at the primary and secondary levels.

E. Empowerment

Institutionalizing the process of people empowerment shall require the political participation of the poor, through capacities and institutions that allow them to participate actively in decision making. This process increases their level of confidence and self-reliance.

Empowerment shall also emphasize the need for strong partnership and accountability among government, civil society, and the private sector. It shall pursue the paradigm that poverty reduction programs are effective if local communities are in the position to determine their needs rather than treating such communities as passive beneficiaries of welfare. The Kalahi-CIDSS is the strategy for empowerment and poverty reduction.

Democracy becomes meaningful to the people when they actively seek solutions to the problems of their community. Development happens because the citizens become active players in the transformation process in their communities.

Empowerment is promoted through active community participation during design, implementation and management of development activities that reduce poverty, and by putting control over resources in the hands of the poor. Communities are empowered to address their development priorities in a demand-driven way, through localized decision-making during social preparation activities, identification, prioritization, establishment and operationalization of community projects. Kalahi-CIDSS implementation in each area goes through the stages of initiation, consolidation and institutionalization to build up strong capacities of communities and local institutions.

There are 42 target provinces, 22 of which have already been covered, with a total of 1,505 barangays in 67 municipalities nationwide. The areas are selected through systematic area targeting using objective poverty criteria.

By 2005, Kalahi-CIDSS expansion will increase the coverage to 4,530 barangays in 182 municipalities of 42 provinces. By end of project in 2008, the Kalahi-CIDSS shall have assisted approximately 10 million poor Filipinos.

- a. The full implementation and institutionalization of the KALAH-CIDSS Program shall be done through the following:
 - Conduct of social preparation and capability building activities among communities and participating LGUs, to be facilitated by KALAH-CIDSS area facilitators;
 - Provision of matching grants to fund community projects identified, prioritized, implemented and maintained by communities with LGUs and KALAH-CIDSS technical assistance;
 - Institutionalization of the KALAH-CIDSS strategy within local government units through capacity building of local officials and staff, and promotion of participatory local development practices;
 - Area convergence with national government agencies, NGOs and local organizations, through synergy and complementation of programs and resources to support community priorities;
 - Promotion of good governance and public accountability through transparency, participatory and socially inclusive decision-making, multi-stakeholdership and civil society participation, and gender equity;
- b. Advocate for the full implementation of local sectoral representation as mandated under the Local Government Code to ensure fuller participation of sectors in local governance
- c. Promote the nationwide adoption and implementation of the enhanced Core Local Poverty Indicators Monitoring System (CLPIMS) and consequently the Local Poverty Reduction Action Planning Process by Local Government Units (from the barangay to the provincial level) to capacitate them in diagnosing and monitoring poverty and in crafting appropriate

interventions for their constituents and to enable community members to actively participate in the (anti-poverty) planning process at the grassroots level as well as in implementation, monitoring and evaluation.

- d. Promote and facilitate increased participation and involvement of the youth in the family, school, community (Local Youth Development Council) and society (NYC) through the following:
 - Form and institutionalize youth organizations in communities and schools particularly those engaging in community and voluntary development activities [e.g. Sangguniang Kabataan (SK) and non-SK]
 - Monitor the youth situation and implementation of youth development plans at the local level including corresponding budget allocation for specific programs and projects and develop local youth data bank
- e. Support the expansion and replication nationwide of the private sector-led initiatives such as Gawad Kalinga (GK) 777, Habitat, and other programs as a holistic, antipoverty, community empowerment and housing and urban development/slum upgrading model through a multisectoral effort (e.g., national government, non-government organization, private sector, beneficiary poor families) with integrated components on: (a) socialized housing construction; (b) improvement of sites and auxiliary services; (c) livelihood and skills training; and (d) positive values formation.

Chapter 13

Automated Elections

I. SITUATIONER

The conduct of elections in the Philippines for the past four decades has remained largely unchanged. Philippine elections rely heavily on manual tallying and canvassing of votes thus making them vulnerable to control and manipulation by traditional politicians and those with vested interests. The cost of winning an elective post is highly expensive, and the absence of mechanisms to check and limit sources of campaign funds become fertile grounds for corruption and divisiveness.

In recent years, initiatives to reform the electoral system included the enactment of the following laws: Republic Act (RA) 8046, establishing a pilot program modernizing the registration and vote counting process in the Autonomous Region in Muslim Mindanao, the Party List Law, Fair Elections Act and the Absentee Voting Act. To address the inadequacies and limitations of the electoral process, RA 8436, the Election Automation Act of 1997, was passed authorizing the Commission on Elections (COMELEC) to use automated election system for vote counting and canvassing in the national and local polls. The law provided for the generation of a national computerized voters list, establishment of a voters identification card system and the automation of the vote counting.

However, sectoral issues still hinder reform efforts in the electoral process. The following have been identified as basic problems afflicting the electoral system: (a) outdated electoral process; (b) failure to implement the electoral modernization law; (c) limited administrative and regulatory capabilities of the COMELEC; (d) ineffective educational/information campaigns on new laws and policies; (e) weak political party system; (f) unaccountable political financing; and (g) defective party list system (Governance Assessment, 2003).

II. GOALS, STRATEGIES AND ACTION PLANS

To ensure a credible and transparent electoral process, the modernization of the electoral system through computerization shall be supported to ensure the credibility of polls and correct the deficiencies in the electoral system. Likewise, the Omnibus Election Code shall be further revised and amended to respond to the needs of the present electoral system.

Measures to strengthen the party system and regulate the activities of political parties shall be created. State financing of political parties shall also be considered through the passage of the Campaign Finance Bill.

The COMELEC's capacity to raise the level of political discourse and educate citizens regarding their right to vote will be enhanced. This will be done through conduct of continuing citizen and voter education through partnership with civil society groups and other government

institutions. The electorate must be empowered with information that would help them vote intelligently. The challenge is to develop the people's appreciation of their vote as a means to reform the government and receive better services from it. Part of this challenge is the need to raise the awareness of the electorate on relevant issues and the corresponding platforms of the candidates, if the country is to shift from the politics of personality to the politics of party programs.

Chapter 14

National Harmony: The Peace Process

GOALS, STRATEGIES AND ACTION PLANS

The goals of the peace process for the present administration are as follows:

1. Completion of comprehensive peace agreements with rebel groups resulting in the permanent cessation of armed hostilities by 2010;
2. Completion of implementation of all final peace agreements signed since 1986;
3. Mainstreaming the rebel groups through an enhanced amnesty, reintegration, and reconciliation program;
4. Rehabilitation, development, and healing of conflict-affected areas; and
5. Strengthening the peace constituency and citizens' participation in the peace process on the ground

The extreme poverty, political marginalization, and social exclusion experienced by the minority Muslim population, exemplified by the low socioeconomic development in the Autonomous Region in Muslim Mindanao (ARMM) but also felt by Muslims outside the ARMM, is recognized as a special challenge. This provides a continuing sense of grievance that feeds the armed conflict in Muslim Mindanao.

The administration shall adopt and implement a peace plan comprising two major components, namely:

1. Peacemaking and peacekeeping; and
2. Peacebuilding and conflict prevention

A. Peacemaking and Peacekeeping

This component aims to permanently end all insurgency-related armed conflicts through peace negotiations and to immediately reduce the level of violence in conflict areas through local and civil society-led peace initiatives. This involves the following:

1. *Continuation of peace talks and conclusion of final peace agreements with each of the following rebel groups:*
 - a. Moro Islamic Liberation Front (MILF)
 - b. Communist Party of the Philippines/New People's Army/National

Democratic Front (CPP/NPA/NDF)

c. Rebolusyonaryong Partidong Manggagawa ng Pilipinas/Revolutionary Proletarian Army/Alex Boncayao Brigade (RPMP/RPA/ABB)

d. Rebolusyonaryong Partidong Manggagawa ng Mindanao (RPMM)

The process of peace talks includes the conduct of confidence-building measures, adoption of interim or humanitarian ceasefire mechanisms, and negotiations on the substantive agenda constituting reforms to address the roots of the armed conflict. The final peace agreement will also involve a political settlement and an agreement on the final end of hostilities and disposition of forces.

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

Government shall encourage, recognize, respect, and support grassroots peacekeeping initiatives by civil society or local government units (LGUs), especially the community declaration of peace zones and other “spaces” for peace, citizens’ campaigns for and monitoring of ceasefire agreements, and localized peace talks. In conflict-affected indigenous communities, traditional or indigenous mechanisms for conflict settlement shall be tapped. Information education to promote nonviolent means of conflict resolution shall likewise be undertaken.

3. ***Full implementation of existing final peace agreements***, particularly the (a) Government of the Republic of the Philippines (GRP) and the Moro National Liberation Front (MNLF) Peace Agreement of 1996, and (b) GRP- Cordillera People’s Liberation Army (CPLA) Peace Agreement of 1986. The former shall involve the full implementation of Republic Act (RA) 9054, or the new Organic Act for an expanded ARMM; and the provision of livelihood/direct development assistance to unserved MNLF state commands and Bangsamoro women’s cooperatives.
4. ***Implementation of an enhanced and integrated reintegration, rehabilitation, and amnesty program to mainstream former rebels into society.***

An Amnesty and Reintegration Commission (ARC) shall be established in lieu of the National Amnesty Commission and shall be placed under the supervision of the Office of the Presidential Adviser on the Peace Process (OPAPP). The ARC shall integrate the management of all national programs and services for former combatants and work closely with concerned LGUs to take a leading role in the reintegration program in their own localities.

B. Peacebuilding and Conflict Prevention

This component seeks to address the major causes of insurgency. It also aims to eliminate sources of grievance, transform conflict-affected communities into peace and development areas, and heal the social wounds brought about by the long-drawn internal armed conflicts. This shall constitute the streamlined and enhanced Mindanao National Initiatives (MINDANAO NATIN), which shall be composed of the following:

1. ***Rehabilitation and development of conflict areas***

Priority areas shall be identified for accelerated barangay-focused rehabilitation and development to be undertaken and completed in by 2010. MILF-affected areas include Palimbang in Sultan Kudarat, the perimeter towns of the former Camp Abubakar (Barira, Buldon, and Matanog in Maguindanao); perimeter towns surrounding Buliok (Pikit in North Cotabato and Pagalungan and Datu Montawal in Maguindanao), Triple-S/B areas in Zamboanga Peninsula (Siocon, Sibuco, Sirawai and Baliguian); Carmen and President Roxas in North Cotabato; and Damulog in Bukidnon.

For affected areas in Muslim Mindanao (which may include MNLF communities), the following multidonor-assisted funds will be fully mobilized, such as: ARMM Social Fund for Peace and Development, United Nations (UN) Multi-Donor (and successor) Funds, European Union-United Nations Development Programme (UNDP) Fund for Rehabilitating Internally Displaced Persons, and the Mindanao Trust Fund which shall be operational upon the signing of a final peace agreement with the MILF to cover 150 identified conflict-affected municipalities. The Mindanao Peace and Development Fund shall be activated to cover conflict areas outside the ARMM.

Priority NPA-affected areas will include influenced barangays in Regions III and IV which are closest to the National Capital Region (NCR), barangays in the Bicol region, Mindoro and Samar islands, and Surigao provinces and Compostela Valley in Mindanao. For the RPMP, 100 priority barangays have been identified mostly located in the Negros provinces and Panay island, while around 76 priority barangays in the Lanao provinces, Agusan provinces, and Maguindanao have been identified for the RPMM. In the absence of a major donor-assisted fund to cover these areas, *Kapit-Bisig Laban sa Kahirapan* (KALAHI), under the supervision of the National Anti-Poverty Commission, will continue to be mobilized and strengthened. Mission funds, particularly of the European embassies in Manila, shall also be tapped as a quick-response source of assistance.

The delivery of core shelter units and immediate livelihood assistance for displaced families shall be prioritized. Infrastructure and basic services for conflict-affected communities i.e. access roads, schoolbuilding and teachers, potable water, electricity, and multipurpose center shall also be targeted.

2. ***Catch-up development program for ARMM and affirmative action agenda for Muslims. The catch-up development program for ARMM will focus on :***

- a. Completion of the devolution of national agencies to the ARMM in accordance with RA 9054.

Among the agencies still to be devolved and which have been approved by the Oversight Committee are the Department of Public Works and Highways, Regional Police Commission/ Regional Police Force (REPOLCOM/RPF), Bureau of Jail Management and

Penology/ Bureau of Fire Protection (BJMP/BFP), Department of Education (DepEd), Department of Interior and Local Government, Department of Agrarian Reform (DAR), Cooperative Development Authority, Department of Social Welfare and Development, and Commission on Higher Education.

b. Budget reform to enhance fiscal autonomy.

To strengthen the ARMM's capacity to generate revenues, two specific aspects of devolution have to be accomplished; namely,

- the devolution of the Department of Finance and its attached agencies, specifically, the Bureau of Internal Revenue, Bureau of Treasury, and the Bureau of Local Government Finance
- giving of customs powers directly to the ARMM through the devolution of the Bureau of Customs. An inventory of all funds that should be made available to the ARMM from the budgets of national agencies and lump sums has also been identified. Moreover, a common protocol or system shall be established to facilitate the flow of funds from these agencies to the ARMM.

c. Completion of infrastructure for interconnectivity of ARMM-constituent provinces and city and of affirmative action roads to provide access to remote conflict-affected areas.

d. Catch-up plan for health and education to raise the Human Development Index.

This involves the implementation of culturally-responsive programs in public health and the provision/improvement of appropriate infrastructures, complementary supplies and equipment, including the effective management of these services. On the other hand, a Madrasah education program will be implemented by the DepEd consisting of curriculum development, training of madaris teachers, and a catch-up plan for Muslim students.

(*Chapter 18: Education*)

e. Filling up of all vacancies and support for effective operation of shariah courts.

This will necessitate the reactivation of the Search Committee to identify qualified candidates and, possibly, the conduct of continuous education programs to upgrade their competencies and skills.

f. Land tenure improvement for actual occupants.

To address claims on land and resolve existing conflict in land claims, a land tenure improvement program to be piloted by the Office on Muslim Affairs (OMA) in coordination with the concerned agencies will identify land ownership and facilitate the generation of land titles. In addition, a One-Stop Action Center for Titling Assistance for Muslim Minorities, which was initiated by the DAR for Region XII, shall be continued and may be expanded in cooperation with the ARMM.

g. Enhanced agricultural productivity program.

Consistent with the effort to make Mindanao the country's agri-fishery export zone, the development of the ARMM as the Halal-based food production and processing center shall be supported. The region's agricultural and fishery production centers shall be linked cost-effectively through the provision of adequate transport and communications services and infrastructures. (*Chapter 2: Agribusiness*)

h. Support for the implementation of "The ARMM Special Economic Zone Act of 2003," which created the Regional Economic Zone Authority (REZA) to oversee the establishment and operations of special economic zones, industrial estates, export processing and free trade zones in the ARMM.

Support shall be given to ARMM-Department of Trade and Industry, which functions as the REZA in the transition period, to explore and launch pilot economic zones. This may range from industrial-type estates, which require huge development incentives, to municipal or even barangay-level free zones. The implementation of Polloc, Parang, Maguindanao as an ecozone, as designated by the Philippine Special Economic Zone Act of 1995 (RA 7916), shall also be studied.

i. Holding of peaceful, orderly and meaningful elections in the ARMM in August, 2005, and August, 2008, in accordance with RA 9333.

The affirmative action agenda for Muslims to eliminate cultural biases throughout the country, will focus, among others, on:

- Proportionate share of appointments to senior government positions;
- Rehabilitation/entry of Islamic banking;
- Creation of salaam police units for NCR and urban centers;
- Ensuring non-discriminatory policies and procedures in any police/military action against terrorism;
- Improved Hajj supervision;
- Promotion of Muslim holidays and religious festivals through official declarations and conduct of awareness program on these important events;
- Policies to ensure elimination of discrimination, even affirmative action, in schooling and employment; and
- Streamlining and strengthening of OMA.

3. ***Conduct of healing and reconciliation programs in conflict-affected communities.***

These shall include the conduct of community-based interfaith and intercultural peace education and advocacy campaigns; trauma counseling and rehabilitative services for displaced families, especially women and children victims of armed conflict; and holding of community rituals and traditional practices for cleansing, healing, and reconciliation.

Chapter 15

National Harmony: Healing the Wounds of EDSA

I. SITUATIONER

Social inequality, poverty, and social exclusion in the Philippines, appear to be important driving forces behind the conflicts of EDSA 1, 2 and 3. Both absolute and relative deprivation have become so serious as reflected in the May 1, 2001 storming of Malacañang and the series of people power attempts.

When the poor suffer from long-term unemployment, low incomes, lack of access to education, opportunities and various social services, the valuable norms of trust and cooperation break down. This results in socially destructive behavior, including contempt for the law, the “us vs. them” mentality, and lack of respect for public property, among others.

Preventing the social volcano to erupt by addressing the serious problems of these forms of deprivation is the core challenge that faces the country’s leaders and institutions.

II. GOALS, STRATEGIES AND ACTION PLANS

At the societal level, reconciliation is seen as a usually lengthy process of overcoming hostility and mistrust between parties in conflict. It essentially refers to the promotion and consolidation of constructive social relations among different groups of the population, including parties to significant social conflicts. It includes the recognition among the parties of the need to develop a common understanding of the causes and nature of the conflict and acquire shared notions of responsibility.

The endeavor to achieve reconciliation is much helped by a spirit of forgiveness, although forgiveness usually comes after a long process of healing and is not always attained. It is also not an absolute precondition for reconciliation and for the carrying out of work toward reconciliation.

In principle, truth seeking and sufficient truth telling, restitution or reparation, and amendment of attitudes and behavior toward constructive ends and cooperation for the common good, are essential conditions for reconciliation. These should be pursued to the extent that is advisable in each concrete situation.

Reconciliation almost always requires facilitation by credible and competent institutions or persons. This is often realized at various levels of society, such as the top leadership, the middle level of the channels of social communication, the basic level of grassroots and local communities. Respectful dialogue among the parties in conflict and the facilitators is needed for reconciliation. Appropriate policies and processes that are institutionalized by legislation or other suitable means are important for the work toward reconciliation to proceed optimally.

The main points mentioned above have to be applied in ways specific and suitable to the Philippine context and to the various social conflicts that divide our people. Factors such as the local culture and the choice of terms to denote a given process or procedure must be taken into account.

There is a plurality of ways of applying the ethical principles for reconciliation. Among others are prosecution and litigation, negotiated solution, and structure sharing of experiences. These various ways are often complementary and can be used in combination. The measures meant to promote reconciliation should strengthen democracy rather than make it more vulnerable to assault or undermining by anti-democratic forces. Care should be taken to address the real danger that the procedures and activities meant to promote reconciliation may be co-opted or “hijacked” by one or more of the parties in conflict.

To consolidate reconciliation and attain stable peace, the root causes of the social conflicts should be adequately addressed. The method or approach chosen to address a particular conflict should be evaluated at suitable times, and modified as needed.

The following elements comprise the action plan for national healing and reconciliation:

1. Accelerate compensation to victims of human rights violations;
2. Consult people nationwide regarding their views on how to pursue reconciliation and national unity;
3. Provide safe venues, sufficiently accessible to victims and perpetrators of oppression, for the carrying out of structured sharing of experience of the conflict, especially of hurtful ones, and for the possible elicitation of requests for and granting of forgiveness. The Churches shall be requested to help identify these safe venues;
4. Pursue reforms in the military and implement the recommendations of the fact-finding Davide Commission (for the December 1989 attempted coup d’etat) and the Feliciano Commission (for the July 2003 Oakwood Mutiny);
5. Design and implement creative approaches, involving an appropriate mix of modalities, for handling conflicts involving leading figures of the administrations deposed on February 1986 and on January 2001. These approaches should be assessed from time to time, and changed as needed; and
6. Formulate, bring to legislation, and implement effective national security reforms with a balanced focus on both internal and external concerns. The Congress plays a vital role in defining the country’s defense and security policies that would adequately address terrorist threats, with emphasis on precrisis activities of detection and prevention.

Chapter 16

Basic Need: Peace and Order

I. SITUATIONER

Peace and order is an essential ingredient to maintaining economic development, social order and political stability. A condition of peace and order facilitates the growth of investments, generates more employment opportunities and attracts more tourists.

Foremost in the government's agenda is the promotion of peace and order. This is exemplified in its continuous and active campaign against terrorism and criminality, including kidnapping, illegal drug trade and smuggling and street crimes among others. As a result, the average increase of the crime trend of 5 percent from 1998 to 2002 declined to 2.4 percent in 2003.

In the drive against Kidnap-for-Ransom (KFR), 16 most wanted KFR leaders and 101 suspected KFR members were arrested during the period July 2003 to June 2004. Out of the 64 kidnapping incidents, 49 were solved during the same period reflecting a 77 percent crime solution efficiency rate.

However, threats to peace and order continue due to a higher-than-tolerable level of criminality caused by an ill-equipped and undermanned police force and the lack of desired holistic and integrated approach to address rising criminality and terrorism.

In particular, the regular upgrading of the skills and knowledge of police personnel for efficient and effective policing is limited. Likewise, police lack adequate provisions of basic police equipment such as firearms and ammunition, communications and investigation equipment, vehicles and police facilities. The inadequate logistical support given to a police station account for much of its limited effectiveness. Police officials report that only 20 percent of the police stations were constructed in police-owned property while 80 percent are housed in rundown structures usually without the standard facilities like computers and fax machines. The police needs an additional 1,826 patrol cars to be able to effectively run after criminals. However, it has only 872 patrol cars available. Likewise, the police still needs an additional 65,119 pistols to supplement its current stock of 48,025 pistols. Hence, the inadequacy of funds affects the overall operations of the police force, particularly in investigation, operations, intelligence and police community relations.

Criminal elements engaged in illegal activities and syndicated crimes continue to pose threats to the country's peace and order. The government has responded by integrating efforts against major crimes such as kidnapping through the National Anti-Kidnapping Task Force (NAKTF), illegal drugs through the Philippine Drug Enforcement Agency (PDEA) and smuggling through the National Anti-Smuggling Task Force (NASTF).

In the drive against illegal drugs from July 2003 to June 2004, more than Php22 billion worth of shabu and ephedrine were seized, 15 clandestine laboratories and 7 storage warehouses that contained significant volume of chemical precursors and laboratory equipment were dismantled, 12 international drug rings and 239 local drug syndicates were neutralized, 35,514 pushers and users were arrested and 5,344 drug affected barangays were cleared.

In support of the antismuggling campaign of the government, the Philippine National Police (PNP) carried out 4,154 operations that resulted in the confiscation of PhP7.568 million worth of goods during the first semester 2004. Despite these organizational improvements, the government still needs to find additional resources to fully contain these illegal activities.

The threat posed by both local and international terrorist groups still remains. The campaign against terrorism led to the crushing of Saddam Hussein's terrorist network through the expulsion of 11 Iraqi nationals including three diplomats engaged in terrorism, the arrest of Abu Sayyaf group members who were involved in various bombings in Mindanao, the arrest of Mukhis Yunos, for his involvement in the Rizal Day bombing in 2002, the arrest of Jemaah Islamiyah (JI) member Taufek Refke and the raiding of JI warehouse in Cotabato City in October 2003.

Despite efforts to reduce the threats posed by these groups through intelligence gathering and cooperation with the country's bilateral partners in the Association of South East Asian Nations, much still needs to be done to totally eradicate the threat.

Finally, community participation in peace and order initiatives need to be enhanced. The community must be a partner with the police force and other law enforcement agencies to maintain peace and order. Efforts to tap the community in the fight against crime through PATROL 117 has been launched. Its continuous implementation and advocacy should also be pursued.

Barangay Anti-Drug Abuse Committees (BADACs) had been organized in 35,655 or 84 percent of all barangays nationwide except in the Autonomous Region in Muslim Mindanao (ARMM) with 320,058 members. The BADACs provided information to law enforcers that led to the confiscation of billions of pesos worth of shabu and the dismantling of several shabu laboratories.

Barangay Peace and Order Committees (BPOCs) were likewise organized in 37,535 or 95 percent of all barangays nationwide except in ARMM. Of these barangays, 29,701 or 75.17 percent have formulated and implemented their Community Public Safety Plans. The plans enabled the concerned barangays to identify responsive peace and order and public safety-related programs in partnership with the community and law enforcement agencies.

II. GOALS, STRATEGIES AND ACTION PLANS

To address the issues affecting peace and order, the government will adopt the following strategies:

- Effective and credible law enforcement jointly executed by a trilateral partnership between the local executive, the police and the community;
- Professionalization of the PNP; and
- Continuous and intensified operations to neutralize terrorism and other organized crime groups.

Effective and credible law enforcement jointly executed by a trilateral partnership between the local executives, the police and the community would greatly help in addressing terrorism, syndicated crimes (i.e. kidnapping, drug trafficking and bank robbery) and common crimes against property. This

will be done through the intensification of the Anti-Illegal Drugs Special Operation Task Force (AID-SOTF), the Anti-Bank Robbery Special Operations Task Force (ABR-SOTF) and the Police Anti-Crime and Emergency Response (PACER) in coordination with the National Anti-Kidnapping Task Force. To contain street crimes, additional personnel will be deployed to identified hot spots and more auxiliary forces will be enlisted.

The Arroyo Administration is committed to pursue the professionalization of the PNP to make the government more effective in the campaign against criminality. Syndicated crime groups especially kidnappers, bank robbers and drug traffickers will be targeted. Thus, recruitment standards shall be upgraded and annual recruitment of qualified personnel must be increased. A continuous career training and development program, with focus on courses that address identified training needs, shall also be pursued. Moreover, career courses, specialized courses, foreign and in-country training, in-service training will be provided to qualified and deserving PNP personnel.

The government will continue to intensify operations to neutralize terrorism and other organized crime groups. These will entail the acquisition of basic equipment and facilities, specifically, the construction of police stations and police precincts, the upgrading of crime prevention infrastructure, technology and equipment.

Police visibility in local communities will also be increased by putting up Community Police Assistance Centers (COMPAC) and checkpoints. Policemen to “walk- the-beat,” will also be deployed to improve police visibility and act as deterrent to potential crimes. In addition, the rationalization of the respective mandates and structures of institutions involved in the fight against domestic and transnational crimes will be pursued. Under this, the PNP’s role and functions vis-a vis the National Police Commission and the Department of Interior and Local Government will be reviewed. Accordingly, PNP Directorates/Units with overlapping functions will be merged and interagency linkages for intelligence and counter-intelligence will be strengthened. Finally, the PNP will sustain and comply with its international commitments to the United Nations International Peacekeeping Operations.

With these strategies, the conditions for maintaining peace and order will be established. People will see more policemen in public places and requests for police assistance will be faster. KFR and other crimes will gradually be stamped out, while more policemen will be trained to respond more efficiently during emergencies and disasters.

Chapter 17

Basic Need: Rule of Law

I. SITUATIONER

Over the last five years, the government has taken concrete steps to restore public trust and confidence in the judicial system. One of the fundamental strides taken was the preparation of the Action Program for Judicial Reform (APJR), which contains a wide-ranging yet comprehensive set of reform projects aimed at enhancing performance for improved delivery of judicial services.

The APJR envisions a Judiciary that is independent, effective and efficient. It also advocates the provision of quality, ethical, accessible and cost-effective legal service.

Several laws have been passed to improve justice administration in the country. These are:

1. Republic Act (RA) 8246, which provides for Additional Divisions in the Court of Appeals. It also aims to make court litigation faster and more convenient;
2. RA 8557, which establishes the Philippine Judicial Academy as a separate unit of the Supreme Court. It seeks to provide Judiciary members with continuing education and training; and
3. RA 9297, which provides for the increase in government prosecutors and state counsels' remuneration.

To achieve holistic reforms in the criminal justice system, the government has coordinated its four pillars, namely: the enforcement pillar; the prosecution pillar; the rehabilitation and corrections pillar; and the community pillar.

The Judiciary has also reviewed the Barangay Justice System, formulated the Department of Justice (DOJ) Reform Agenda, prepared the DOJ and Philippine National Police diagnostic studies, evaluated the country's penal institutions and prison conditions, and conducted baseline studies on the Public Attorney's Office (PAO). The government has also been involved in the jail decongestion project.

Despite these efforts, delays in the resolution of cases and perceived graft and corruption have continued to weaken confidence in the criminal justice system. As of end 2003, caseloads and clearance rates in all courts remained low (42.98% average). The number of pending cases in all courts reached only 811,274. Moreover, only 588,152 out of 816,684 pending cases were disposed of in all courts at the beginning of 2003.

Table 17-1 Caseload and Clearance Rates in the Courts, 1999-2003

Year	Beginning Year Pending	Inflow	Outflow	Ending Year Pending	Annual Clearance Rate (%)
1999	787,860	686,228	664,014	810,074	45.05
2000	810,074	686,244	678,564	817,754	45.35
2001	817,754	564,721	569,059	813,416	41.16
2002	813,416	578,514	575,246	816,684	41.33
2003	816,684	582,742	588,152	811,274	42.03

Other critical issues that need to be addressed are weak institutional systems, poor court technologies and facilities, inadequate human resource development program, and perceived limited access to justice by the poor and marginalized sectors of society.

The prosecution service still experiences a shortage in number of prosecutors. Despite the recent increases in allowances, many prosecutors are still leaving to become private practitioners or judges.

As the current ratio of prosecutor per litigant is 1:20, more than 500 prosecutors are needed to expedite the resolution cases. As of end 2002, the National Prosecution Service (NPS) had 58,766 cases pending before it. Over the course of 2003, some 405,344 more cases were added to the number, prompting the NPS to tackle a total of 464,110 cases in 2003.

On law enforcement (Chapter 16: Basic Need: Peace and Order).

In the area of corrections and rehabilitation, the Bureau of Corrections (Bucor) targets to safe keep and rehabilitate national prisoners. In the year 2002, Bucor admitted a total of 4,734 prisoners. Recidivism remained at 4 to 5 percent of the total inmate admission for the last 10 years. As of December 2003, Bucor maintained a total of 26,792 inmates. Around 62 percent of this number were confined at the National Bilibid Prison (NBP) in Muntinlupa with congestion rate of 92 percent, while the rest are scattered in the five penal farms located in Leyte, Davao and Palawan, Sablayan and San Ramon.

The NBP can only accommodate 8,000 prisoners. However, according to the latest report, the prisoners are more than 17,000. Clearly, jail congestion exists in the NBP. Other major issues that need to be addressed are inadequate food, poor maintenance, and poor jail facilities.

Table 17-2 Prison Population and Capacity, 2002

National Penitentiary	Capacity	Actual Population	% to total	Congestion Rate
New Bilibid Prison	8,700	16,134	65	85
Correctional Institution for Women (CIW)	500	951	4	90
Iwahig Prison and Penal Farm (PPF)	3,500	1,974	8	-
Davao Prison and Penal Farm (DPPF)	3,100	3,005	12	-
San Ramonj Prison and Penal Farm (SPPF)	1,300	1,000	4	-
Sablayan Prison and Penal Farm (SPPF)	1,500	1,050	4	-
Leyte Regional Prison (LRP)	1,000	888	3	-
Total	19,600	25,002	100	28

Community participation has to be fully tapped. While initiatives have been introduced to involve citizens in anticrime activities such as tele-reporting through Hotline Patrol 117 and partnering with nongovernment organizations/people's organizations (NGOs/POs), police-community relations could be further improved.

II. GOALS, STRATEGIES AND ACTION PLANS

In addressing court delays and clogged court dockets, the courts with the cooperation of lawyers shall support the Speedy Trial Act of 1998, and the mandatory continuous trial system, especially in criminal cases. The government shall also create more courts.

This can be achieved by creating more first and second level courts, at the same time hiring competent and highly qualified individuals to the Bench.

The government shall support the Supreme Court's vision of quality, ethical, accessible and cost-effective legal service. In particular, the government will

1. Support and complete the ongoing APJR projects on case decongestion, judicial systems and procedure, human resource development (HRD), institutional development, and reform support systems;
2. Improve functional administrative and operating structures in the Judiciary;
3. Provide sufficient public information and collaboration with society;
4. Provide access to justice by the poor through the ongoing institutional development reforms project under the APJR; and
5. Pursue an advocacy on Alternative Dispute Resolution (ADR) mechanisms under RA 9285 in the judicial system.

The following reforms in the prosecution system shall also be pursued:

1. Expedite resolution of cases
 - a. Intensify the recruitment of 500 prosecutors needed to address the disparity in the prosecutor-case ratio;
 - b. Establish information technology system for prosecution service; and
 - c. Inventory all cases for preliminary investigations, evaluations, and petitions for review.
2. Improve free legal services
 - a. Upgrade the skills of public attorneys;
 - b. Regionalize DOJ Action Center to assist walk-in and phone-in clients and letter-senders requesting legal assistance/advice/counseling; and
 - c. DOJ to conduct lectures/seminars for policemen on legal procedures, law, tactical investigation without violating due process, etc.

3. Maximize the utilization of the *Katarungan Pambarangay*
 - a. Prosecutors/public attorneys to conduct nationwide trainors' and barangay officials' training; and
 - b. Legal education assistance to barangay officials through the Barangay Outreach Program of the PAO.

On law enforcement (Chapter 16: Basic Need: Peace and Order).

The government shall pursue an effective rehabilitation program in corrections and rehabilitation. The prisoners' carpentas/prison records through a systematic and improved records system will be strictly monitored to avoid any delay in the release of prisoners. The government shall also provide funding for the improvement of correctional jail facilities, prisoners' food and other equipment.

The DOJ shall issue a directive to all prosecutors to conduct inventory of detention prisoners who might be considered for release.

In the community pillar, linkages and understanding between the community and other pillars of the criminal justice system will be strengthened. Such would improve the administration of and access to justice. Information on the criminal justice process should also be disseminated to the people.

The Barangay Justice System shall be strengthened to prevent minor disputes to reach the courts. With this, a possibility of declogging the courts by 50 percent would be realized. The Barangay Council shall also employ effective and efficient members of the *Lupong Tagapamayapa* and conduct regular training to educate them more about the system.

Likewise, the government will support the Integrated Bar of the Philippines (IBP) and other lawyers organizations that extend free and competent legal services to indigent and deserving members of the community.

The government shall also encourage the formulation of mechanisms that will promote partnership and collaboration among the executive, legislative and the judiciary, including the private sector and civil society, in the effort to speed up the administration of justice. The government shall support the National Council on the Administration of Justice (NCAJ) created through a Memorandum of Agreement among the DOJ, Department of the Interior of Local Government, Supreme Court and IBP with the Justice Secretary as Chairman.

The NCAJ seeks to address recurring problems that affect the administration of the five pillars of the criminal justice system.

Chapter 18

Education

Education is the right of every Filipino. It is a key investment that can break the Filipino's seemingly endless cycle of poverty, and provides the people, particularly the youth, with more opportunities.

In a world where knowledge has become a crucial element for nations to prosper and compete, primacy is placed on quality and accessible lifelong learning, from early childhood development to primary, secondary and tertiary learning. The Filipino youth's capacity to actively participate in national development and rightfully claim opportunities for improving their quality of life can only be achieved through enhancing their knowledge and skills, and providing them with avenues to lead productive lives.

EARLY CHILDHOOD AND BASIC EDUCATION

I. SITUATIONER

The Philippines has one of the shortest basic education systems in Asia-Pacific, with six years of elementary and four years of high school. The average Filipino child starts formal schooling in elementary at age six. However, children who are expected to avail of private education undergo preschooling at the age of three.

Around 77 percent of five-year-old children are served by accredited public and private preschools and by local government unit or LGU-run day care centers. The quality of services provided in preschools and day care centers varies in terms of curricula. Some preschools and day care centers are mere child-minding centers while some, particularly those in urban areas, apply some form of formal school curricula, especially for children ages five to six years old. However, not all children of poorest households are covered by existing Early Childhood Care and Development (ECCD) programs. Twenty-three percent of children who are supposed to avail of ECCD are not yet served. Table 18-1 illustrates some facts about early childhood education.

The quality of Philippine basic education has been deteriorating continuously. Basic education bore the effects of continuing rapid population growth, estimated at 2.3 percent annually. The public school system is hard-pressed to cope with the requirements of an expanding student population, particularly at the secondary level, due to, among others, the implementation of free public secondary education. Severe budgetary constraints have led to underinvestment in basic education, as evidenced by the decline in real spending per student.

Government spending for basic education in 2000-2004 grew at an annual average of 4.5 percent. While this appears generous, 89 percent of the budget of the Department of Education (DepEd) goes to salaries and other personnel benefits while expenditures for developmental purposes (e.g., attendance to training programs, purchase of instructional materials/aids/devices, conduct of instructional supervision) are derived from its maintenance and other operating expenses (MOOE) budget at seven percent. On the other hand, classrooms and instructional equipment, including computers for teaching and learning purposes are obtained from the capital outlay of four percent.

Table 18-1 Facts About Early Childhood Education (ECE), SY 2002-2003

Particulars	Number (in '000))	Percentage
Total Number of 5- year olds	2,200	100%
Number of 5- year olds being served by:	2,188	77%
A. Formal pre-schools		
LGUs/PTCAs	409	19%
Private Preschools	331	15%
DepED	42	2%
Education Service Contracting	24	1%
B. Day Care Centers	882	40%
Total Number Not Yet Served	512	23%

Source: Department of Education

Based on the 2000 Census of Population and Housing, basic or simple literacy¹ rate stood at 92.28 percent, so far one of the highest in Southeast Asia. On the other hand, functional literacy² was 83.79 percent (81.7% for males and 85.9% for females) based on the 1994 Functional Literacy Education and Mass Media Survey (FLEMMS). The performance of the basic education subsector in the last four years is summarized in Table 18-2.

As of school year (SY) 2003-2004, actual enrolment stood at 19.2 million for both public and private education (67% for elementary and 33% for secondary), of which 17 million were in the public school system (71% for elementary and 29% secondary). Net participation was at 89.83 percent for elementary and 57.73 percent for secondary. Participation at the elementary level is almost the same for boys and girls but at the secondary level, there were more girls than boys. Similarly, with respect to survival, retention and completion, girls are doing much better than boys.

In terms of learning achievement, the DepEd administered diagnostic tests at the start of the SY 2002-2003 for Grade IV pupils and Year I students in public schools. Initial results showed that students had very poor competencies in math, science and English. But far more alarming were the results of the testing conducted for incoming first-year students in SY 2004-2005, where only about half of a percent of the examinees got scores within the 79-94 percent range and less than 20 percent got 50 percent scores, which is the start of mastery level. Majority of the students garnered scores of 49 percent or below. But it is worth noting that actual pupil performance in 21 Third Elementary Education Project or TEEP-supported provinces generally showed scores significantly higher (56%) than the national mean of 44 percent. TEEP is one of the official development assistance (ODA) projects aimed to improve the quality of education in the provinces. Other province-based projects include AusAID-assisted Basic Education Assistance in Mindanao (BEAM), Japan's Educational Facilities Improvement Projects, the United Nations Children's Fund or UNICEF-assisted Fifth Country Program for Children, and the School-Based Training Program.

For the government's part, it has the Government Assistance to Students and Teachers in Private Education (GASTPE) Program. Some 277,000 high school students enrolled in high school under the Education Service, with subsidy increasing from PhP2,500 to PhP4,000 per student in SY 2003-2004.

¹ Basic/Simple Literacy is the ability of a person to read and write and understand a simple message in any language or dialect.

² Functional Literacy is simple literacy + numeracy and the ability of the person to use these skills for self-improvement.

Table 18-2 Basic Education Key Indicators, SY 2002 - 2003 (in %)

Particulars	Male	Female	Overall
Participation Rate ^{2/}			
Elementary	89.26	90.87	90.05 ^{1/}
Secondary	53.80	62.35	58.03 ^{1/}
Cohort Survival Rate			
Elementary	66.01	74.06	69.84
Secondary	58.72	73.13	65.83
Drop-out Rate			
Elementary	8.44	6.15	7.34
Secondary	16.26	9.96	13.10
Completion Rate			
Elementary	62.94	71.18	66.85
Secondary	52.38	67.46	59.79

1 Data cover both public and private schools. Data on private based on 82.5 percent of processed school profiles.

2 Participation rate refers to the proportion of 7-12 age group (elementary) and 13-16 years old (secondary) who are in school against total population for the same age group. Beginning SY 2002-2003, however, the age groups consist of the 6-11 years old (elementary) and 12-15 years old (secondary) who are in school against total population of the same age group.

Source: Department of Education

An additional 166,000 students also benefited from Tuition Fee Supplement (TFS) scheme in 2002, which was phased out in SY 2003-2004 due to limited budget. Thus, for SY 2003-2004, only second to fourth year qualified students were accepted as grantees under the TFS while for SY 2004-2005, only the third and fourth year TFS grantees will remain in the program.

Other critical school resources for delivering quality education include classrooms, desks/seats, teachers, and textbooks. The resource gap, however, remains wide (Table 18-3), while in terms of school-less barangays only 118 out of the total 1,617 barangays identified in 2001 have no access to elementary education.

While the national ratios may appear sound, the data when disaggregated by division/province showed serious gaps such as classrooms being used by more than 100 children, a two-seater desk shared by three to four children, and a teacher holding a class of 100 or more pupils. In addition, excess teachers in some areas cannot be redeployed to areas with severe shortage because of the Magna Carta for Public School Teachers.

Teacher qualifications remain to be an issue, especially at the secondary education level, both in terms of content and pedagogy. As of SY 2004-2005, only 80 percent of the public secondary teachers teaching math have math majors. In the sciences, 44 percent of Biology teachers are majors in the subject, compared with 34 percent in Chemistry, and 27 in Physics are Physics majors. The other teachers are science generalists. Remedial measures like training in these subject areas were undertaken for non-major teachers who handle science or math classes in the public secondary schools. However, even for teachers who are specialists in these subject areas, the level and quality of subject competency appears to be wanting, too.

Table 18-3 Resource Gap, (Cost in Million Pesos)

Resources	FY 2004						Particulars	National Ratios SY 2002-2003	
	Gaps		GAA		Remaining Backlogs			Elem.	Secondary
	No.	Cost	No.	Cost	No.	Cost			
Classrooms (2-shifts @1:50)	17,873	7,149	5,000	2,000	12,873	5,149	Classroom Pupil Ratio	1:38	1:60
Desks/Seats	3.9M	2,340	750K	450	3.15	1,890	Classroom-Seat Ratio		
Textbooks	34.7M	1,735	10.2M	555	24.5	1,180	Textbook-Pupil Ratio	1:4	1:3
Teacher Items @ 1:50	20,113	3,401	10,000	1,691	10,113	1,710	Teacher-Pupil Ratio	1:36	1:40
Total Cost		14,625		10,289		4,454			

Source: Department of Education

Assumptions: Total needs data are culled from the table under section on Closing the Classroom Gap, and considers backlogs plus incremental requirements. A classroom would cost PhP400K per unit.

II. GOALS, STRATEGIES AND ACTION PLANS

The government needs to harness the participation of all strategic partners in basic education service delivery – the private sector, NGOs, civil society groups, LGUs and other concerned sectors to meet the needs of ECCD and basic education. At the same time, the education sector has to capitalize on the opportunities offered by information and communications technology (ICT). Learning resources located within and outside the country can be accessed through ICT and made available through formal and nonformal learning centers.

Basic education should be anchored on Education for All global movement and Millennium Development Goals. To achieve this, the government must deliver quality basic education, provide more resources to schools to widen coverage and improve the management of operations of the public school system.

In terms of quality, the desired sector performances are 96.60 percent functional literacy among population aged 15 to 25 years old by 2010 and 93.10 percent among 15-year-olds and above. For each education level, the targets desired are illustrated in Table 18-4.

Greater support from the primary stakeholders – the principal, teachers, students, youth, parents and the community as well as the higher administrative level -- should be given to the focus of educational development, which is the school, where actual teaching-learning process takes place. School may either be the formal school, the learning center, the Madrasah, or the school for indigenous peoples

In doing so, preservice education of teachers should also be given attention. The DepEd should be directly accountable to the capacity and outcomes of preservice education, including its content, methodology and development. To effect a comprehensive quality assurance, DepEd in collaboration with Teacher Education Institutions (TEIs), should promote a well-designed and unified preservice-inservice educational program dovetailed to the actual needs of schools, teachers and managers.

Further, in the era of internationally-shared human resources and the existence of the so-called digital divide, the educational system has to be properly equipped to make products of the educational system more globally competitive.

Table 18-4 Early Childhood and Basic Education Plan Targets, 2005 and 2010 (in %)

Indicator	Baseline 2002	Indicative Target	
		2005	2010
Early Childhood Education			
1. Gross Enrolment Rate (public and private. SY 03-04) Day care centers (1,392,268: 23.73%) Pre-schools: public (408,596: 10.37%)	77	80	100
2. Percentage of Accredited ECE Providers/Workers Percentage of accredited DCC (23,665) Percentage of accredited DCW (23,610)	55.80 55	71 70	86 85
3. Percentage of pre-school teachers having attained the required academic qualification	100		100
Formal Basic Education			
4 Net Intake Rate in Grade I Public (6 yrs old) Private (7 yrs old) Public & private (6 yrs old)	n.a. n.a. 47.10	n.a. n.a. 52.38	n.a. n.a. 61.19
5 Net Enrolment Ratio Elementary (6 – 11 yrs old) Secondary (12 – 15 yrs old)	90.05 58.03	91.02 67.48	93.01 83.73
6. Cohort Survival Ratio Elementary (Grade 6) Secondary (Year 4)	69.84 65.83	73 67.96	78 71.51
7 Drop Out Rate (School leavers Rate) Elementary Secondary	7.34 13.10	5.52 11.24	4.32 8.14

Source: Department of Education

A. Early Childhood Education

Early childhood education (ECE) is the first crucial step in enhancing pupil learning and memory retention, especially in the early grades of elementary education. Studies have shown that children who have gone through ECE are less inclined to drop out of school, have lesser tardiness and absenteeism, and participate more actively in school activities.

Based on Republic Act (RA) 8980 or the ECCD Act, the ECCD Curriculum focuses on the children's development according to their individual physical needs and sociocultural background. The DepEd sets the standards for the curriculum, staff requirements and physical facilities for the operation of pre-schools, as well as requirements for registration. The Department of Social Welfare and Development (DSWD), for its part, looks after accreditation and standards setting for ECCD centers, programs and services catering to children four years old and below. Executive Order No. 249 established the Council for the Welfare of Children–National ECCD Coordinating Council as the institutional machinery that coordinates the implementation of the early childhood education program and ensuring collaboration among DSWD, DepEd, Department of Health (DOH), NGOs, and LGUs.

For the medium term, the following shall be fulfilled:

- a. Preschool as a prerequisite to Grade 1 and a part of the education ladder;

- b. The present barangay day care centers, established by every LGU, to provide ECE services;
- c. The present coverage of organized ECCD programs to expand to reach all five-year-old children, with priority to children of poorest households;
- d. LGUs and NGOs to closely coordinate for an effective standardized day care instruction;
- e. DepEd to adopt the Standard School Readiness Assessment (ECCD Checklist and School Readiness Tool). The ECCD Checklist I identifies developmental delays of a child for appropriate early intervention and monitor a child's development in seven domains – gross motor skill, fine motor skill, self-help, receptive language, expressive language, cognitive skill, and social and emotional coping skill. The DepEd School Readiness Tool, on the other hand, measures the cognitive and mental functioning of the child and covers three subject areas: reading, writing and mathematics;
- f. The ECCD Law to be further reviewed and amended;
- g. ECE in Teachers Education curriculum to be adopted by TEIs; and
- h. DepEd together with DOH and LGUs to improve the health and nutritional status of children in the public day care centers and pre-schools.

B. Closing the classroom gap

At present, public schools have overcrowded classrooms, an environment that is conducive to teaching and learning.

Some schools address the problem of overcrowding by resorting to multiple shifting of classes and alternative delivery modes of formal basic education like home study. DepEd also subsidizes secondary students in private high schools through service contracting schemes under the GASTPE Program. It also optimizes nonschool-based delivery of basic education services such as alternative learning strategies and the vigorous implementation of its literacy programs, including the Accreditation and Equivalency Program.

Closing the classroom gap entails the following measures: (a) construction of at least 6,000 classrooms annually; (b) adoption of double or multi-shift classes; and (c) providing high school students scholarships or financial assistance to study in private schools. The indicative targets for the plan period are shown in Table 17.6:

1. Enhanced School Building Program

DepEd, the Department of Public Works and Highways (DPWH), other national government agencies and LGUs shall work together to produce adequate number of school buildings.

The construction and rehabilitation of school buildings shall be facilitated through DepEd's regular School Building Program, the school building program of DepEd with the Department of Trade and Industry's (DTI) National Development Corporation, the Department of Labor and Employment's (DOLE) Classrooms *Galing sa Mamayang Pilipino* Abroad, existing ODA programs such as the WB's TEEP Asian Development Bank-assisted Secondary Education Development and Improvement Project, EFIP, and leading private sector initiatives such as Adopt-A-School Program and *Brigada Eskwela*.

Other possible sources of financing that may be tapped include: (a) RA No. 7177 for tobacco producing areas; (b) Natural Wealth Funds for areas with claims; (c) Priority Development Assistance Funds; (d) Calamity Funds for areas affected by natural-and man-made calamities;

Table 18-5 Number of Classrooms Programmed for Building

	SCHOOL YEAR					
	2004- 2005	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	2009 - 2010
Enrolment	17,362,093	17,652,992	17,987,991	18,350,080	18,733,112	19,136,921
Shortage at the beginning of the SY	17,873	8,684	3,203	1,150	0	0
Class size	50	50	50	50	50	50
Requirements due to enrolment increment	3,233	3,515	4,438	4,499	4,509	4,955
Classrooms to be provided	7,422	7,996	5,491	4,875	4,746	4,490
Regular SBP ^{1/}	10,000	4,785	4,579	4,445	4,316	4,190
FAPS (TEEP & SEDIP)	1,901	2,112	496	0	0	0
Other SBPs	521	1,099	416	430	430	300
Expansion of GASTPE-ESC		1,000	1,000	1,000	1,000	1,000
Shortage at the end of the SY (@ 2 shifts)	8,684	3,203	1,150	0	0	0
Inflation rate		4.5%	4.5%	3.0%	3.0%	3.0%
Cost per classroom (in thousand pesos)	400,000.00	418,000.00	436,810.00	449,914.00	463,411.00	477,313.00
Funding reqts., Regular SBP (in million pesos)	2,000.00	2,000.13	2,000.15	1,999.87	2,000.08	1,999.94
Funding requirement for the remaining shortage at the end of the school year (in million pesos)	3473.6	0.00	0.00	0.00	0.00	0.00

1/ For SY 2004 – 2005 the programmed number of classrooms is increased by 5,000 units to include FY 2003 program which has been funded but implemented only in 2004

Source: Department of Education

(e) local gGovernment funds such as Special Education Fund and General Fund; and (f) private sector funds such as the *Bayanihan* Fund, the Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc. (FFCCCII), Build-Operate-Transfer/Build-Lease-Transfer Financing Schemes; and *Gawad Kalinga*.

The costs of classroom construction and rehabilitation works shall be reduced by:

- Modifying building specifications and design without sacrificing structural integrity;
- Engaging the services of private sector and NGOs such as (FFCCCII) to build government-funded school projects at a lower cost; and
- Expanding construction undertaken by administration (i.e., DepEd, Armed Forces of the Philippines, and LGUs).

In view of the growing space constraints and land titling problems of schools, the School Building Program shall promote school land use planning to ensure long-term sustainable environments.

The priority areas for construction of new school buildings, which are slated for LGU funding are enumerated in the Annex.

Once the classroom gap is fully addressed, the DepEd funds for school building construction and repair will be used to build science rooms/laboratories, multipurpose workshops, libraries, toilets, and water facilities.

Two policy reforms will be pursued:

- Amendments to RA No. 7880 (Fair and Equitable Access to Education Act of 1994), which is necessary to allow the construction of school buildings by entities other than DPWH and permit completion of all construction activities before classes start in June of every year. Greater weight should be given to classroom shortage, from the current 20 percent to 70 percent while the weight for student population should be dropped from 50 percent to 20 percent.
- Insertion of a clause in the General Appropriations Act for flexible use of the school building program funds for GASTPE activities and other expenses usually covered under MOOE such as in cases when providing transport service to students to bring them to nearby schools with excess classrooms and teachers is needed more than constructing classrooms. This also applies to schools with high classrooms shortages but with limited space for building new structures.

2. *Adoption of Double Shift Classes*

DepEd shall employ double-shift classes to the extent practicable, which can bring down the classroom gap to 1,150 units by the beginning of SY 2006–2007 and have it closed by SY 2007 - 2008. Available classrooms and teachers will be maximized, with DepEd providing electricity and security expenses. DepEd shall also tap both public (LGUs) and private institutions in financing the hiring of buses that will ferry students from underserved areas or overcrowded schools to the nearest public schools with excess classrooms and teachers.

3. *Expansion of Educational Subcontracting Program and Provision of Scholarship and Financial Assistance Programs for High School Students*

According to the Fund for Assistance to Private Education, the private school system can still accommodate 250,000 students or about 5,000 classes with 50 students to a class, which will reduce the need to construct new classrooms, hire new teachers, provide new textbooks and furniture, and request for additional school MOOE.

In addition to the existing student grantees under the ESC scheme (330,000 in SY 2004-2005 for ESC), an additional 50,000 students yearly from 2005 to 2010 shall be covered. The current GASTPE law will also be amended to make it more relevant.

DepEd shall work with local government executives, members of the House of Representatives and the Senate to provide scholarship and education assistance to high school students from their respective localities. Further, the private sector, NGOs and individuals shall be tapped to grant scholarships to children, particularly for qualified gifted and differently-abled elementary and high school students in Special Education schools, madaris and Indigenous Peoples (IP) learning centers.

C. *Installing distance learning system in conflict-affected areas*

Distance learning is an alternative mode proven to be an effective means of reaching out to children in difficult circumstances, particularly those in conflict-affected areas and school drop outs, who if not provided an alternative mode, will not only bring down participation and cohort survival rates but also worsen the quality of life. Cooperation from the LGUs, NGOs, and conflicting parties is vital in providing continuous learning opportunities for both in-school and out-of-school learners.

To facilitate this, the following activities shall be carried out:

- a. DepEd shall expand its existing Strong Republic Schools - Distance Learning Program, media-based instruction and computer-assisted learning program;
- b. Alternative delivery modes of schooling like the In-School and Out-School Adults or ISOSA program, mobile teaching, multigrade teaching and distance teaching shall also be institutionalized. The Project IMPACT (Instructional Management by Parents, Community and Teachers) catering to areas with overcrowded classrooms and teacher shortage shall be expanded;
- c. DepEd shall also institutionalize Special Education programs and establish functional networking with other distance learning providers;
- d. Schools shall be adopted as zones of peace and activities will build on the experiences and advocacy efforts of the UNICEF-assisted Country Program for Children and the Office of the Presidential Adviser for Peace Process in their peace education and educational innovations for conflict areas; and
- d. The FLEMMS shall be conducted every five years to monitor the country's progress on functional literacy, particularly in conflict areas and generate adequate information needed in improving functional literacy.

4. *Upgrading Mathematics, Science, and English Teaching and Learning in Formal Basic Education*

Mathematics, science and English are foundation subjects for lifelong learning. These help systematically analyze, and share ideas and knowledge necessary for further self-development and work.

The quality of basic education graduates is determined by the adequacy and quality of the basic education curriculum and teachers, and the capacity of schools to adopt new instruction technologies. For the next six years, efforts shall be focused on the following:

- a. Upgrade the Formal Basic Education curriculum

The secondary level curriculum shall be revised to complement the adjustments in the revised elementary education curricula. The new curriculum shall include the following subjects/contents: (a) integrative science (applications/integration of physics, chemistry, biology and earth sciences, including history of science and the contributions of Filipino scientists and technologists in the development of Philippine and world science and technology); (b) applied mathematics (application of mathematics in physics, chemistry and biology, business and logical thinking/reasoning); (c) communication skills (competence in the spoken and written language, business English, argumentation and debate in Filipino, group discussion, and oral presentation; and (d) career/work exposure (work ethics, vocational/job counseling and seminars, plant/office visits, trends in the job market in the various trades and professions, job prospecting and application, supervised personal career planning, and entrepreneurial possibilities and skills, including agricultural skills and other life skills not included in the existing values formation curricula).

DepEd shall provide basic science equipment, and textbooks and other instructional materials to facilitate the teaching-learning process, as well as support the initiatives of the National Book Development Board in improving the textbook development, publishing and printing capacities of the private sector and other devices to public schools to make the teaching-learning experience more meaningful to both teachers and students.

Likewise, DepEd shall establish a quality assurance system to ensure continuous efforts towards quality education and sustaining the initiatives.

The Department of Science and Technology or DOST and Philippine Science High School will lead in the development of the Philippine Science Digital School (PSDS). The PSDS is an e-facility envisioned to: (a) develop and implementation of e-learning modules for special, regular and remedial courses in science, mathematics and English in high schools; (b) e-training for science and math teachers; (c) preservice education and training; (d) assessment and achievement and testing; and (e) testing and certification online.

b. Upgrade the Quality of Science, Math and English Teachers

DepEd shall work to improve inservice training of teachers, which includes education technology. Upgrading of teacher competence in instructional supervision shall be extended to IP learning centers and the madaris in the Autonomous Region of Muslim Mindanao and other geographical areas with substantial IP and Muslim communities.

The DOST-Science Education Institute (SEI) shall strengthen the capabilities of TEIs by providing scholarships for Ph.D. in Science Education to 140 faculty members and MA in Education major in Science Education to 25 faculty members of the Regional Science Teaching Centers and other identified tertiary institutions. Moreover, it shall provide e-training for 450 science and math teachers annually.

The DOST-SEI shall conduct training for 1,250 science and math teachers under project MUST or Mindanao Upgrading for Science Teachers; and 1,050 science and math teachers annually under project CARE or Capability Building for Rural Enhancement. DOST-SEI will also develop 10 science and math teaching modules each for different grades and year levels for teachers' use.

c. Utilize existing good practices/models

DepEd shall expand and use the teaching innovations used in BEAM, SEDIP and TEEP, as well as other programs and projects. Further, partnership with private providers focused on niche subject matter expertise such as Kumon for math and call center institutes for English shall also be established.

DOST-SEI shall provide public and private schools with inventory of available science materials from DOST, which these schools may wish to replicate or adopt.

5. *Institutionalization of a More Focused Values Formation Program in Basic Education*

Values education, in schools and through other learning programs and channels, is a potent tool in developing learners into responsible and productive citizens. Widely accepted values such as cultural liberty, peace, and gender equity have helped enhance people's lives and freedoms, and should form part of the total learning in all education levels.

To maximize its full potential, the delivery and content of values education should be assessed and improved. Modules cutting across peace, cultural heritage, human rights, gender equity/equality, environment and other concerns that are strongly linked with values and the achievement of development goals should be crafted. This will be important in adopting a 'comparative' approach in values education. Acquiring

knowledge about our similarities and differences in world views is vital in the promotion of a sense of nationhood and respect for diversity.

Within this framework, the following strategies shall be pursued:

a. Values Formation in Day Care, Pre-School, Elementary and Secondary

Values education will be given emphasis in the day care and preschool curriculum, as well as secondary curriculum. Values formation in elementary and high school shall be carried out as a distinct subject area and reinforced at home through the Parent-Teacher-Community Association. , Table 18-6 shows the core values to be integrated in the curriculum.

Table 18-6 Core Values in the Curriculum

Day Care Center	Pre-School	Elementary Education	Secondary Education
Self-respect and self-esteem	Self-respect and self-esteem	Valuing self	Valuing Others
Love of family and respect for elders	Obedience to elders	Respect for Country	Respect for others and rule of law
Honesty, perseverance, resourcefulness	Honesty	Truthfulness	Fortitude; Integrity
	Discernment between right and wrong	Respect for life	Humility
	Loyalty	Responsibility	Social Responsibility
		Independence	Economic Responsibility
Sharing and Cooperation	Sharing and Cooperation	Equality	Temperance
Love of God and Country	Love of God and country	Love of God and country	Spirituality
Cleanliness of surroundings	Environment consciousness	Environment consciousness	Peace
Sharing/Thrift/Frugality	Sharing/Thrift/Frugality	Sharing/Thrift/Frugality	Sharing/Thrift/Frugality

b. Values Formation as core content of teacher education and training

DepEd shall train teachers on the 'revised' values education modules and encourage optional religious instruction in public schools.

c. Values Formation Utilizing Media and Sports

The use of mass media/communication is an integral part of the alternative learning system so development of information/communication/mass media materials that can inculcate positive values, including the non-stereotyped portrayal of women and men, among the youth, shall be pursued.

As a support strategy in the holistic development of the children and the youth, DepEd shall pursue more vigorously the implementation of other school programs such as arts, culture, school sports, drug abuse prevention and HIV/AIDS education.

In particular, the Philippine Sports Commission, along with other education institutions, shall

institutionalize sports as a channel of values formation and inculcate not just medal orientation in sports competitions but more importantly emphasize vibrant, healthy and disciplined citizenry.

6. *Providing and Connecting Computers in Every Public High School for Teaching and Learning*

To enhance school learning environment and minimize the digital divide, wider computer use in schools to support teaching-learning processes shall be encouraged.

The program between the DTI and DepEd in providing computer laboratories in every public secondary school will be continued. At present, about 80 percent of public secondary schools have computer under the DepEd Computerization Program. The private sector's Adopt-a-School Program is also expected to assist in providing all public secondary schools with at least a computer. By 2010, 100 percent of public secondary schools shall have computers.

The DOST-SEI, for its part, shall: (a) provide one server and connectivity to 20 schools, which can solicit from 10 to 15 functioning computers annually; and (b) provide one server and 10 to 15 client computers with connectivity to 10 schools also annually. The Commission on Information and Communication Technology shall also lead in connecting computers and in providing internet services to the public high schools.

7. *Continuing the Implementation of the Optional High School Bridge Program*

The High School Bridge program enhances the readiness of elementary school graduates for secondary education. Beginning SY 2004-2005, students planning to enroll for first year in public high schools will have to take a placement or readiness test. Based on the results of the test, they will either take the existing first year high school curriculum or opt a five-year bridge curriculum focused on English, science and math. In the medium term, the following will be pursued:

- The Bridge program will be optional for elementary school graduates to address the problem of learning gaps;
- A more intensive information dissemination on the advantages with regard to the learning capabilities of students will be conducted;
- The present diagnostic test shall be reviewed and revised to ensure its effectiveness as an education outcome assessment tool; and
- Diagnostic tests shall be administered annually to all potential enrollees to public high schools except science high schools, which have their own screening process.

8. *Strengthening Madrasah Education*

The adequacy and quality of basic education offered in madaris vary and do not always conform to the general standards that will enable learners to pursue further education. To improve the quality of basic education in madaris, the following shall be undertaken during the Plan period:

- Formulate and implement a standard curriculum for madaris that is culturally-sensitive, gender-responsive and rights-based, and appropriate for the Muslim population based not only in Mindanao, but also in other areas in the country where there are significant Muslim populations.;
- Develop and produce instructional materials for the standard curriculum;
- Train madaris teachers and supervisors on the delivery and assessment of the standard curriculum,

- especially with regard to improving the English language skills; and
- In collaboration with all stakeholders, prepare and implement a catch up plan for madaris students to enable them to actively participate in societal development.

9. *Strengthening Indigenous Peoples Education*

With DepEd, the National Commission on Indigenous Peoples and other concerned institutions in the forefront, the IPs' right to cultural integrity, social justice and human rights, and right to self-governance and management will be met through the following undertakings::

- Develop and promote a curriculum that will preserve the cultural heritage of the indigenous cultural communities/peoples;
- Produce instructional materials and train the teachers in IP schools on the use and requirements of the indigenous curriculum;
- Include IP materials/documents in public school libraries to permit information sharing/exchange between cultures; and
- Accommodate IP students in all programs for children/students e.g., GASTPE, health and nutrition, arts and school sports and their teachers in in-service training programs.

10. *Promoting School-Based Management*

All policy initiatives and program interventions in basic education depend mainly on the ability of the schools to make good use of these resources in imparting knowledge to the students. Within this framework, DepEd, in collaboration with all stakeholders in education, shall:

- Develop interventions to make schools continuously perform better through improved teaching processes and greater support from parents, LGUs and community organizations;
- Encourage the schools to undertake self-evaluation, formulate their own improvement plans, and determine the kinds and sources of resources required to improve learning; and
- Continue to reengineer its systems and procedures to maximize the benefits that will go to the schools, e.g., procurement of goods and services, financial management, payroll services, teacher welfare, health and nutrition, alternative learning programs and management information system.

11. *Upgrading the Quality of Preservice Teacher Education and Providing Continuum With Inservice Training*

Preservice education of teachers is a key to achieving sustainable quality basic education. Since DepEd has the biggest stakes in teachers' preservice program, it should demand for more rigorous classroom-based training for future teachers. The DepEd shall pursue the following the next six years of the Plan period:

- a) Commission on Higher Education (CHED) to formulate a unified teacher training approach that will put in place a demand-driven teacher education program with public school as laboratories for extensive internship program;
- b) Get involved in the selection, qualification through training those who will enter the teaching profession and prescribe standards for TEIs, as well as institute a quality assurance mechanism for incoming teachers; and
- c) Institutionalize the Teacher Induction Program in the division and school levels of DepEd and promote the welfare of teachers and teaching-related personnel.

Policy reforms such as the amendments to the Localization Law regarding placement/transfer of teachers; and removal of mandatory election duties from teachers to enable them to devote more time for their teaching duties and minimize political interventions in education shall be instituted.

12. *Rationalization of the Basic Education Budget*

The budget for basic education should consider enrolment growth, as well as inflation to arrest the decline in real per capita spending. The following strategies for financing educational development in the next six years shall be considered:

- a) Fiscal reforms in education to generate substantial savings and attain long-term efficiency and quality;
- b) Well-proven cost-saving educational innovations to promote both quality improvements and broader access in areas where there are serious classroom shortage, lack of teachers and other basic educational inputs;
- c) Multiyear educational planning to determine the operational feasibility and financial viability of the priority educational services that will be purchased from qualified private providers as part of the annual budgetary and expenditure programs. Thereafter, the DepEd shall periodically monitor the academic outcomes and financial impact of the purchased services to further rationalize its resource allocation and academic programs. To attract the most qualified providers, the DepEd shall adequately publicize at the national and subnational levels the details of the program that require participation of private providers. Every contract for priority services shall be good for two years subject to renewal upon submission of documented proof of good performance or educational impacts of the purchased services; and
- d) Normative financing to rationalize education finance and enhance institutional accountability. The scheme will ensure the freeing of existing resources to deserving beneficiaries. This system involves per capita cost estimation and payments, which will, in the long-run, make education resource allocation more systematic and efficient. In basic education, the school budget shall be tied to performance, size of enrolment and classes and other quantitative and qualitative objectives. This will greatly boost school-based management and school-initiated efforts for quality assurance.

TECHNICAL VOCATIONAL EDUCATION AND TRAINING (TVET)

I. SITUATIONER

Technical Vocational Education and Training (TVET) are carried out through both formal and nonformal means. Latest data showed that the provision of TVET through formal means is dominated by the private sector (82%). The exact opposite could be observed in terms of nonschool-based training with publicly-funded institutions accounting for 64 percent of all providers. There are about 2,045 private institutions/centers and 1,353 publicly funded TVET. These comprise the total TVET delivery network that includes higher education institutions, industry-based training centers, NGO-based training centers, LGU-based training centers as well as schools and training centers supervised by the Technical Education and Skills Development Authority (TESDA).

Private institutions account for about 80 percent of total enrolment in formal TVET financed almost exclusively by tuition fees and endowment income, with minimal government subsidy.

From more than 286,000 in 2001, school-based TVET enrolment rose to about 439,000 in 2002 and reached almost 492,000 in 2003. Enrolment of community-based training programs also accounted for the bulk of training outputs almost 600,000 enrollees the past two years.

Following the envisioned devolution to the private sector, many industrial associations and large firms provide training for their members as well as “work experience” to a vast number of graduates of TVET. While this is helpful, the work experience is often not well-related to the occupation for which trainees have been trained.

In terms of performance and job absorption of TVET graduates, the 2002 Graduate Tracer Study conducted by TESDA revealed the following: (a) employment rate of graduates was at 58.28 percent for training center graduates, 67.73 percent for TESDA schools and 57.6 percent for private institutions; (b) In terms of skills utilization rate or proportion of trainees actually employed in jobs related to their training, training centers registered 80.04 percent, TESDA schools, 83.24 percent and private Technical Vocational Institutes (TVIs), 77.46 percent; and (c) assessment and certification aimed to measure the acquired competencies of workers in terms of skills, knowledge, attitudes and values showed went down to 49 percent in 2002 from a record high of almost 80 percent and to 47 percent last year in 2001 and 2003, respectively.

Table 18-7 Middle-Level Skills Development Indicators, 2003

Program Indicators	Male	Female	Total
A. TVET Enrolment and Graduates			
• School-Based Programs			
Enrolment	249,071	242,775	491,846
Graduates	121,433	114,793	236,226
• Center-Based			
Enrolment	46,184	16,973	63,157
Graduates	46,314	14,677	60,991
• Community-Based			
Enrolment	236,760	331,018	567,778
Graduates	227,937	313,383	541,927
• Enterprise-Based			
Enrolment	23,437	42,018	65,455
Graduates	17,286	25,294	42,580
• Others			
Enrolment	57,986	71,866	129,852
Graduates	59,927	65,517	215,444
B. Assessment and Certification			
Number of Persons Assessed	138,109	55,052	232,062
Number of Persons Certified	66,223	19,843	109,468
Certification Rate (in %)	47.9	36.0	47.2
C. Number of TVET Providers			
Public			3,397
Private			1,352
			2,045
D. Number of TVET Programs Registered^a	10,786 TVET programs		
E. Scholarships and Other Student Assistance Programs			
PESFA Scholars ¹	13,780 filled slots for SY 2003-2004		
TESDP-ADB	5,109 slots for SY 2003-2004		
Iskolar ng Mahirap na Pamilya	1,979 Certificates of Educational Assistance (CEAs) awarded for use in SY 2005-2006		

Source: TESDA

^aData is cumulative from 2000 to 1st semester 2004

Education

To address the problem of equity and access to quality technical-vocational education and training, TESDA has been implementing scholarships and other student financial assistance programs such as the Private Education Student Financial Assistance (PESFA) and the ADB-TESDP or Technical Education and Skills Development Project scholarship programs. Since SY 1999-2000, PESFA has been providing scholarship assistance to 13,800 grantees annually. On the other hand, ADB-TESDP had 4,048 slots in SY 2002-2003 and 5,109 slots for SY 2003-2005. The ADB-TESDP scholarship program targets 20,000 student-beneficiaries for the entire project duration.

As part of its quality assurance mechanism, TESDA registered all TVET course offerings to ensure that the programs meet the minimum standards as defined by the industry. Figures showed that registered programs have been steadily rising and more than 10,000 TVET programs have already been registered nationwide despite nonregistration of TVET programs in most state universities and colleges. Program accreditation, which is in line with the Philippine TVET Quality Award that grants progressive levels of accreditation produced modest results. Five institutions had been granted Bronze-level accreditation or Commitment Level in 2003 and another 23 during the first quarter of 2004. This brought the number of Bronze-level accredited institutions to 28. It is expected that more institutions would follow soon.

CHALLENGES

TVET is faced with several challenges that need careful scrutiny and attention. Some of the issues that the sector must look into include the following::

1. *Societal bias against TVET*

A 1991 report by the Congressional Commission on Education showed that societal bias and stigma had been attached to TVET. This was further validated by an ADB/International Bank for Reconstruction and Development Education Sector study conducted by Richard Johanson in 1998. Filipino families, whether rich or poor, aspire that their children be able to finish college and technical vocational education is only for the less academically-inclined. The now defunct National College Entrance Examinations even helped abet this perception. People associated TVET occupations to the performance of jobs that are dirty, difficult, dangerous and is less glamorous compared with white-collar professions. Likewise, a TVET career is generalized to be less rewarding in terms of compensation packages and even societal recognition. The lack of equivalency between TVET and higher education also contributed to the bias against TVET.

2. *Absence of direct link between technical-vocational education and training and higher education*

Filipinos view TVET education as a “dead-end” where career usually stagnates and career growth is hampered by lack of the requisite educational qualifications. To counter this perception, a ladderized interface between TVET courses and college degrees to cater to the varying needs of students and promote upward academic mobility. With ladderized education in place, an individual can acquire vocational skills and training; get a job and proceed to college while working with college credits for subjects/competencies acquired in TVET.

Even TVET schools and higher education institutions experience difficulty in establishing linkage as both TESDA and CHED apply different systems of reviewing the programs of the institutions. They also vary in the measurement of program standards. As such, there is a felt need to come up with a harmonized mechanism whereby TVET programs could earn credits to college education.

3. *Need for measuring the aptitudes of the youths*

There is a need to guide high school graduates on what college course to pursue after graduation. Usually decisions on this matter are made by families based on hunches, gut feel, what seems to be popular and attractive, and devoid of proper guidance. Thus, students end up enrolling in courses that do not fit their aptitudes, leading to dropping out or shifting of course, both of which are wasteful. A survey that would map out the capabilities and competencies of the students would be useful in career guidance and counseling to help parents and students in what career to pursue after high school.

4. *Existence of labor market demand-supply mismatches*

Another major challenge is the problem on skills demand-supply mismatches. There are a large numbers of trained graduates who are left unemployed or underemployed because they do not fit the requirements of the job market. It is quite ironic that a number of job vacancies could not be filled up because the available manpower supply would not fit the job, as confirmed by a Graduate Tracer Study conducted by TESDA in 2002. Results showed that employment rate of TVET graduates is rather low at 58.28 percent for training center graduates, 67.73 percent for TESDA schools and 57.6 percent for private institutions. Likewise, employed graduates are not able to utilize the skills that they learned, as they are employed in jobs where they are not trained. Skill utilization rate was reported at 80.04 percent, 83.24 percent and 77.46 percent for graduates of training centers, TESDA schools and private TVET institutions, respectively.

Appropriate matching processes must be worked out to mitigate the problem of unemployment and underemployment. TVET programs and services should concentrate on skill-specific one-year certificate programs and/or two-to-three year diploma programs, with adequate enterprise-based exposure and whose graduates are highly employable.

5. *Need for more responsive TVET investments*

Investments in middle-level skills development has remained too focused on direct training provision by national government, which delayed the long-intended devolution to LGUs and private sector. To optimize the use of public investments, there is a need to realign TVET programs to focus only on programs with high market absorption rate.

II. **GOALS, STRATEGIES AND ACTION PLANS**

Overcoming the societal bias against TVET requires a proactive approach that will redound to immediate benefits to TVET graduates, i.e., immediate employment in jobs where they are trained for. The key strategies towards this end are as follows:

1. *New Way Ni PGMA: Ladderized Interface between TVET and Higher Education*

Earning a diploma does not automatically land a graduate a job. While around 300,000 students graduate with college degrees annually, there is no guarantee that they will find jobs for which they have been trained. A dynamic post-basic education and training program such as the ladderized system of education may yet provide the avenue for continuous improvement (lifelong learning) without hampering students, especially TVET graduates.

Education

The ladderized system will allow graduates of TVIs to pursue higher educational courses offered in colleges and universities without having to lose credit of what they have already earned or completed. They could pursue higher education if they so desire without having to start all over again as appropriate credits will be given to their one to two years of TVET education.

Executive Order (EO) No. 358 issued by the President on September 15, 2004 provides the mechanism to bridge the gap between TVET education and higher education. The EO mandates TESDA and CHED in consultation with concerned sectors to develop and implement a unified national qualifications framework. This would establish a ladderized system that would allow easier transition and progression between TVET and higher education. The framework shall encompass various unified qualification and articulation mechanisms to include: National System of Credit Transfer, Post-TVET Bridging Programs, System of Enhanced Equivalency, Adoption of Ladderized Curricula/ Programs, Modularized Program Approach, Competency-Based Programs, Network of Dual-Sector Colleges or Universities and Accreditation of Prior Learning, among others.

To institutionalize the ladderized system, the following activities will be implemented:

- Adopt the broad framework of the Philippine National Qualifications Framework that would establish equivalency pathways and access ramps for easier access and progression between TVET and higher education;
- Determine/define the appropriate descriptors for TVET and higher education;
- Develop curricular and evaluation systems;
- Accelerate the implementation of Recognition of Prior Learning;
- Develop equivalency system; and
- Establish the Polytechnic System.

2. Scholarship and Other Student Assistance Programs

Broader access to education and training opportunities to qualified clientele can be attained through more scholarships and other student assistance programs, including the tendering scheme or the jobs-directed scholarships. These opportunities shall be directed in occupational areas where there are high demands for workers.

Relatively, TESDA shall provide scholarship slots/financial/assistance to deserving students through:

- *Iskolar ng Mahirap na Pamilya*, a program with 1,979 Certificates of Education Assistance in 2004 that could be utilized in 2005;
- PESFA that provides 13,800 slots for 2005; and 34,500 for 2006-2010;
- Education assistance grants to students under the ADB-assisted–TESDP with 10,218 grants for 2005-2006;
- Education loan assistance to TVET students under the TESDA Student Loan Fund with 1,713 loan assistance slots for 2005-2006; and
- Tendering Scheme to be fully implemented for programs in demand to private education institutions. The government shall shy away from offering programs also offered by the private sector. In essence, government resources will be channeled to areas where efficiency and effectiveness is greater.

3. *Improving the Quality of TVET*

For the Philippines to maintain its competitive advantage in manpower resources, it should produce workers who are endowed not only with the requisite skills and knowledge but more so with the right attitudes and work values. To achieve this, improving the TVET system, standards and quality of TVET Programs shall be pursued.

TVET curricula shall be regularly reviewed and revised to strengthen foundation skills such as communication skills, including quality and productivity skills, computer literacy, problem-solving skills, and even entrepreneurship skills.

Science, math and language content of TVET will be enhanced to develop knowledge-based technicians who will help fuel the country's industry competitiveness. Curricula that shall promote non-traditional trades and jobs for both women and men should continue to be enhanced and adjusted to changing labor demands.

Appropriate work values and ethics, and gender-sensitive principles and practices shall be incorporated to TVET curricula. This will lead to the development of workers who are not only skilled but also imbued with positive work values.

For TVET trainers to impart quality training to their students, continuous capacity development is needed to hone their craft. Industry immersion would be a key initiative for the trainers to be kept abreast with the latest trends in systems and technological processes.

The capabilities of the TVET institutions shall be continually improved through better facilities, training materials development and even faculty enhancement. Efforts on training the trainers, installation of top of the line training equipment and development of training aids and materials shall be prioritized to the extent possible. The TVET managers and administrators would be trained and exposed to new trends, concepts, practices and systems of TVET governance.

a. Institutionalization of the Job-Skill Matching Program

The job-skill matching strategy shall be pursued with the assistance of the private sector. Networking and effective gathering of relevant and timely labor market information must be instituted to guide in formulating relevant plans and policies in resource allocation to ensure that scarce government resources for training are directed into priority areas. Industry requirements would weigh heavily in the development of standards and in the design and implementation of TVET programs. Labor market intelligence shall be strengthened at the local, national and even international levels for close monitoring.

The job-skill matching program shall include three important stages: (a) seek jobs in the labor market; (b) find the right people fit for the jobs, and (c) train the right people for available jobs.

- **SEEK Jobs.** This would strengthen TVET subsector's labor market intelligence system through:
 - gathering timely and relevant domestic and international market intelligence;
 - seeking job vacancies from local employers by all possible means;
 - utilizing relevant labor market information to guide programming decisions; and
 - closer working partnerships with industry associations and industry leaders.

- FIND the right people. TESDA and TVET institutions shall search for the right people who satisfy the job requirements through the conduct of appropriate training programs to fit them for the job.

There shall be greater access to the occupational aptitudes of the graduating high school students through the Youth Profile for Starring Career. This program aims to aid the youth and their parents in identifying what type of work will best fit them. The survey will be administered to graduating high school students to determine where they are good at and have good chances of excelling.

- TRAIN people. This would entail the following activities:
 - direct investments of both the government and the private sector for more training to ensure increase in qualifications of Filipino workers both here and abroad;
 - manage public and private providers of quality training for Filipino workers to increase their employability (both wage and self-employment); and
 - implement competency-based system to be more flexible in meeting the demands.

b. Intensifying and expanding enterprise-based training program

Practical and hands-on experience, especially in occupations-related training shall be emphasized through enterprise-based training programs to be provided in the following modes:

- *Kasanayan at Hanapbuhay* Program (An Apprenticeship and Employment Program) that will provide opportunities for new entrants to the labor force to acquire basic skills and work experience—the prime consideration of employers in hiring new employees. A joint undertaking of the DOLE and TESDA, *Kasanayan at Hanapbuhay* will adhere to the principles of the apprenticeship program; and
- Dual Training System (DTS)/ Dualized Training System is a mode of training delivery that takes place alternately in two venues - the school or training center and the company or workshop. This combines theoretical and practical training. This mode of training offers better employability since exposure in the world of work better prepares students for actual employment after graduation. The companies they have trained with are likely to hire them as they have also invested in them and imparted the skills that are necessary for their operations. This program shall be strengthened in this plan period.

c. Intensifying the availability and quality of skills specific training programs; (a) conduct purposive training for requirements of the overseas job market; and (b) encourage English proficiency courses in nondegree/technical education courses to address the high demand skills in ICT (call centers data and medical transcription, software development, animation, engineering design, e-financial shared services).

d. Skills training and competency assessment and certification services must be in the forefront of deliverables to respond to the requirements of the overseas job market. Emerging requisites of the overseas market especially on the need for language proficiency of Filipino workers must be given preferential attention.

e. Increasing workers productivity through competency standards development and assessment and certification program

TESDA, through industry experts and practitioners, shall develop competency standards, assessment and certification instruments to determine the minimum requirements that a worker must possess in terms of knowledge, skills, attitudes and values to effectively perform in a particular occupation. Emphasis shall also be given to increasing the attitudes (KABAITAN) component of the standards.

f. Participation in skills competitions

Skills competitions serve as a good measure for benchmarking the quality of TVET outputs through the performance of contestants as measured against established norms and standards. How they fare relative to the prescribed standards is a good indicator of how the programs are being carried by the various institutions. In the international front like the ASEAN and World Skills Competitions, standings when ranged against the other countries in line with the standards could be determined.

g. Implementation of competency-based TVET system

The Competency-Based TVET (CBTVET) system introduces new learning methodologies. CBTVET envisions an entirely new learning environment where teachers and trainers will be facilitators of learning and would greatly vary from the traditional classroom set-up. On the other hand, the students/trainees would be more independent, productive, dependable, knowledgeable workers, which are the hallmarks of desired workers in this millennium. Added to this, new learning technologies, including the application of alternative and non-traditional ways of learning shall be employed.

h. Negosyong Agrikultura sa Eskwela

Through TESDA's agriculture and fishery schools, income generating projects shall be pursued to allow students to learn skills through the Earn-While You-Learn approach. Training-cum-production approaches with the private sector shall be sustained as an alternative methodology. Idle lands of the TESDA schools will be used for entrepreneurial opportunities of Filipino farmers and students.

i. Resource-based Training for Enterprise Development

Programs that cater to the needs of the communities for skills training on creating livelihood or self-employment opportunities shall be continually developed and be done through the convergence strategy.

j. TVET programs and services for special groups

Aside from providing scholarships and other forms of student assistance, special attention shall be given to differently-abled persons, indigenous people, farmers, fisherfolk, retirees and returning overseas workers. Protection and preservation of traditional crafts of indigenous peoples shall also be pursued through appropriate programs that shall address their peculiar needs. The implementation of the program on Special Zone of Peace and Development in Mindanao will be expedited.

Toward addressing the practical and strategic skill needs of women, the facilities, training tools and equipment of the TESDA Women's Center will be fully utilized to conduct empowerment training programs. Similarly, practical skills training component of the DSWD-initiated Productivity Skills and Capability Building program for disadvantaged women, which was turned over to TESDA on September 14, 2004, will be continued and sustained.

k. Providing computers in TESDA institutions

To enhance school learning environment and minimize the digital divide, TESDA shall establish electronic centers or e-centers in every TESDA school. Through the e-centers, TESDA schools shall be equipped with computer facilities, which instructors and students use technology to increase their capability to learn. Likewise, these e-centers shall also train residents of the community in basic computer literacy and provided them with access to the Internet.

4. *Strengthening TVET Governance*

The governance and management of the TVET lie in both the public and private sectors and other entities for efficient delivery of TVET programs. Co-management arrangements of these institutions can be expanded where the government and specific industry associations may pursue joint TVET initiatives. With this partnership, convergence and pooling of resources would be expedited for more efficient utilization of resources.

5. *Resource Mobilization for Education and Training*

The business of providing TVET is a very costly undertaking. With the dwindling resources of government, mobilizing resources and looking for alternative sources of financing shall be pursued. This strategy will center on strengthening collaboration between and among stakeholders, notably the private sector, NGOs, LGUs, elected government officials and other government agencies in resource mobilization for TVET. Contributions of ODA initiatives in augmenting TVET funding will be also directed to priority areas to obtain maximum results.

HIGHER EDUCATION

I. SITUATIONER

Social demand for higher education remains high but minimal increases were experienced as shown in enrolment data from 2000 to 2003. However, the total number of graduates increased annually by about 5 percent across all disciplines and by 15.4 percent in the priority disciplines, namely, Sciences, Maritime, Medicine and Health-related, Engineering and Technology, Agriculture, Agricultural Engineering, Forestry and Veterinary Medicine and Teacher Education.

The sciences (Chemistry and Geology) and Maritime Education improved in the professional board examinations (passing rates of 57% to 64% and 54% to 55%, respectively). The overall performance of higher education in terms of the average passing percentage across all the disciplines, however, declined over the three-year period from 45.35 percent to 41.71 percent. Graduates of the public higher education institutions (HEIs) registered better performance in the professional board exams compared with the graduates of the privately-owned HEIs (average of 40.9% for public HEIs as against the 38.8% for the

Table 18-8 Higher Education Indicators, 2000-2003

INDICATOR	ACCOMPLISHMENTS			
	2000	2003		
		Male	Female	Total
Enrolment (All Disciplines)	2,430,842	1,095,311	1,363,079	2,448,390
Graduates (All Disciplines)	363,640	167,550 ¹	251,522 ¹	419,072 ¹
Enrolment (Priority Programs) ²	1,440,286	706,038	774,876	1,480,914
Graduates (Priority Programs) ²	209,265	105,741 ¹	135,794 ¹	241,535 ¹
No. of SUCs	108			111
Enrolment (SUCs)	700,199	314,289	422,861	737,150
Graduates (SUCs)	106,083	57,453 ¹	87,848 ¹	145,300 ¹
Average Passing Rate in Board Exams	45.35	n.a.	n.a.	41.71
ETEEAP New Applicants	35	n.a.	n.a.	270
Graduates	160	n.a.	n.a.	193
HEIs with Accredited Programs	152			208
Accredited Programs by Level				
Level I	445			602
Level II	146			161
Level III	-			11
Level IV	-			-
Scholars	44,868	n.a.	n.a.	52,510
Faculty				
% with MA/MS	25.70	n.a.	n.a.	29.88
% with PhD	7.50	n.a.	n.a.	9.21
ICT Facilities				
% of HEIs with internet connections				72
% of HEIs with computers for Academic use				85
Operation use				89

¹Preliminary data²Priority disciplines are Sciences, Maritime, Medicine and Health-related, Engineering and Technology, Agriculture, Agricultural Engineering, Forestry and Veterinary Medicine, and Teacher Education³Based on 2003 Survey of HEIs

n.a. – no data available

Source: Commission on Higher Education education system. The number of graduates under ETEEAP reached 270 in 2003.

private HEIs). This reverses the image of private education's general superiority over the publicly-funded HEIs.

Enrolment in higher education programs of state universities and Colleges (SUCs) increased by 5.3 percent from 700,199 in 2000 to 737,150 in 2003. Overall, SUCs served approximately 30 percent of the total number of higher education students. Graduates produced by SUCs also increased from 106,083 in 2000 to 145,300 in 2003, an increase of 37 percent for the four-year period. The increase is evident in priority programs such as Teacher Education, Engineering and Technology and Agriculture. It is also worth noting that females consistently accounted for the bigger percentage of enrolment and graduates across all disciplines, in the priority disciplines and in the SUCs.

To address the access and equity as well as gender and development issues, CHED has implemented various student scholarship and financial assistance programs, which resulted in substantial increase in the number of recipients from both public and private HEIs from 44,868 in 2000 to 52,510 in 2003.

Education

Another propoor program of CHED, Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP), provides accreditation and equivalency of learning and competencies acquired outside the formal education system. The number of graduates under ETTEAP reached 270 in 2003.

On the quality assurance part, the number of HEIs with accredited programs increased from 160 (11.35 percent of total HEIs) in 2000 to 193 (12.67 percent of total HEIs) in 2003.

Faculty qualifications have improved in terms of percentage of collegiate faculty with masters degrees from 25.7 percent in 2000 to 29.88 percent in 2003. Faculty with doctorate degrees likewise increased from 7.5 percent to 9.21 percent for the same period.

An indicator of how HEIs are electronically or technologically up-to-date, a survey in 2003 showed that 72 percent of HEIs have Internet connection, including 41 percent HEIs that have websites. More than 85 percent have computers for academic purposes and for operations.

CHALLENGES

Improving access to and success in higher education remains a challenge, along with the need to improve the quality of graduates in preparation for future work. The current average passing rate in board examinations suggests poor readiness of a large number of college graduates to take on professional and high-skilled jobs.

CHED and the HEIs take on the responsibility of ensuring quality and relevant instruction, research and extension. Attracting students to priority courses through direct student assistance and scholarships shall likewise be carried out.

The rationalization of the public higher education system in terms of programs, campus locations and resource allocation remains paramount concerns of the subsector. Cost inefficiencies due to duplication of program offerings can be minimized by optimizing the use of available resources and enabling the SUCs to generate internal revenues as a form of financial independence from the government

In relation to increasing demand for broader skills in the knowledge market, the system calls for more sustained efforts to enable both industry and agriculture to assimilate and utilize new and tested knowledge for higher productivity and greater competitiveness.

II. GOALS, STRATEGIES AND ACTION PLANS

For the next six years, efforts will be directed to the following priority strategies:

1. Broadening the access of economically and socially disadvantaged groups to higher education and rechanneling some public resources directly to students to promote greater purchasing power and freedom of choice of educational opportunities;
2. Expanding alternative learning systems/modalities of higher learning;
3. Improving the quality of HEIs, programs and graduates to match the demands of domestic and global markets;
4. Strengthening research and extension activities in HEIs; and

5. Rationalizing governance and financing higher education in a manner that would unleash institutional creativity and entrepreneurship.

1. *Scholarship/Student Financial Assistance Programs for Higher Education*

a. Student study grants or scholarships

Vouchers, expanded scholarships and other student assistance will be considered to broaden access to higher education among disadvantaged sectors. Institutions providing scholarships and other financial assistance shall ensure equal opportunities for men and women, and for urban and rural beneficiaries. LGUs shall be encouraged to continue with their existing scholarships and educational assistance projects, particularly those for disadvantaged and differently-abled constituents. Procedures and eligibility requirements of various scholarship and financial assistance schemes administered by national government agencies shall be disseminated to ensure wider coverage. The national government commits to provide CHED: 42,600 scholarships in priority courses annually.

b. *Iskolar ng Mahirap na Pamilya*

This program will provide opportunity for an indigent family to send one member to post secondary education to pursue a degree course. It shall make available to each grantee PhP10,000 for basic tuition, transportation and food allowance.

c. Student Financial Assistance Program

Under this program, financially handicapped third year, fourth year and graduating students enrolled in CHED priority courses shall be assisted through an accessible interest-free student loan. The loan can be used for tuition and other school fees, books, course projects, thesis writing, board and lodging, graduation fees, and others. Loan repayment will start not later than two years after graduation.

2. *Alternative Learning Systems/Delivery Modes for Higher Education*

Higher education programs via distance learning shall be developed and improved. The coverage of the ETEEAP shall be broadened. Under the ETEEAP, people who have not finished college but have considerable experience and competencies acquired from informal and nonformal provision could earn a degree through accreditation of their prior learning.

Studies and measures shall be undertaken to integrate the madaris into the mainstream higher education system.

3. *Bridging Program to College*

The pre-Baccalaureate system (Pre-Bac) will be introduced to provide sufficient period of college education preparation of secondary education graduates.

This remedial scheme is expected to improve the quality of students entering the higher education system, reduce wastage through college drop-outs and expensive repetitions, and arrest the high rate of noncompletion of degrees by average Filipino college student.

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Curriculum, therefore, shall include support services like career guidance and counseling, teaching of academic coping and socialization skills as well as practical skills like computer literacy and effective communication. Given that a really motivated learner can do this in six months, the Pre-Bac need not be pegged at one-year duration.

Graduating high school students will be required to take a standardized test to determine if they are qualified to go to first year college or enter the pre-baccalaureate level. The learning institutions may also determine, based on the results of the standardized test, whether a student may skip part or all of the pre-Baccalaureate program.

The following activities need to be undertaken by the CHED, in coordination with HEIs, within the medium term to the institutionalize the system:

- Refine the details of the scheme and adopt the pre-Baccalaureate policy;
- Commence the information dissemination campaign for greater social acceptance;
- Develop/pilot test/refine the standardized tests to be used; and
- Develop the curriculum/program of the pre-Baccalaureate program.

4. Articulation of learning and widening mobility among nonformal basic education, TVET and college

A system that would promote the upward academic and social mobility of both the formal education and the Alternative Learning System clientele across basic education, TVET and higher education levels through an open learning system shall be developed. This strategy has previously been described in the section on TVET.

5. Centers of Excellence and Centers of Development

Existing Centers of Excellence/Centers of Development³ (COEs/CODs) shall be sustained and additional centers shall be identified in priority programs and provided support for faculty development, library and laboratory upgrading, research and extension services, instructional programs and materials development and networking. COEs/CODs shall establish linkages with industry to ensure the responsiveness of the programs to the labor market.

6. Values formation in higher education

Values formation shall be incorporated in the Program of Instruction (POI) in the National Service Training Program and other relevant subjects. Specifically, the following values shall be integrated into the POIs --- Faith in the Almighty, Respect for Life, Order, Work, Concern for the Family and Future Generations, Love, Freedom, Peace, Truth, Justice, Unity, Equality, Respect for Law and Government, Patriotism, Promotion of the Common Good and Concern for the Environment.

Studies shall be undertaken and policies, plans and programs shall be formulated and implemented for the development of an indigenous curriculum and preservation of the historical and cultural heritage of the indigenous cultural communities and peoples.

³ COEs/CODs are higher education institutions that demonstrate high level of standards in instruction, research and extension services. There are now 275 COEs/CODs throughout the country. These centers shall serve as models and resource centers for the improvement of other HEIs.

7. Curriculum updating and upgrading

To make higher education curricula more responsive to industry and national development needs, and comparable to international standards. The following activities shall be undertaken:

- Strengthen the Technical Panels – the group of experts composed of representatives from academe, industry and the Professional Regulatory Boards who develop the curricula, standards and guidelines for academic programs;
- Conduct international benchmarking of programs;
- Encourage the use of ICT in the enrichment of teaching and learning; and
- Promote industry-academe linkage.

8. Faculty Development Program

The academic qualifications of university and college teaching faculty in priority fields, including teacher education, social sciences, and health-related disciplines, shall be upgraded through:

- Strengthening of graduate education;
- Provision of scholarship programs to support faculty development; and
- Exchange programs with HEIs in other countries.

9. Quality assurance system

The quality assurance system shall be strengthened by:

- Rationalized regulatory and quality assurance policies and procedures;
- Improved process of accreditation of academic programs and expanding its coverage;
- Promoted accreditation through incentives and financial assistance;
- Improved monitoring and evaluation of HEIs; and
- Phased out and closed of poor quality programs.

10. HEI Research and Extension for Improving Livelihood and Entrepreneurship and Quality of Life in Host Communities

To promote and strengthen research and extension in HEIs, CHED shall:

- Support conduct of research in HEIs;
- Develop research capability building in HEIs;
- Provide a system of rewards and incentives for researchers; and
- Support extension activities and use of research outputs to improve livelihood and entrepreneurship and quality of life, including technology incubation projects.

11. Rationalization of governance and financing of higher education

In the medium term, the following will be pushed within the subsector:

- Rationalize the program offerings of HEIs and develop a typology of HEIs as a guide in operating programs, acquiring university system status, as well as in the creation and conversion of SUCs;

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- Design a normative funding formula in allocating budget for SUCs;
- Provide incentives and technical assistance to identified SUCs with innovative schemes for internally generating revenues;
- Encourage government financial institutions to develop and offer packages of soft loans and grants for HEIs; and
- Rationalize and socialize tuition fee structures of SUCs.

Annex 18

Department of Education (DepED)
Elementary Schools Basic Education Data
Classroom Shortage by School District, School Year 2003-2004

REGION	SCHOOL DIVISION	CLASSROOM SHORTAGE
Region I	Alaminos City	0
Region I	Candon City	0
Region I	Dagupan City	0
Region I	Ilocos Norte	50
Region I	Ilocos Sur	60
Region I	La Union	60
Region I	Laoag City	0
Region I	Pangasinan I, Lingayen	103
Region I	Pangasinan II, Binalonan	106
Region I	San Carlos City	0
Region I	Urdaneta City	0
TOTAL, REGION I		379
Region II	Batanes	1
Region II	Cagayan	316
Region II	Isabela	359
Region II	Nueva Vizcaya	153
Region II	Quirino	56
Region II	Tuguegarao City	0
TOTAL, REGION II		885
Region III	Angeles City	0
Region III	Aurora	53
Region III	Balanga City	0
Region III	Bataan	40
Region III	Bulacan	140
Region III	Cabanatuan City	1
Region III	Gapan City	1
Region III	Munoz Science City	0
Region III	Nueva Ecija	196
Region III	Olongapo City	0
Region III	Pampanga	72
Region III	San Fernando City	0
Region III	San Jose del Monte City	25
Region III	Tarlac	54
Region III	Tarlac City	0
Region III	Zambales	19
TOTAL, REGION III		601

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REGION	SCHOOL DIVISION	CLASSROOM SHORTAGE
Region IV-A	Antipolo City	164
Region IV-A	Batangas	45
Region IV-A	Batangas City	0
Region IV-A	Calamba City	1
Region IV-A	Cavite	118
Region IV-A	Cavite City	0
Region IV-A	Laguna	166
Region IV-A	Lipa City	1
Region IV-A	Lucena City	1
Region IV-A	Quezon	493
Region IV-A	Rizal	204
Region IV-A	San Pablo City	0
Region IV-A	Tanauan City	0
TOTAL, REGION IV-A		1,193
Region IV-B	Calapan City	2
Region IV-B	Marinduque	35
Region IV-B	Occidental Mindoro	130
Region IV-B	Oriental Mindoro	150
Region IV-B	Palawan	599
Region IV-B	Puerto Princesa City	1
Region IV-B	Romblon	66
TOTAL, REGION IV-B		983
Region V	Albay	181
Region V	Camarines Norte	134
Region V	Camarines Sur	368
Region V	Catanduanes	87
Region V	Iriga City	1
Region V	Legaspi City	0
Region V	Ligao City	1
Region V	Masbate	318
Region V	Masbate City	0
Region V	Naga City	0
Region V	Sorsogon	279
Region V	Sorsogon City	0
Region V	Tabaco City	1
TOTAL, REGION V		1,370

REGION	SCHOOL DIVISION	CLASSROOM SHORTAGE
Region VI	Aklan	101
Region VI	Antique	228
Region VI	Bacolod City	0
Region VI	Bago City	0
Region VI	Cadiz City	0
Region VI	Capiz	150
Region VI	Guimaras	120
Region VI	Iloilo	152
Region VI	Iloilo City	0
Region VI	Kabankalan City	0
Region VI	La Carlota City	0
Region VI	Negros Occidental	122
Region VI	Passi City	0
Region VI	Roxas City	3
Region VI	Sagay City	0
Region VI	San Carlos City	0
Region VI	Silay City	4
TOTAL, REGION VI		880
Region VII	Bais City	0
Region VII	Bayawan City	3
Region VII	Bohol	387
Region VII	Cebu	430
Region VII	Cebu City	0
Region VII	Danao City	1
Region VII	Dumaguete City	0
Region VII	Lapu-Lapu City	1
Region VII	Mandaue City	6
Region VII	Negros Oriental	333
Region VII	Siquijor	0
Region VII	Tagbilaran City	0
Region VII	Talisay City	0
Region VII	Tanjay City	5
Region VII	Toledo City	0
TOTAL, REGION VII		1,166
Region VIII	Biliran	20
Region VIII	Calbayog City	2
Region VIII	Eastern Samar	233
Region VIII	Leyte	487
Region VIII	Maasin City	4
Region VIII	Northern Samar	366
Region VIII	Ormoc City	4
Region VIII	Samar (Western Samar)	292
Region VIII	Southern Leyte	96
Region VIII	Tacloban City	0
TOTAL, REGION VIII		1,504

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REGION	SCHOOL DIVISION	CLASSROOM SHORTAGE
Region IX	Dapitan City	0
Region IX	Dipolog City	2
Region IX	Isabela City	1
Region IX	Pagadian City	0
Region IX	Zamboanga City	4
Region IX	Zamboanga del Norte	331
Region IX	Zamboanga del Sur	385
Region IX	Zamboanga Sibugay	306
TOTAL, REGION IX		1,029
Region X	Bukidnon	436
Region X	Cagayan de Oro City	1
Region X	Camiguin	5
Region X	Gingoog City	3
Region X	Iligan City	1
Region X	Lanao del Norte	107
Region X	Misamis Occidental	76
Region X	Misamis Oriental	229
Region X	Oroquieta City	2
Region X	Ozamis City	1
Region X	Tangub City	1
TOTAL, REGION X		862
Region XI	Compostela Valley	224
Region XI	Davao City	13
Region XI	Davao del Norte	85
Region XI	Davao del Sur	133
Region XI	Davao Oriental	151
Region XI	Digos City	16
Region XI	Island Garden City of Samal	0
Region XI	Panabo City	0
Region XI	Tagum City	0
TOTAL, REGION XI		622
Region XII	Cotabato City	0
Region XII	General Santos City	2
Region XII	Kidapawan City	2
Region XII	Koronadal City	1
Region XII	North Cotabato	334
Region XII	Sarangani	181
Region XII	South Cotabato	164
Region XII	Sultan Kudarat	188
TOTAL, REGION XII		872

REGION	SCHOOL DIVISION	CLASSROOM SHORTAGE
CARAGA	Agusan del Norte	108
CARAGA	Agusan del Sur	303
CARAGA	Bislig City	5
CARAGA	Butuan City	3
CARAGA	Siargao	53
CARAGA	Surigao City	1
CARAGA	Surigao del Norte	112
CARAGA	Surigao del Sur	219
TOTAL, CARAGA		804
ARMM	Basilan	136
ARMM	Lanao del Sur I	78
ARMM	Lanao del Sur II	88
ARMM	Maguindanao	388
ARMM	Marawi City	0
ARMM	Sulu	219
ARMM	Tawi-Tawi	120
TOTAL, ARMM		1,029
CAR	Abra	35
CAR	Apayao	44
CAR	Baguio City	0
CAR	Benguet	66
CAR	Ifugao	64
CAR	Kalinga	78
CAR	Mt. Province	65
TOTAL, CAR		352
NCR	Caloocan City	268
NCR	Las Piñas City	95
NCR	Makati City	1
NCR	Malabon & Navotas	14
NCR	Mandaluyong City	1
NCR	Manila	58
NCR	Marikina City	15
NCR	Muntinlupa City	5
NCR	Paranaque City	126
NCR	Pasay City	0
NCR	Pasig City and San Juan	4
NCR	Quezon City	438
NCR	Tagig & Pateros	99
NCR	Valenzuela City	25
TOTAL, NCR		1,149

Note: Details by school are available at RSD-OPS

Chapter 19

Science and Technology

MOBILIZING KNOWLEDGE, AND SCIENCE AND TECHNOLOGY FOR PRODUCTIVITY, ECONOMIC GROWTH AND JOB CREATION

I. SITUATIONER

Science and technology (S&T) are important for productivity, economic growth and job creation. Thus, current efforts have placed S&T at the forefront of the national agenda/consciousness as it is a key driver of economic growth. S&T policies shall inform economic policies just as much as economic policies need to inform and influence S&T policies.

Moreover, knowledge is increasingly recognized worldwide as the driver of economic growth and social wellbeing. Over 40 percent of the world's economic output involves knowledge and its management. Thus, the “knowledge-based” economy has emerged as one that is directly based on the production, distribution and use of knowledge and information, as reflected by growing high-technology investments, high-technology industries, demand for more highly-skilled labor and associated productivity gains. In a knowledge economy, investments in research and development (R&D), education and training and new managerial work structures have become important factors.

The key challenges in S&T and in the mobilization of knowledge for greater productivity and economic growth include the following:

A. Need to make S&T policies coherent with national development goals

The thrust of S&T policies has significantly changed over the last two decades. Globalization and trade liberalization have fundamentally transformed the economic environment in which both government and private firms operate, thus, rendering some national S&T policy instruments less effective. While S&T policies traditionally point to ‘market failures’ as their rationale, they are now being redesigned and refocused to instead address ‘systemic failures’.

Market failures occur when private firms and individuals do not adequately invest in S&T development, particularly in R&D, as they do not expect any worthwhile financial returns considering its long gestation period, high cost and high risks. Hence, governments intervene to produce public goods and services (such as actual conduct of R&D), mitigate externalities, correct inefficient market structures, break down barriers to entry, and address imperfect markets for information.

On the other hand, systemic failures arise from the lack of coherence among the networks of institutions, resources, interactions and relationships, political mechanisms and instruments, and scientific and technological activities that define, promote, articulate and encourage technological innovation and diffusion (generation, importation, adaptation and dissemination of technologies) process. To address ‘systemic failures’, governments pay closer attention to fiscal, financial,

regulatory and institutional reforms that seek to improve networking among the actors and institutions in the national innovation system; promote innovative behavior, particularly among private business firms in terms of building their ability to identify, absorb and use technologies and information; support R&D as a national strategy in expanding the stock of knowledge; make the S&T enterprise more efficient and effective; and improve the functioning of the national innovation system as a whole.

New conditions call for new S&T policies. The key policy challenge is to boost productivity, economic growth and job creation through increased knowledge-intensive economic activities while maintaining social cohesion. Shaping up the 'Philippine National Innovation System' will require S&T policies that are more focused, integrated to and coherent with other socioeconomic policies. To achieve this, a clear and better understanding of the flows of knowledge and technology among people, enterprises and institutions has to be attained. Mismatches within the system both among institutions and government policies that serve as barriers to innovation have to be identified.

B. Weak knowledge base

The sociocultural, political and economic environment sets the stage for the formulation of appropriate economic, education, S&T, labor, trade and industry policies that collectively affect the rate with which the country's knowledge base is formed. This, however, is also conditioned by the interaction and collaboration between the academe and S&T community as producers of knowledge, and the industry as users of knowledge. The outcomes of their relationships influence the capacity of the economy to produce products and services for changing market needs.

The following factors indicate the weaknesses of the country's knowledge base:

1. Lack of Critical Mass of R&D Human Resources

The country lacks a critical mass of R&D workers as it has only 6,803 scientists and engineers engaged in R&D in 2002, a significant decrease of 39.3 percent from 1996 level. The decline occurred among government, public higher education and private nonprofit institutions. Brain drain contributed to the country's declining number of S&T practitioners. Since knowledge and technologies are mostly embodied in human resources, this points to the urgency of the need to accelerate the development of R&D human resource in the country.

2. Underinvestment in R&D

The country underinvests in R&D amounted to Php4.5 billion in 2002, only 0.11 percent of the gross domestic product (GDP) and far too less than the standard 1 percent of GDP recommended by the United Nation Educational Scientific and Cultural Organization (UNESCO) for developing countries. While the private sector (private business, private nonprofit and private higher education institutions) already contributes the bigger portion of the R&D investments (64% of the Php4.5 billion total R&D expenditures in 2002), there is a need to promote greater R&D investments from both private and public sector.

3. Low Number of Scientific Publications and Patents

The low number of R&D personnel in the country would naturally result in lower scientific outputs. To provide a glimpse of the poor state of S&T in the country vis-a-vis other countries, a comparison of scientific articles published by origin of author in 1999 placed the Philippines at 29th

place among the 30 countries included in the Institute for Management Development survey. The Philippines had 164 published scientific articles, 22 more than last placer Indonesia. By comparison, Malaysia had 416, Thailand had 470, and Taiwan had 4,655 scientific articles to their name. The United States (US) at 1st place had 163,526 published articles.

The average number of patents granted to residents of the Philippines from 1998 to 2000 stood at six, placing the country at 28th ranking out of 30 countries. Malaysia at 27th place had an average of 28 patents for the same three-year period; 22nd place Thailand had 65 while 3rd place Korea had 34,052 patents. The low number of patents granted is attributed to the lack of government's capital support for patenting as well as the lack of government and public support in the promotion of inventions.

C. Need to improve the competitiveness of the country's knowledge and S&T workers

The Philippines was ranked 3rd out of 49 nations in producing knowledge jobs in 2001, up from 8th in 2000, according to the United States -based META Group's Global Technology Index (GTI). The GTI is the successor of the Global New E-Economy Index (GNEI), a cyber atlas that represents an important measure of the economic dynamism and strength, as well as the technological capabilities and potential of each country. However, this is still lower than the country's 1st place ranking in the knowledge jobs category in 1999, which included ranking criteria on senior management, availability of IT skills, and qualified engineers.

Table 19-1 Comparison Chart for GTI Category Rankings

	2001 results	2000 results	1999 results
Knowledge Jobs	3	8	1
Globalization	44	41	35
Economic Dynamism and Competition	36	39	34
Transformation to a Digital Economy	39	35	32
Technological Innovation Capacity	45	38	38
Overall	30	32	26

Source: META Group

The decline of the Philippines from 35th to 39th in the transformation of the country's digital economy in 2001 was attributed mainly to the decline of the number of computers per capita, weak deployment of cellular access and small population of internet users. Meanwhile, the significant drop, from 38th place to 45th, in the technological innovation capacity category was due to the decrease in the number of patents issued. The total R&D expenditure also decreased, adding to the overall decline in this category. While the decline in the globalization category accounts for the decreased export of commercial services and direct investment flows abroad.

The greater challenge for the continuous development of the country's human capital base and productivity is to raise the level of skills of knowledge, and S&T workers. The capability of individuals to learn and apply new skills is necessary for the absorption and use of new technologies. This stresses the importance of building adequate capacity throughout the society to assess, absorb, and use

knowledge/technology/best practices, and the need to address educational imbalances to meet the demands of a knowledge-based economy. The biggest challenge is the inadequate workforce amid the rising unemployment reality.

Hence, there is an immediate need to develop, nurture and attract talents, as well as to strengthen human capital investment. On the demand side, there is a need to clearly define the skills needed by the industry while on the supply side, an accurate and up-to-date knowledge that matches the demand requirements. Moreover, the supply of talented and skilled people should be scalable and sustainable over time.

To further facilitate the diffusion of knowledge, a stronger tie-up between industry and academe is needed for effective transfer of appropriate technology and advanced skills needed by the industry. A functional tie-up can immensely improve the relevance of the mission/vision statements of the higher educational institutions.

D. Poor mechanism for knowledge retrieval/exchange/dissemination

Access to knowledge and technology vital to the development of rural and remote areas in the country is still inadequate or nonexistent in many regions of the country. Hence, there is a need to accelerate the establishment of more community e-centers (CECs) which aims to provide universal access to ICT services, link communities, facilitate trade and commerce, and empower rural communities socially, economically and politically. Private sector participation needs to be tapped to contribute to this endeavor.

Knowledge needs to be disseminated to improve productivity across a wide spectrum of sectors as possible. The dissemination of knowledge is especially important to the poor because poverty is linked to low productivity. Knowledge dissemination and interchange through multimedia promotions, advocacy, training, and community discussions/meetings needs to be pursued especially in unserved and underserved communities.

E. Need to leverage knowledge for greater productivity and global competitiveness

Knowledge needs to be identified and appropriately packaged to target those who could make the most effective use of knowledge productivity-enhancing technologies. The challenge of intensifying content and creating knowledge is to organize knowledge networks to document and package best practices with the help of mass media, business, various church groups, academic institutions, professional organizations, LGUs, and civil society for the use of farmers, fisherfolks, ordinary office and factory workers.

Consequently, knowledge creation and interchange through content development, promotions, advocacy, training, and community discussions need to be encouraged and carried out, especially in the unserved and underserved communities. Involving rural communities in the development and adaptation of “content” suitable to the needs of the local populace, in a language and layout, which they can comprehend, appreciate and eventually use, is a major challenge. Correspondingly, the involvement of media, academe, as well as business and civic sectors of society is critical in knowledge creation, packaging and mobilization.

F. Lack of mechanism/programs to promote and encourage entrepreneurship

To produce more quality entrepreneurs, an enabling environment that would foster entrepreneurial skills, competency and capacity must be encouraged. To enable micro, small and medium enterprises (MSMEs) to a formal, viable, growing businesses, there is a need for start-up incubation centers that would provide technology, in-house credit, legal, and marketing assistance to locators; promotion of microfinance for entrepreneurs, streamlined processes for loan application; provision of one-stop shops for marketing support; and provision of training to develop/enhance entrepreneurial skills. In providing a stimulating environment for entrepreneurs, there is a clear need to document and feature entrepreneurial success stories in various mass media to encourage others.

To complement the lending programs available to MSMEs, the Development Bank of the Philippines (DBP), through its Industrial Guarantee Loan Fund (IGLF) program, has already set aside PHP500 million as revolving fund for state colleges and universities or SUC-income generating projects of state universities and colleges (SUCs) and is also exploring the possibility of allocating a certain amount from its fund for the purpose. The IGLF aims to encourage the establishment and expansion of SMEs engaged in commercial manufacturing and manufacturing-related service providers in the Philippines.

The Land Bank of the Philippines (LBP), on the other hand, has existing tie-ups with eight SUC projects through its Technology Promotion Center Program, a credit program that provides credit to farmers. It also taps available technologies in SUCs to be used by the farmers.

II. GOALS, STRATEGIES AND ACTION PLANS

In a knowledge-based economy, the generation and exploitation of knowledge play the predominant role in the creation of wealth. The use of information to create value-adding knowledge will be the key to productivity enhancement and competitiveness. Knowledge has an enormous potential to further enhance the country's competitive edge and empower people to increase their productivity, which is critical in accelerating growth in agriculture, industry and services. Technical progress and the pursuit thereof, shall be institutionalized and sustained, which can lead to the sustained increase in incomes.

Two key sets of technologies have potential benefits to the poor. These are agricultural technologies, from green revolution up to modern biotechnology; and ICT. The challenge is to widely distribute modern agricultural technologies to rural farming population to extend the benefits of affordable nutrition to the poorer Filipinos. ICT enables the collection, storage and access to explicit knowledge but much remains tacit, or embodied in individuals and institutions. The real benefits of ICT lie not in the provision of technology per se, but rather in improving communication and information exchange through networks of people. ICT will be harnessed as a powerful enabler of capacity development. It will therefore be targeted directly towards specific development goals like ensuring basic education for all and lifelong learning, among others.

As local communities become part of global networks, they transcend cultural barriers and challenge policy, legal and regulatory structures within and between nations. At the same time, a knowledge-rich world is striking down many of the traditional rules that governed organizations, with some parallels for countries as well. For organizations to survive and prosper, they need to adapt and learn, sustaining transformational change through a combination of individual and institutional learning.

This new knowledge guides the use of resources, the fostering of teambuilding, the management of complex matrix relationships (Khadar et al., 2003).

The policy imperatives over the medium term shall give attention to knowledge creation dissemination and technology transfer. While knowledge diffusion and technology access remains important, making better and smarter use of information and knowledge is the key challenge. Likewise, addressing the information and communication needs of the poor and creating a knowledge-rich society however, are also essential parts of addressing poverty.

To fully realize the benefits of knowledge/information sharing, priority strategies shall be geared to enhance the structures that would efficiently and effectively process and distribute knowledge and technology in different functional areas across sectors. Projects and programs shall be effectively prioritized to support the identified priority strategies and activities.

A. Adopt S&T policies focused on making the Philippine National Innovation System work

The ability of economic and social actors to generate, absorb new knowledge and translate it to products and processes and job opportunities is fundamental to the dynamic functioning of innovation systems. Product market reforms such as the proposed competition policy (Part I, Chapter 1) shall enable more rapid diffusion of technology and information, and strengthen incentives for firms to innovate and adapt goods and services to changing consumer needs. Financial market reforms shall promote new technology-based entrepreneurial initiatives. The barriers to entrepreneurial technology-based projects and obstacles to their transformation into business start-ups shall be addressed while measures to spur greater management and innovation capabilities within firms, raising their potential for growth and investment in technology and skills shall be put in place. Regulatory barriers to entry shall be reduced, and private venture capital industry shall be promoted. Programs to leverage private investment and direct financial support concentrated on early stages of innovative ventures (seed capital or preinvestment appraisal) shall be established. Disincentives to “technological entrepreneurship,” particularly regulations discouraging spin-offs from large firms and universities shall be removed.

In the area of education (Part IV, Chapter 18), priority shall be given to: (a) the elimination of illiteracy; (b) increased investment in higher education, especially engineering and science; (c) the expansion and quality upgrading of technical and vocational education; and (d) the establishment of the equivalency program facilitating mobility of learners and workers between vocational and technical and academic studies. These will contribute to further innovation, facilitate the use of new technologies, and allow technical change to translate into more jobs.

In attracting foreign investments, more attention shall be given to acquiring know-how from external sources, such as supplier-customer linkages, licensing, alliances, partnership arrangements and networks for joint R&D, production and distribution. Exporting shall be harnessed as an effective means of acquiring technological capabilities. The international community shall be tapped in creating mechanisms to support the flow of technology and in assisting the country to become more attractive both to foreign investors and to potential trade and technology partners.

Greater support for research in the public sector, specifically in the areas of agriculture, health, engineering and social sciences, shall be provided to ensure that local interests and needs are acted upon. The further development of indigenous knowledge systems will be encouraged and capacities for

the assimilation of transferred technologies.

Considering the limited budget of the government, the support of private investments in S&T and R&D shall be encouraged by creating links between knowledge generation and business development and design policies and incentives that promote the use of intellectual capital in economic transformation through entrepreneurial activities. Resources shall be channeled towards pressing development problems that are currently underfunded by tapping donor support for research, which can be funded through international cooperative project focusing on local or under-represented research activities, among others. For more efficient utilization of scarce resources as well as synchronized and focused R&D efforts, recentralization of S&T to the extent appropriate and feasible shall be considered.

As the coverage of patent and copyright protection expands to include life forms and data banks, laws on the protection of intellectual property rights in line with the Agreement on Trade-related Intellectual Property Rights shall continuously be reviewed to ensure that they protect inventions, as well as promote the transfer and development of technology and take into account the social impact of technological change. Government shall provide full support to local inventors by managing the intellectual property rights and balancing the need to protect the rights of inventors and technological development.

The importance of patents and other intellectual property rights, as well as their processing shall be encouraged. If possible, the processing could be free-of-charge including legal support. Labeling of Filipino made products shall also be promoted, as well as the conduct of massive information campaign to the masses on the significance of locally made products. A comprehensive and updated database of new products invented by our scientists shall be made available to the consumers/public.

A comprehensive technology transfer policy shall be designed and enacted to feature the following policies on: (a) sharing royalties that is more attractive to government-supported innovators; (b) a policy encouraging technology-based entrepreneurship among scientists and researchers; and (c) allowing scientists and researchers in government to work in the private sector without violating the code of ethics for government workers. The contribution of the academe and private sector in the publication of scientific articles shall be encouraged and supported thru recognition and other incentives.

The institutional arrangements for S&T policy formulation like the S&T Coordinating Council (STCC) under the DOST shall be strengthened. Moreover, the capacity to assess and review the country's national innovation system, and to evaluate the impact of national policies on the innovation processes shall purposively be developed.

B. Improve the competitiveness of the country's knowledge and S&T workers

Knowledge creation shall entail the improvement of the educational system and the system's ability to meet industry requirements. The challenge of a knowledge-based society, which is reshaping the world with rapid change and growing uncertainty, is the creation and maintenance of qualified workforce with creativity and flexibility. Hence, training and capacity building shall be provided to its direct beneficiaries to ensure local support and program sustainability. Strategies to continuously create and maintain a highly skilled workforce shall be pursued to develop the competitiveness of the country's knowledge and S&T workers and remain competitive in the globalized market. Efforts shall

be directed towards the following:

1. Provide greater access for the upgrading of job skills

The rapid obsolescence of knowledge and technology require continuing education and training for any workforce to remain competitive. Lifelong learning is essential to meet the demands of the changing labor market, as well as individual expectations to meet the varied needs of civil and social aspects of life. At a holistic and systematic point of view, continuing education and training shall be a shared responsibility among the academe, education and training institutions, as well as the trade unions.

The dissemination of information on where the jobs are and the presence of the necessary support services such as training programs and scholarships would increase chances of finding a job. Workshops, seminars, presentations, as well as informal refresher sessions would arm them on the specific skills currently demanded by the labor market. People are able to upgrade their skills and have a better chance of being employed. A concrete example of this is the tie-up of the industry and academe on skills training and development. Through this, the gap on skills requirement of the industry and the actual capability developed in the academe can be addressed.

The following activities shall be undertaken:

- a. Empower workers (e.g., OFWs and their relatives) with new technologies (e.g., capacity enhancement, alternative livelihood opportunities) through training programs (e.g., trainor's training, specialist training, computer and entrepreneurial skills);
- b. Enhance training regulations to add quality and productivity and entrepreneurship skills to its current tool and core competencies;
- c. Intensify the availability and quality of skills-specific training programs (e.g., call center services, data and medical transcription, software development, animation, engineering and product design, e-financial shared services);
- d. Strengthen industry-academe partnership on skills training and development (See Part IV, Chapter 1);
- e. Develop critical mass of scientists and R&D personnel;
- f. Encourage and provide scholarships and R&D grants to support young and budding researchers; and
- g. Award and recognize the outstanding contributions and achievements of Filipino scientists and researchers.

2. Set and implement quality standards, accreditation and certification systems with local and international recognition focused on executive and managerial manpower, knowledge, and S&T workers as well as schools and training centers (e.g. quality assurance framework for ICT education).

Maintaining quality workforce that is at par with global standards can be achieved through certification programs. Certification leverage also places the workforce into a better position to meet the demands of the changing global manpower market.

3. Promote the use of ICT in all sectors of the society, as a tool for people empowerment

The establishment of CECs shall serve as public access points for distance learning, health, training, livelihood, entrepreneurship, market, communication, e-government, and other social programs. The CECs shall be tapped by the *Tulay Program*, as access facilities where OFWs can communicate with their families using e-mail, video conferencing, and instant massaging. These CECs shall be managed by local communities.

Meanwhile, ICT shall be used as tool for teaching and diffusing technologies in all levels of education. The boundaries between school, home and working life are diminishing. These require new methods in teaching (e.g., use of ICT resources) in which collaboration and sharing are essential in providing students with learning skills in net-based environments. Changing learning environments requires combining educational expertise and collaborative methods in teaching. In this regard, the following activities shall be undertaken: promote e-learning and information literacy; and establish e-learning competency centers.

4. Deal with brain drain by turning push factors into pull factors.

Return migration and reverse flows of income will be stimulated by encouraging remittances and investments that will be channeled development efforts. Diaspora and networks of Filipino S&T workers abroad shall increasingly be tapped as an important medium for knowledge sharing. The capacity to monitor, evaluate and respond to the emigration of the Filipino highly skilled workers shall be enhanced.

The Balik-Scientist Program of the DOST shall be improved and expanded with greater private sector participation.

The implementation of the Magna Carta for Scientists and Personnel (RA 8439) shall be strengthened, thru the provision of adequate financial support to implement the provisions of the law.

C. Accelerate knowledge creation and transfer to upgrade technologies and increase productivity

A favorable policy environment to intensify knowledge creation will be pursued by allocating a bigger percentage of the agency budgets for R&D and field extension work and providing funds for knowledge creation and management activities within the organization. In line with this, partnerships or networking arrangements with the private sector, academic and international institutions (e.g., IRRI, UNDP) shall be promoted and strengthened. The development of content and applications shall be encouraged to maximize the use of the country's existing ICT infrastructure for knowledge creation and dissemination. Moreover, upgrading of existing and establishing new R&D laboratories, design and testing facilities and other research, development and extension centers and the setting up of technology parks shall be pursued to ensure access to research facilities, simplify technology transfer operations and to allow incubation of spin-off enterprises.

Efforts to mobilize knowledge will be directed to disseminating information/knowledge to the rural and urban poor through the development of a communication policy framework to: encourage knowledge dissemination activities; promote partnerships between mass media and knowledge institutions; strengthen knowledge institutions, extension workers and civic organizations; and leverage existing government communications infrastructure for knowledge sharing/dissemination. The establishment and promotion of the use of extension centers CECs, *Gabay sa Mamamayan Action*

Centers (GMACs), Farmers' Information and Technology Services (FITS) centers, KALAHI Farmers Centers (KFCs)] and the wider use of knowledge dissemination models shall be pursued. Efforts shall also be made to strengthen and maximize the use of the PCARRD technology extension model and other farm/community extension models, and consolidate them with other similar extension models of other agencies and bureaus, including the DAR *Bayanihan* Rural Development Centers and DA's Agricultural Training Institute, among others.

Local industries and the entire bureaucracy shall be supported in the conduct of seminars, fora, conventions; documentation, packaging and distribution of best practices; institutionalization of rewards and recognition; and establishment of knowledge-based systems and mechanisms.

RD&E outputs shall be promoted to local and global markets through the development and implementation of a marketing plan/mechanism and strengthening resource generation and mobilization. A national level assessment mechanism for knowledge creation, dissemination and use shall be institutionalized.

A critical mass of library and information resources shall be made available to all Filipinos in a convenient, affordable and efficient way through sustainable and collaborative schemes like the Philippine e-Library offering both free and fee-based products and services.

D. Promote technology-based entrepreneurship

Increasing people's productivity and enhancing global competitiveness would attract more investments and will develop economically viable industries. Domestic and foreign investments and entrepreneurship are imperative to the creation of more jobs and consequently to the productivity of the country.

To provide technology, marketing and other business development support to new entrepreneurs and continue product development as part of technology support to MSMEs, the following activities shall be undertaken: (a) continue the implementation of Small Enterprises Technology Upgrading Program and the Technical Incubation for Commercialization Program (TECHNICOM); (b) provide product research, development and design services (design and technical assistance); and (c) conduct design awareness activities such as product development seminars, trends, briefings. To maintain existing and develop more competitive export products and services and diversify market, quality testing and metrology-related services and orientation of producers on international product standards and conventions shall be provided.

To improve productivity and encourage the development of new products through R&D, appropriate technologies and best practices (e.g. clean production, hazard analysis and critical control point, good manufacturing practice, etc.) shall be adopted and diffused. Development of biotech products for commercial production and export shall be pushed. Efforts will be made for the adoption of innovation and technology transfer policy that is more conducive to scientists and innovators. Contract researches with the private sector shall be pursued to increase funding for R&D. The allocation of resources for R&D among government agencies shall be rationalized. Cost sharing between the government and the private sector in the conduct of R&D shall be encouraged.

Since access to funds has always been a limitation, special credit programs will be provided to MSMEs for technology venture capital financing. To expedite available technologies in State to be used by farmers, extension workers, entrepreneurs and other intended beneficiaries, SUC demonstration

projects and other income generating projects shall be pursued for LBP and DBP financing. Funds shall also be allocated to commercialize locally developed products not only for local but also for global consumption. Techno- and agri-based entrepreneurs shall also be organized to establish alliances and networks of entrepreneurs.

To enhance MSME's access to a wider range of available technologies, the government shall provide technology information and technology development services, such as free patent search services for dissemination to MSMEs. MSMEs may access information and use lapsed or about to expire patents in government websites and published materials. Technological information contained in patent documents shall be made available to MSMEs. MSMEs and local technology generators shall be assisted through the TECHNICOM program in: technology assessment and commercial prototype development; business plan/feasibility study preparation; intellectual property rights protection; technology valuation and licensing; semicommercial production assistance; and training and consultancy services.

The government, in consultation with LGUs and the local Fisheries and Aquatic Resource Management Councils shall extensively promote community-based and environment-friendly mariculture activities with mangroves and fish sanctuaries development. Mangrove-friendly aquaculture, seaweed farming and fish cage culture shall be promoted in various coastal communities based on the ecosystems' ecological capacity to further increase fish production and provide alternative livelihood for the fisherfolk while ensuring ecological integrity.

Chapter 20

Culture

I. SITUATIONER

The enormous impact of culture on the economy and development is a reality that many people do not see. The reason for this, according to scholars, is perhaps a limited concept of culture, which confines it to the arts.

The United Nations Educational, Scientific, and Cultural Organization (UNESCO) defines culture in its widest sense, as the whole complex of distinctive spiritual, material, intellectual, and emotional features that characterize a society or a social group. This includes not only the arts and letters but also modes of life, values systems, traditions, and beliefs. Culture, however, can also be looked at as an “aggregate and internally inconsistent body of knowledge and meanings, unevenly distributed among individuals of a community, and acquired by these individuals through their experiences and transactions in everyday life” (Karl Anonsen, 1998).

From the perspective of culture and poverty programs, culture is defined as inclusive of creative expression, skills, traditional knowledge and cultural resources that form part of the lives of peoples and societies, serving as bases for social engagement and enterprise development.

Allowing for the varying view on culture, the government stands on supporting culture as a free expression of creativity to serve as the base for a dynamic process of consolidating human rights and supporting poverty alleviation.

For almost four decades now, the challenge of developing the Filipino’s creative spirit has been the inspiration of all organized efforts to raise cultural awareness to the national level. Efforts have been made by past administrations to conserve and promote the country’s cultural patrimony and resources.

Since 2002, initiatives of the culture sector have been focused on the implementation of policies and strategies contained in the Medium-Term Philippine Development Plan for Culture and Arts (MTPDP-CA) 2002-2005. There are seven program thrusts identified in the Plan that addresses certain needs in the sector: (a) Culture and Education; (b) Culture and Development; (c) Support for Artistic Excellence; (d) Promotion of Culture and the Arts; (e) Conservation of Cultural Heritage; (f) Culture and Diplomacy; and towards the end of 2003, the National Commission for Culture and the Arts (NCCA) established the 7th program, i.e., Culture and Peace. These programs were created as the framework for direction and policy development from where project ideas can be developed.

In 2002, the Philippine Cultural Education Plan (PCEP) 2003-2007 was also formulated to provide direction for cultural education in the country. The plan resulted in the setting up of the Speakers’ Bureau in response to numerous requests from schools, arts councils, local government units (LGUs), and other cultural agencies, the conduct of trainings and conferences under its cultural enrichment program for teachers and students, and education courses in tertiary level, and the donation of more than 30,000 copies of different publications/books and almost 2,000 electronic

materials to public libraries and schools nationwide.

Through the Institute for Cultural and Arts Management (ICAM), the NCCA's educational arm, nondegree courses for cultural workers and other interested parties have been provided. Training almost 2,500 cultural workers, artists, art managers, cultural officers of LGUs and private corporations, teachers, and cultural attaches, ICAM has reached many regions in the country for the past two years.

The continuing review and development of cultural policies and legislative agenda on heritage protection resulted in the drafting of important bills such as 'An Act to Provide Intellectual Rights of Indigenous Peoples'; 'An Act for Philippine Cultural Heritage Law', and 'An Act Establishing the Artists' Career Services and Special Qualification in Government'. These bills will continually be pushed for until enacted by Congress.

In the conservation of tangible and intangible cultural heritage, feasibility studies and technical assistance for the conservation of the four churches listed as UNESCO World Heritage Sites, and the 26 churches from different parts of the country recognized by the National Museum as National Cultural Treasures were provided funding. To date, of the 26 churches, six are undergoing various stages of restoration. A grant was given to the Ifugao Provincial Government in support of conservation activities in the Rice Terraces of the Cordilleras. The NCCA signed a tripartite Memorandum of Agreement (MOA) with the Government Service Insurance System (GSIS) and the Manila City Government for the rehabilitation of the Metropolitan Theater coordinated by the Metropolitan Theater Conservation Committee.

In order to conserve traditional forms of creative expression and knowledge, 18 Schools of Living Traditions (SLTs), where young members of indigenous cultural communities can learn about their heritage and traditional arts, were established. From 1995 to 2003, the NCCA approved the creation of 30 SLTs, 13 of which have already been completed; with eight currently ongoing and nine for implementation in 2004.

A three-year action plan has been formulated for the preservation of the Hudhud Epic of the Ifugaos, which was cited by UNESCO as one of the Masterpieces of the Oral and Intangible Heritage of Humanity. The Darangen Epic of the People of Lake Lanao in Mindanao was also submitted to the UNESCO for nomination and inclusion in the UNESCO Memory of the World Registry as an outstanding masterpiece of oral and intangible heritage of humanity.

In terms of initiating special interventions for Mindanao, the program for culture and peace was crafted and is being implemented to address the need to provide assistance to projects that advocate peace, particularly in Mindanao regions. The Program is based on the belief that cultural dialogue has a key role in the peacemaking process. In a similar view, projects promoting peace and national unity in Mindanao were undertaken. Most of the activities were in support of indigenous festivals, workshops aimed at helping the members of communities develop cultural programs, cultural exchange programs, and strengthening the networking of the NCCA in the regions. One major undertaking being done by the NCCA is to provide support for the Mindanao Natin Project spearheaded by Office of the Presidential Adviser on the Peace Process (OPAPP), particularly on the Mindanao Youth Peace and Development Advocacy Component, which is being done in coordination with the National Youth Commission (NYC), Office on Muslim Affairs (OMA), National Commission on Indigenous Peoples (NCIP), Philippine Sports Commission (PSC), and the Department of Social Welfare and Development (DSWD).

At present, the sector's major strengths are the following:

- The growing enthusiasm and empowerment among the grassroots in initiating activities on culture as the NCCA continues to give support to initiatives in the regions;
- The stronger linkages being established by the NCCA with LGUs, nongovernment organizations, and educational institutions, which are key partners in the effective implementation of programs and projects; and
- The positive response of the LGUs to NCCA's call for the establishment of a stronger network to promote and enhance activities at the local level, through the establishment of Culture and Arts Councils and other channels of cultural development.

CHALLENGES

The fast developments in the local and global scene continue to pose serious challenges that need to be given attention. Among these are the following:

- The challenge to highlight and harness positive Filipino values and cultural resources in promoting social responsibility, good governance, and sustainable development;
- The need for a strong system of protection and promotion of Filipino cultural heritage;
- The need to democratize and provide mechanisms for opening opportunities for all to participate in the national cultural development process;
- The need to promote a culture of peace and unity and strengthen national identity;
- The need to intensify cultural action towards protecting indigenous peoples' rights, fostering harmony in cultural diversity;
- The need to provide a systematic and institutionalized cultural education program, which calls for, among others, improved collaboration with the Department of Education (DepEd), Commission on Higher Education (CHED), and other educational institutions;
- The need to formulate a widely acceptable set of cultural indicators that will systematize cultural development planning within the framework of national development planning and resource allocation; and
- The challenge of implementing cultural programs amidst the resource constraints facing the government.

II. GOALS, STRATEGIES AND ACTION PLANS

The seven thrusts of the current MTPDP-CA shall continue to be the basis for the priority projects on culture since they respond to the national goal of human and economic development and contribute to the goal of reducing poverty, improving the relevance of education, and ensuring peace

throughout the country, particularly in conflict-affected areas and with special focus on Mindanao. Culture shall be utilized as a catalyst for values formation and human rights education, promoting a culture of peace, social justice, and sustainable development.

For the next six years, efforts will be directed to the following priority strategies:

- Mainstream Culture and Development in plans, policies, programs, and projects;
- Institutionalize culture in education and in good governance;
- Continue the implementation of programs for the promotion of culture and artistic development;
- Promote sustainable heritage conservation approaches;
- Create special cultural programs in line with national peace and unification initiatives;
- Encourage the generation of jobs or livelihood from cultural tourism and cultural industries; and
- Expand cultural exchanges and agreements with other countries.

For the coming years, the government shall continue its thrusts and priority projects on culture and further address the urgent need to provide for projects that advocate peace, particularly in the Mindanao region through its newly established Program for Culture and Peace. Government shall continue to award grants for exemplary projects in all artistic disciplines including architecture, cinema, dance, dramatic arts, literary arts, music, and visual arts, in addition to supporting cultural education and information dissemination.

The NCCA shall be the lead agency in coordination with the concerned Cultural Agencies and Government Institutions to implement the plan. The Commission will persist in carrying out its mandate to protect, conserve, nurture, and promote our tangible and intangible cultural heritage. Congruent with its commitment to national development, the agency will focus on projects, which promote national social cohesion and human well being.

Culture-related initiatives shall continue to be guided by the principles of partnership, collaboration, and shared responsibility to achieve effective and efficient implementation of cultural programs. In this way, the sector keeps alive its thrust to empower the Filipino imagination.

A. Mainstream Culture and Development in plans, policies, programs and projects

As part of advocacy and policy formulation, the NCCA shall:

1. Continue to review and develop policies and legislations for culture. This shall be done in cooperation with concerned agencies and the Committees on Culture and Arts in both the Senate and the House of Representatives;
2. Intensify the campaign and partnership with the Department of Interior and Local Government (DILG) as regards the implementation of the DILG Circular No. 2004-81 on the Creation of Local Culture and Arts Councils and continue the support for community organizing, local cultural exchange projects, and regional empowerment through other collaborative activities;
3. Increase the number of community-based projects in support of the disadvantaged and

marginalized groups; support to public school children; and healing and learning through cultural activities;

4. Initiate culture and development policy dialogues and fora among development planners and workers in both government and nongovernment agencies;
5. Promote the use of Filipino in government communication and advocacy programs; and
6. Continue the efforts in formulating cultural indicators.

B. Institutionalize culture in education and in good governance

1. Integrate cultural education in the formal, nonformal, and informal learning modalities in partnership and close collaboration with the DepEd, CHED, Technical Education and Skills Development Agency (TESDA), and other educational institutions. Cultural education activities for government agencies and institutions shall likewise be designed and implemented;
2. Fully implement the Philippine Cultural Education Plan (PCEP) until 2007 starting with the 15 special school for the arts;
3. Continue the training of teachers and educators in the field of culture and arts through the conduct of seminars and workshops, particularly in the area of curriculum and instructional materials development. The dissemination of the teaching guides on teaching culture-related subjects shall be fasttracked;
4. Strengthen the capacity of schools in promoting the various traditional Filipino artistic expressions such as the *kundiman*, *balagtas*, and *dupluhan*;
5. Increase the distribution of books and other instructional materials (such as videos, monographs, and magazines) on Philippine culture in collaboration with the National Library, National Book Development Corporation, and other concerned agencies;
6. Develop and encourage more culture and values oriented projects on TV, radio, cinema, and theatre. Documentary films and infomercials shall be produced to highlight positive Filipino values and good governance. These shall be lobbied and done in partnership with media entities;
7. Develop materials on Philippine culture in Filipino and other Philippine languages;
8. Continue and expand the activities of the NCCA Institute for Cultural and Arts Management (ICAM) to include more regional satellite courses on Cultural Policies and Governance, Cultural Heritage Management, Cultural Festival Management, Performing Arts Management, and Cultural Resource Management; and
9. Develop programs that shall integrate values formation and practical concepts toward conscientizing a paradigm shift of attitude to displace the values that breed the culture of graft and corruption in the capacity development programs for government workers at all levels (Chapter 20: Anti-Corruption).

C. Continue the implementation of programs for the promotion of culture and artistic development

1. Support young and developing artists and contemporary and new forms of artistic expression with emphasis on values education and good governance;
2. Sustain support for exhibits and festivals with particular focus on community-based initiatives;
3. Provide more opportunities to enhance artists' talents and make their work available to a wider Filipino audience through school tours, coaching activities, and participation in competitions and festivals;
4. Continue to promote recognition for outstanding Filipino artists through awards such as the *Gawad sa Manlilikha ng Bayan* (GAMABA) and the National Artists Award; and
5. Support the study of different Philippine languages and literature.

D. Promote sustainable heritage conservation approaches

1. Conserve existing traditions, indigenous knowledge, and cultural masterpieces through the SLTs. Explore other important cultural traditions and treasures that are endangered and continue its nonformal teaching to the youth. Approximately three to four new SLTs shall be established annually aside from maintaining the already approved SLTs since 1995;
2. Implement a stronger and consistent conservation system for the UNESCO declared World Heritage Sites and those declared as National Cultural Treasures and Important Cultural Treasures;
3. Support the documentation and recognition of historical structures, landmarks, monuments, sites, traditional arts, and other aspects of cultural heritage; and
4. Fasttrack and improve the integration of community-centered approaches in existing and future conservation efforts.

E. Create special cultural programs in line with national peace and unification initiatives (Chapter 14: National Harmony: Peace Process)

1. Continue the projects advocating peace and unity in all conflict areas through the conduct of cultural dialogues, workshops and lectures, performances, and exhibits;
2. Pursue the conduct of Peace summits and cultural forum for military personnel and other individuals involved in the peace process;
3. Sustain support to the Mindanao Youth Peace and Development Advocacy Program in coordination with the OPAPP, OMA, NCIP, NYC, PSC, and DSWD; and

4. Continue the Philippine Cultural Exchange Program started in 2003, in collaboration with the Department of Tourism (DOT), NCIP, and OMA. This exchange program aims to give the participants, particularly various indigenous peoples and host communities a chance to further understand and appreciate each other's distinct histories, traditions, and belief systems.

F. Encourage the generation of jobs or livelihood from cultural tourism and cultural industries

1. Support the production of traditional and contemporary crafts and products such as weaving, pottery, musical instruments, basketry, music, films, and performing arts. This shall be done in cooperation with the Department of Trade and Industry (DTI) and other concerned agencies; and
2. Continue the partnership with the DOT on the development of programs particularly in boosting local cultural tourism. The educational value of heritage sites and special events for tourists shall be maximized through the production of effective promotional and reference materials and training of tour guides and site staff.

G. Expand cultural exchanges and agreements with other countries.

1. Continue the implementation of the existing 30 active cultural exchange agreements and explore the possibility of entering into new agreements with other countries;
2. Intensify intellectual and cultural exchanges with other Association of Southeast Asian Nations (ASEAN) countries through joint activities and research projects;
3. Continue to participate in international competitions and festivals sharing the unique talents of the Filipinos;
4. Actively participate in international conferences and meetings where Philippine participation is necessary; and
5. Continue the programs for overseas Filipinos and the sending of cultural packages to embassies and consulates abroad.

Chapter 21

Anti-Corruption

I. SITUATIONER

Graft and corruption are increasingly viewed as threats to the sustained growth and development of the country. Corruption distorts access to services for the poor, results in government's poor performance and, consequently, low public confidence in government. The culture of corruption in the country breeds the vicious cycles of poverty and underdevelopment.

Over the years, initiatives against graft and corruption have included administrative measures, legislative action, and greater people participation. Progress has been made in the last three years to enhance transparency and accountability in the public sector as well the effectiveness of sanctions against corrupt behavior, although there is still a lot yet to be done.

In keeping with the President's call for a collective front against graft and corruption, 16 government agencies, nongovernment organizations (NGOs) and civil society groups have joined forces in investigating the morality, lifestyle, and nightlife of government officials to gather evidence of graft and corruption. On March 20, 2003, a Memorandum of Understanding was signed creating the "Lifestyle Check Coalition." The coalition pools the expertise, resources and manpower of its members in identifying leads, gathering information and prosecuting accused public officials. The public provides the information, while the intelligence-gathering units of the coalition (e.g., National Bureau of Investigation (NBI) and Intelligence Service of the Armed Forces of the Philippines) investigate suspected officials. The findings are forwarded to other member units for evaluation and confirmation. Along this line, lifestyle checks and antigraft units were formed in six agencies i.e., the Department of Finance, Department of Agrarian Reform, Department of Health, Department of Public Works and Highways (DPWH), Department of Environment and Natural Resources and Department of Education (DepEd).

The Office of the Ombudsman (OMB), the Civil Service Commission (CSC), and the Presidential Anti-Graft Commission, and the heads of agencies as the primary disciplining authority, would cooperate in handling the administrative aspect of the lifestyle check process, specifically in determining the administrative culpability, if any, of the officials involved, and imposing the appropriate administrative sanctions. On the other hand, the OMB would handle the criminal aspect of the lifestyle check process, specifically in filing the appropriate cases in court and prosecuting officials who failed the lifestyle check.

The capacity of government to sanction corrupt practices was strengthened by increasing the number of prosecutors in the OMB from 52 to 104 after additional funding was provided by the President in 2003. This resulted in an improvement in the conviction rate from 6 to 14 percent.

Recently, the heads of the CSC, the Commission on Audit and the OMB forged the Solana Covenant, a joint anticorruption plan. The Solana Covenant lists concrete and doable initiatives to be undertaken within the next five years, such as the establishment of a database for the statement of assets, liabilities and net worth (SALN) that the CSC will run, together with procedures to enhance

compliance and monitoring, among others. It also identified the need to strictly implement the rules regarding the liquidation of cash advances and presumed that after a formal demand, the failure of the Accountable Officer (AO) to liquidate within the prescribed period, shall constitute a prima facie case of gross neglect of duty as defined under existing Civil Service law and rules. The corresponding punishment for the first offense is dismissal from service.

The commitment of the President to make the Bureau of Internal Revenue (BIR) and Bureau of Customs (BoC) showcases in the fight against graft and corruption was strengthened. In the BIR, new tax administration measures were established to minimize opportunities for corruption and abuse. In the BoC, a Customs Integrity Action Plan was formulated as the working guide for its anticorruption programs.

The Government Procurement Act (Republic Act 9184), which was passed in the first Arroyo Administration redefined procedures in government purchasing, and has enhanced transparency, competitiveness and public accountability in government procurement. One important change in the system is the establishment of the Government Electronic Procurement System or E-Procurement System. This serves as the primary source of information in all government procurement. As of June 2004, some 7,173 suppliers and 2,522 agencies, including government-owned-and-controlled-corporations (GOCCs) and local government units (LGUs) have registered with the System. It has resulted in increased competition among suppliers and contractors. It has also generated competitive prices and reduced procurement processing time. All these have resulted in at least 30 percent savings in the cost of government procurement.

To strengthen public financial accountability, the new government accounting system (NGAS) was implemented on January 1, 2002. The NGAS aims to (a) simplify government accounting (b) conform to international accounting standards; and (c) generate periodic and relevant financial statements for better performance monitoring. The NGAS intends to address the undue complexity of the old system, which inhibits full compliance with reporting requirements, inaccurate reflection of the full cost of agency operations, which affects management decision-making and the inability of the system to allow benchmarking of costs with the private sector.

Notwithstanding these achievements, progress in anticorruption efforts is still slow, as reflected in the falling ranking of the Philippines in terms of perception of corruption (Transparency International, 2003). Several issues need to be addressed in managing the fight against corruption, among these are: (a) weak enforcement of anticorruption laws; (b) the need to reinvigorate the anticorruption agencies and improve their coordination; (c) the low social awareness and high tolerance for corruption; (d) the need to institutionalize government-civil society-business collaboration; and, (e) the need to strengthen integrity and accountability in government-business transactions. There is a need to strengthen earlier efforts against corruption and build a track record of success.

II. GOALS, STRATEGIES AND ACTION PLANS

Anticorruption through good government is one of the key reform packages that President Gloria Macapagal-Arroyo articulated in her State-of-the-Nation-Address (SONA). Under the philosophy of free enterprise, the way to fight poverty is to create jobs. To create jobs, the country has to attract investments, and to attract investments, it has to focus on strategic measures to bring in more investments and to make the domestic environment more globally competitive. To improve the country's ability to attract foreign investments means building an effective government bereft of graft

and corruption, from national to local, with a devoted professional civil service that delivers services to the people, maintains peace and order and administers the rule of law and justice to all. This points to addressing graft and corruption through punitive and preventive measures, and promotion of zero tolerance for corruption. In addition, the government would work closely with the civil society and the private sector in the establishment of a strong foundation for moral value formation in the government bureaucracy and society.

Anticorruption efforts will focus on three areas of reform:

- Punitive measures that include effective enforcement of anti-corruption laws; enforcement mechanisms within revenue generating agencies with BIR and BoC as showcases; Morality, Lifestyle and Nightlife Checks; Text-CSC Program and other programs to facilitate participation of the public;
- Preventive measures that include the strengthening of anti-corruption laws, improvement of integrity systems; conduct of integrity development reviews, strengthening of financial accountability reforms; and
- Promotion of zero tolerance for corruption through societal values formation that includes values formation and ethics compliance for government officials and employees as well as the strengthening of people's values to achieve zero tolerance.

The BIR and BoC will continue to be showcases in the fight against graft and corruption. Lifestyle checks on both agencies' officials and employees will be vigorously pursued. The enforcement mechanisms within these bureaus will be deepened through an integrated program of systems and institutional reforms, coupled with human resource investments and effective use of information and communications technology. Enforcement functions such as assessment and audit will be the target of process reforms.

More lifestyle checks and anticorruption units will be created from the present six to encompass all departments and major GOCCs, to be headed only by the Undersecretaries/Assistant Secretaries. These lifestyle check and anticorruption units will serve as the integrity review units of their agencies. The agencies will conduct a comprehensive review (Integrity Development Review) of their systems and formulate corruption prevention reform measures, which will be their roadmap for combating corruption in the next six years.

Effective prosecution and conviction begins at the fact-finding, evidence gathering and investigation level. Thus, the investigative capability of the OMB will be strengthened by building up its institutional resources and enhancing its individual and institutional competence. The capabilities of other government agencies involved in the investigation and prosecution of graft and corruption, i.e. the PAGC, NBI, the Department of Justice, as well as capabilities of the different agencies to discipline their employees and maintain integrity within their ranks, will also be reinforced.

A law that will make the OMB like the Hong Kong's Independent Commission Against Corruption will be pursued to strengthen and expand the institutional capability of the OMB. The proposal is to follow the track of Hong Kong when it established the Independent Commission Against Corruption (ICAC) in 1974. The establishment of the ICAC was the most important factor that made Hong Kong the second least corrupt state in Asia, from being the most corrupt in the region 30 years ago. Two models are proposed similar to ICAC for the Philippines. The first is to amend the

Anti-Corruption

Ombudsman Law to strengthen and expand its investigation or case build-up unit. Second is to ask Congress to create an entirely new institution patterned after ICAC to focus only on case build-up, prevention, and education. Under the second model, the Ombudsman would do the preliminary investigation and prosecution.

Other proposals include amending the Ombudsman Law to allow the OMB to hire private prosecutors to litigate before the Sandigan Bayan anti-graft court; requiring the attachment of the income tax returns in the Statement of Assets and Liabilities of all public officials and state employees; enacting the Whistleblower's Protection Act; and requiring the waiver of secrecy of bank deposits of officials charged with corruption after the Ombudsman finds probable cause.

The Philippines will also push for the immediate ratification of the United Nations Convention Against Corruption. The Convention contains a wide range of provisions that will strengthen international efforts to fight corruption. Among others, the Convention requires governments to criminalize bribery, promote integrity among public officials and increase participation of civil society in the fight against graft and corruption.

Meanwhile, to ensure transparency, accountability, and participation in governance processes, preventive anti-corruption measures will be implemented. The following measures will be instituted:

- a. Improving frontline service delivery specifically audit of systems and procedures to simplify and speed up agency processes;
- b. Strengthening procurement reforms; and
- c. Involving all sectors at all levels to scrutinize projects that are willfully made transparent, so that people, especially the poor, can actually see the benefits accruing to them from the government.

The improvement of frontline service delivery will be pursued to simplify and speed up agency processes. This will be done through various streamlining measures such as the use of information and communications technology (ICT) to reduce opportunities and incentives for graft and corruption e.g., simplifying procedures for registering Barangay Micro-Business Enterprise (BMBEs), implementation of the Philippine Business Registration System, etc.

It is important to build on progress already made with the new Procurement Law by:

- a. Widening the use of e-procurement and outside observers in the bidding process;
- b. Widening public access to the terms of bidding of government-funded projects, and all other contracts or agreements of government with the private sector, unless national security is involved;
- c. Fully implementing Executive Order 278, which ensures the fair participation of local contractors and consultants; and, encourages bids for design to ensure the most cost-efficient project design and avoid overpricing of projects; and
- d. Setting quality and price standards for the DPWH.

A phased implementation of the national government agencies will be adopted, which focuses on setting up the basic manual system. Computerization and the development of a Government Integrated Financial System that will provide management and financial information to various levels of government will follow.

The government will also seek to make clear and available for public scrutiny, the terms of bidding of government-funded projects, and all contracts or agreements of government with the private sector without exception unless national security is involved.

To change the culture of corruption, the government will mobilize the country's formal and nonformal educational system, the media and civic organizations to rally societal reform. Value formation will also be reinforced by inculcating positive values to the youth, at the onset, such as "delicadeza", "palabra de honor", patriotism or love of country, excellence, transparency, efficiency, accountability, integrity, self-respect, self-reliance, peace advocacy and pride in being a Filipino (Chapter 20: Culture).

To institutionalize values formation in the educational system, the DepEd will revise the elementary and high school basic curriculum to replace the current Makabayan subject with the character education program for students nationwide (Chapter 18: Education).

Stronger censorship and moral suasion in broadcast media, particularly in program commercials will be undertaken to help promote positive social values. Filipino children will also be protected from inane and morally debilitating programs in radio and TV (Chapter 20: Culture).

The Presidential Council on Values Formation (PCVF) will serve as the lead agency in establishing the strong foundation for moral value formation in government by designing and implementing action-oriented programs.

Chapter 22

Bureaucratic Reforms

I. SITUATIONER

The independence, capacities and integrity of government institutions are not enough to provide quality and efficient public services. Regulatory capture works as powerful brakes on various government initiatives, eroding their effectiveness and sustainability. The bureaucracy is largely perceived to be beholden to vested interests which interfere in the bureaucracy's functioning, rendering it unable to perform its functions and undertake its programs unhampered. The entrenched system of patronage and payback in the political landscape is the source of such particularistic interests.

The institutional design, systems and processes of government pose a challenge on the quality of public goods and services. A number of factors impinge on this quality, these are: (a) redundant, duplicating and overlapping programs/activities, (b) diffused resources to non-essential undertakings, (c) uncoordinated policy and program implementation, (d) poor sector management, (e) proliferation of special task bodies or interagency committees, (f) ineffective performance management system, and (g) highly politicized bureaucracy.

Despite previous efforts to trim the bureaucracy, the government is still weighed down by unclear delineation and overlapping of functions. This results in high transaction costs internalized by government, business, nongovernment organizations and the general public as a result of poor coordination in policy and program implementation, weak sector management and wastage of resources.

The perception of a “bloated” bureaucracy lies not only in the distribution of government employees in terms of national vis-à-vis the local government units (LGUs), but also its maintenance cost. Neighboring Asian countries have higher government personnel ratios, but they deploy greater number of civil servants to local areas and frontline services. The other issue is more of efficiency and cost.

Government addresses these concerns through various institutional reforms that would strengthen its capacity to be efficient, effective and responsive. Various administrative streamlining initiatives have been implemented in lieu of the sector-wide public sector management reform that was intended under the Public Sector Institutional Strengthening Bill. In the Office of the President, a total of 125 agencies were either abolished or properly aligned/subsumed under the different departments/agencies to demonstrate leadership in structural and functional fitness.

Meanwhile, the country has continued to exploit the use of information and communications technology (ICT) as a tool to enhance productivity, improve efficiency and ensure greater transparency and effectiveness in government operations. The commitment of the government to enhance delivery of government services is demonstrated by the creation of the e-Government Fund to finance priority government frontline ICT projects. Among those that have been approved under the Fund were: (a) the Bureau of Internal Revenue's (BIR) Integrated Computerization Projects, which

include the electronic filing and payment system, E-TIN system, e-Report Card, and the BIR Data Warehouse; (b) the Bureau of Custom's (BoC) web-based applications system to streamline processes, and encourage transparent transactions; and (c) the National Computer Center's e-Local Government Units (LGUs) project to assist LGUs in the computerization of priority systems, including Real Property Tax System (RPTS). In addition, to encourage more private sector investments in the development and implementation of priority ICT projects in government, additional guidelines for ICT projects for implementation under the Build-Operate-Transfer (BOT) or similar schemes were adopted.

II. GOALS, STRATEGIES AND ACTION PLANS

To improve the quality and efficiency of public service, the government shall adopt institutional improvements in the bureaucracy, deactivating irrelevant functions, consolidating duplicated functions while reinforcing the most vital functions. It shall establish a professional bureaucracy that maintains a healthy independence from political influence. A bureaucracy that is relatively well-paid (which matches private sector initiatives) and has a strong sense of merit and integrity. This independent bureaucracy would ensure public services to flow continuously despite occasional political storms. It would allow merit-based promotion and other best practices to take root in the bureaucracy.

Legislation will be passed on government reengineering with a silver parachute. The compensation package of those that will remain will be upgraded, together with the institution of a sustained capability building program and promotion of meritocracy through recruitment of the "best and the brightest."

All departments of the Executive Branch and their component units/bureaus, including government-owned-and-controlled-corporations (GOCCs) shall conduct a strategic review of their operations to identify the functions, activities, programs, and projects, that need to be scaled down, phased out, or abolished. It shall also be able to identify the areas where to channel more resources. Government corporations shall perform their mandates in the most efficient, effective and economical manner. Employees whose functions are found to be redundant may opt to retire, if qualified, or remain in government; their separation from the service will be voluntary. Those who opt to retire or be separated from government service are guaranteed their retirement/separation benefits plus the applicable incentives. The government shall also implement a livelihood program for those who want to venture into business after retirement/separation from government.

Over the medium term, the government shall continue to adhere to a "scrap and build" policy by allowing the creation of an agency or unit only upon the abolition of an equivalent organizational unit. Likewise, the personal services program will provide for salary adjustments only from the savings of the departments who have initiated the bureaucratic reform.

As the government continues to review its functions and outputs, it shall also continue to adhere to the highest tenets of professionalism, meritocracy, and integrity in the civil service. The career service shall be rejuvenated to encourage creativity, initiative and performance. It shall endeavor to uphold the credibility of officials and employees who opt to work in government and exact performance from the corporate sector in the light of mounting demand for corporate transparency and integrity from the public.

The government shall also continue to exploit the use of ICT as a tool to improve access to and delivery of government services and promote a culture of performance, results and accountability in public sector institutions. This effort shall be supported by enacting laws and policies such as the institutionalization of the e-Government Fund to meet the requirements of major information and communication technology projects of the government. The government shall enhance access to government information and services through electronically enabled government frontline services using various technologies. LGUs shall be ICT-enabled down to the barangay level by 2010. Knowledge management and productivity frameworks shall also be institutionalized in the bureaucracy.

In the agriculture, agrarian reform and natural resources (AARNR) sector, critical governance reforms shall be implemented to establish a bureaucracy that will effectively be responsive to the demands of a productive and enterprising agricultural sector. These reforms are:

1. Fully adhere to provisions of the Local Government Code, the Agriculture and Fisheries Modernization Act (AFMA), and the Fisheries Code on the role of local government units (LGUs) in the provision of devolved services whereby the National Government's (NG) role will be limited to providing technical/funding assistance and piloting of innovations (e.g. strengthening the management capacity of LGUs on municipal fisheries management). This can include the review and revision of the NG-LGU counter-parting, as well as the Internal Revenue Allotments distribution and disbursement systems. The objective is to transform them into performance-based systems that will effectively encourage the LGUs to adequately provide the devolved agricultural and fisheries services.
2. Improve the efficiency, effectiveness, convergence and complementation of the AARNR service agencies and related offices by enforcing measures to address institutional overlaps. This is to address the needs of a greater number of farm beneficiaries (e.g., uplands, coastal and marine development activities between the Department of Agriculture (DA) and the Department of Environment and Natural Resources (DENR); support service provision in agriculture by the Department of Agrarian Reform with other Comprehensive Agrarian Reform Program implementing agencies) by June 2005.
3. Fully implement the AFMA provisions on the consolidation and rationalization of the agriculture and natural resources research, development and extension (RDE) system to improve productivity, competitiveness, environment-friendliness, effectivity and responsiveness to the sector's needs. With the view towards facilitating this efficiency and reform objective, the disparate component agencies and networks of the RDE system (DA, DENR, and the Department of Science and Technology) shall be harmonized towards eventual consolidation and unification by 2010.
4. Push for the integration of the various agencies involved in land titling process (Land Management Bureau, Land Registration Authority, and Department of Agrarian Reform).
5. Shift the institutional structure and operational protocols of DA from commodity-specific to functional lines starting October 2004; from production-side intervention bias to the inclusion of demand-side strategies, in keeping with the Congressional Oversight Committee on Agriculture and Fisheries Modernization (COCAFAM) and the AFMA

reforms. This will ensure institutional accountability, unified policy direction, and a rational and integrated approach to agricultural modernization.

6. Improve the transparency, professionalism and efficiency of the sector regulatory system. This will involve reviewing the civil service rules on appointive positions to prevent regulatory capture and promote the competitiveness of the sector. Moreover, the procedures and processes of the regulatory agencies will be reviewed and revised to improve transparency, accountability as well as the timeliness, effectivity and efficiency of their interventions. This may involve operational reforms that will include, among others, the following:
 - minimize the number of steps and persons involved in the regulatory process;
 - reduce to the absolute minimum the discretionary powers of the regulators through the establishment of clear and rule-based procedures and policies; and
 - reduce barriers to entry and promote competition.

The sector regulatory system includes agencies such as the Fertilizer and Pesticide Authority, Bureau of Plant Industry, National Meat Inspection Commission, Bureau of Agricultural and Fishery Products Standards, and commodity-based agencies, among others.

7. Develop and implement a comprehensive restructuring plan for the National Irrigation Administration (NIA) to improve its financial and operational performance. With the Irrigators' Associations (IAs) playing a bigger role in the management of irrigation systems including National Irrigation Systems (NIS), NIA needs to refocus its management strategy and restructure its operations including the implementation of the Irrigation Management Transfer (IMT). Its plantilla needs to be reviewed carefully and streamlined as necessary. Training needs of remaining NIA staff will need to be assessed and met. A multiagency task force could be set up to oversee the restructuring process and ensure its compliance with an agreed implementation schedule.

In the infrastructure sector, public infrastructure shall be delivered with efficiency in resource allocation. Cost-efficiency shall be achieved while regulatory reforms shall be undertaken. Improved financing schemes will also be used to enhance the implementation of infrastructure projects.

Regulatory and legal reforms will be implemented by promoting the independence of the regulator, separate operator and regulator functions. Safety, quality, environmental, and legal standards shall also be enforced. Moreover, institutional reforms will be implemented to ensure transparency and accountability and to mitigate, if not eradicate, administrative impropriety of respective government agencies. This would help resolve conflicting mandates among agencies involved in the infrastructure planning and implementation.

Transport Infrastructure

1. ***Air Transport.*** Consistent with the scrap-and-build policy of the national government, the conversion of the Air Transportation Office (ATO) into a corporate body shall be pursued. An independent oversight unit shall be established within the Department of

Transportation and Communications (DOTC) to handle economic regulation and safety concerns. An independent accident investigation group will also be established.

2. **Water Transport.** The Government shall restructure port institution to improve port service. Regulatory functions shall be transferred to an independent regulator (or regulators), which shall have jurisdiction over all ports. The amendment of the Philippine Ports Authority (PPA) Charter will be pursued to address, among other things, the dual role of PPA as port regulator and operator.
3. **Rail Transport.** To enhance rail services, the sector's institutions will be restructured to separate the policy, planning and regulation functions from the delivery of train services. This will then enable private sector participation. To achieve this objective, a Strategic Rail Authority/Office (SRA) will be established in DOTC, which will be responsible for policy/strategy and regulation. A Track Authority (TkA) will also be established which will own the right-of-way and infrastructure. Private concessionaires will provide all rail services.
4. The role of the Metro Manila Development Authority vis-à-vis transport agencies will be reviewed to rationalize functions of infrastructure-related agencies.

Digital Infrastructure

1. **The establishment of the Department of Information and Communications Technology (DICT)** will more effectively coordinate and implement the national ICT agenda and strategy, as well as the needed policies, programs, projects to speed up the growth of the ICT industry. The President has recently issued Executive Order (EO) 269 creating the Commission on Information and Communications Technology (CICT), which is not merely advisory in nature. It will be the primary policy, planning, coordinating, implementing, regulating and administrative entity of the Executive Branch on ICT and e-commerce initiatives. It will also be a venue to help achieve our vision of a web-enabled Philippines, capable of participating in and contributing to the global economy.
2. **The institutional strengthening of the National Telecommunications Commission** will include prescribing fixed terms for the members of the Commission, and ensuring its independence as a regulatory body in carrying out its decisions and imposing sanctions and penalties for regulatory noncompliance. Regulators must be equipped with clearly defined mandates and the necessary resources to carry out their responsibilities.

Water

1. **Develop and implement a comprehensive restructuring plan for the NIA to improve its financial and operational performance.** With the IAs playing a bigger role in the management of irrigation systems including NIS, NIA needs to refocus its management strategy and restructure its operations including the implementation of the IMT. Its plantilla needs have to be reviewed carefully and streamlined as necessary. Training needs of remaining NIA staff will be assessed and met. A multiagency task force could be set up to oversee the restructuring process and ensure its compliance with an agreed implementation schedule.

2. ***EO 123, otherwise known as “Reconstituting the National Water Resources Board (NWRB)” shall be implemented.*** The NWRB will continue to formulate a new/revised organizational structure for its Secretariat to effectively and efficiently carry out its mandate including economic and resource regulation. With the issuance of EO 123, NWRB shall act as the independent economic regulator for the water sector. Hence, increase in private sector participation and investment for water resources is expected.
3. ***Fully implement EO 927, an act further amending the original charter of the Laguna Lake Development Authority (LLDA),*** which grants the LLDA a thorough corporate reorganization aimed at regrouping its various units for better administrative control and direction, expanding its field offices, strengthening its linkages with other government and private institutions, broadening its financial base and revenue generations, and enlarging its monitoring, licensing, and enforcement. With this, the LLDA shall implement its reengineering program based on the studies made (World Bank-Japan and Netherlands funded). The agency’s capacity to manage the sustainable development of the Laguna de Bay and its watershed through an integrated water resources management approach would then be increased.
4. ***Fully implement EO 279,*** an act instituting reforms in the financing policies for the water supply and sewerage sector and water service providers and the rationalization of Local Water Utilities Administration’s organizational structure and operations.

Energy

The Energy Regulatory Commission’s (ERC) performance shall be assessed. Its processes shall also be streamlined to shorten decision time. An independent search committee that employs transparent selection procedures shall be established.

Transport Infrastructure

1. ***A “users pay” culture wherein the road users will pay for road maintenance shall be developed.*** An autonomous Highway Authority will also be created out of the existing Department of Public Works and Highways to manage the national roads. The Road Fund will also be expanded by amending Republic Act 8794 (An Act Imposing a Vehicle User’s Charge on Owners of All Types of Vehicles and for Other Purposes) to include fuel levy.
2. ***National Government Transport Infrastructure Projects shall not be taxed by LGUs*** who also are the primary beneficiaries of these NG investments. Benefits gained by LGUs include increased real property values, additional income taxes from flourishing commercial establishments, enhanced mobility of its citizens and increased accessibility of the area, without any cost to the LGU.
3. ***Special levy or higher property taxes shall be considered to capture part of the windfall gains or unearned increments in land and property values,*** which appreciate due to public road construction or other transport infrastructure adjoining the land and property. This will help the government finance the Right-of-Way and construction costs. It will also help the benefiting land or property owner contribute to the public welfare.

In the tourism industry, the establishment of a Tourism Enterprise Zone Authority (TEZA) to manage the overall development of tourism zones shall be reviewed. The Department of Tourism (DOT) shall also be recast through: (a) the consolidation of its three main marketing units (i.e., Bureau of International Tourism Promotion (BITP), Bureau of Domestic Tourism Promotion (BDTP), and Philippine Convention and Visitors Corporation (PCVC)) into one entity; (b) the reduction of representation in noncore markets by closing foreign offices and recalling foreign attaches which are classified as unsustainable, expensive, inefficient to maintain, or have no potential; (c) the leasing out or selling of the majority of the Philippine Tourism Authorities' (PTAs) assets, and getting out of the business of building and running hotels and other capital and labor intensive assets; and (d) the hatching of TEZA in PTA and return of the PTA's functions to its original mandate to steward development of tourism zones (See Chapter 5: Tourism).

Other specific reforms envisioned are:

1. ***A restructuring of the Cooperative Development Authority (CDA) into a regulatory body*** through amendments of the CDA Charter will be pursued to provide the regulatory framework for the development of cooperatives nationwide.
2. ***The Housing Urban Development Coordinating Council (HUDCC) shall be elevated into the Department of Housing and Urban Development (DHUD)*** as the primary agency on urban planning, development and renewal, land use zoning, housing provision, regulation and finance and marginal settlement.
3. ***Legislation shall aid in operationalizing the Social Housing Finance Corporation as the lead agency in addressing the housing needs of the bottom 30 percent poor households.***
4. ***The proposed Local Housing Boards shall formulate, develop, implement and monitor policies on the provision of housing and resettlement areas*** and on the observance of the right of the underprivileged and homeless to a just and humane eviction and demolition. The Boards shall be empowered to:
 - Prepare local shelter plans;
 - Assist in the preparation of Comprehensive Land Use Plans (CLUPs);
 - Approve preliminary and final subdivision and development plans;
 - Evaluate and resolve issues in the issuance of development permits;
 - Ensure compliance with the 20 percent balanced housing requirement in the Urban Development and Housing Act (UDHA) (which provides that in every housing development project, at least 20 percent of the units or project cost should be for socialized housing); and
 - Identify lands for socialized housing, among others.

Chapter 23

Defense Against Threats to National Security

I. SITUATIONER

The mandate of the Department of National Defense (DND) and the Armed Forces of the Philippines (AFP) is to secure the sovereignty of the State and the integrity of the national territory. The DND and the AFP shall continue to perform its role of preserving internal and external security.

The ongoing insurgency and other internal security threats have had a negative impact on the Philippine economy. The resolution of these threats to internal security will significantly improve the security environment that will foster a climate conducive to economic growth.

II. GOALS, STRATEGIES AND ACTION PLANS

In order for the DND and AFP to effectively fulfill its role of addressing these internal security threats, the following four areas shall be given primary focus:

- Implementing the Philippine Defense Reform program;
- Upgrading the capability of the AFP over a 6-year period;
- Supporting the Peace Process; and
- Enhancing the ability to fight terrorism.

A. Implementing the Philippine Defense Reform (PDR) program

1. *A Comprehensive and Lasting Reform Agenda for the DND and AFP*

a. Institutional and Strategic Improvements

Institutional and strategic improvements in the defense and military establishment are at the core of the government's security campaign. The DND and AFP have embarked on a comprehensive program to re-engineer its systems and retool its personnel. These efforts are geared towards promoting cost-effectiveness and efficiency, and sustaining a long-term balance among the following, within specified financial limits: (1) forces and personnel (structure); (2) equipment, systems and facilities (investment); and (3) training, operations, stocks, facilities, utilization, sustainment (readiness and operations).

A thorough assessment of the defense and military establishment that gained impetus and sustained focus under the direction of President Gloria Macapagal-Arroyo was completed in 2003. This assessment has resulted in the formulation of the Philippine Defense Reform (PDR) program. The PDR provides the framework for introducing a comprehensive reform package at the strategic level for the defense and military establishment.

b. Promoting the Welfare & Benefits of Soldiers

While instituting comprehensive and institutional reforms and improvements at the strategic level under the PDR, the DND and the AFP will place particular emphasis in promoting the welfare of soldiers and improving their benefits. The DND and the AFP will also continue the implementation of specific recommendations of the Feliciano and Davide Commissions.

To be sure, the PDR will serve as the framework for comprehensive, strategic and systemic reforms that will address the causes of the grievances outlined in the reports of the Feliciano and Davide Commissions. However, specific recommendations that can be implemented in the short term must be carried out by the DND and the AFP without awaiting the impact of the comprehensive, strategic and systemic reforms under the PDR.

The DND and the AFP will seek to promote the welfare of soldiers through various programs designed to provide better benefits and services to soldiers, which will include, among others: (1) off-base and on-base housing program; (2) improved AFP medical services; (3) rationalization of the AFP retirement fund and funding pension benefits; (4) development of combat lifesaving capability; (5) development of medical evacuation capability; (6) allocation of benefits to the families of soldiers killed-in-action; (7) establishment of an effective grievance mechanism; and (8) scholarships and tuition fee discounts for soldiers and their dependents.

The implementation of the specific recommendations of the Feliciano and Davide Commissions and other programs designed to promote the welfare of soldiers will continue to be monitored periodically.

c. Institutionalizing Improvements through a new National Defense Act

To institutionalize the reforms to be undertaken, it is imperative that a new National Defense Act be enacted to update the National Defense Act (Commonwealth Act 1) that was enacted in 1935. The DND and the AFP will draft a bill to be submitted to Congress that will embody and codify the strategic, institutional and systemic reforms to be made within the DND and the AFP under the PDR, as well as other needed improvements in the DND and the AFP.

2. *Ten (10) Key Areas of Improvement under the PDR*

Under the PDR, ten key areas of improvement will receive sustained focus:

- Implementation of a strategy-driven, Multi-Year Defense Planning System (MYDPS);
- Improvement of AFP operational and training capacity;
- Enhancement of the operational readiness rates of key AFP systems (Improve Logistics Capacity);
- Improvement of operational level expertise by addressing organizational,

- management and operational systemic deficiencies (Staff Development);
- Development of an effective AFP Personnel Management System;
- Planning, programming and execution of a Multi-Year Capability Upgrade Program for the AFP;
- Optimization of the defense budget and improvement of management controls;
- Creation of a professional acquisition workforce and establishment of a centrally managed defense acquisition system;
- Enhancement of the AFP's capability to conduct Civil Military Operations; and
- Development of accurate baseline data on critical AFP functional areas.

At present, programs of action and milestones are being developed focusing on the ten key areas of improvement. The programs of action and milestones are not stand-alone programs. Rather they are inherently linked in terms of urgency, achievability and impact on the AFP mission. Their focus will be to enhance capabilities from a systemic and strategic perspective. The implementation of these programs of action will be monitored and evaluated on the basis of previously identified milestones.

a. Multi-Year Defense Planning System (MYDPS)

The first program of action under the MYDPS is the implementation of the Multi-Year Capability Planning System (MYCaPS). Under the MYCaPS, Defense Resource Management will be undertaken through the Planning, Programming and Budgeting System (PPBS). The Long-Term Capability Planning System (LTCaPS) and Mid-Term Capability Planning System (MidCaPS) comprise the MYCaPS.

MYCaPS will yield a three-tier DND and AFP capability plan covering a 6-year, 12-year and 18-year horizon that outlines specific strategies, defined objectives, needed capabilities and identified resources to be provided under anticipated financial limits. MYCaPS features milestones and systems for net assessments to determine progress in meeting defined objectives.

b. Improvement of Operational and Training Capacity of the AFP

Improvement of operational and training capacity of the AFP enjoys a high priority in the comprehensive reform agenda for the AFP under the PDR. The backlog of basic training for the AFP will also be addressed focusing on training for commanders, noncommissioned officers and units. Emphasis will also be given to the development of doctrines, training and operations of joint forces that involve the utilization of land, maritime and air forces under a unified command.

c. Improvement of Logistics Capacity

Improvement of logistics capacity involves the enhancement of operational readiness and reliability rates for all platforms and weapons systems, as well as the logistics efficiency of key AFP systems. This will entail improvements in planned maintenance and maintenance procedures, supply chain management, automated supply management system, inventory controls and logistics training.

d. Staff Development Program

The Staff Development Program of the DND and AFP shall include the development of expertise and management skills in the DND and AFP in critical areas or functions that directly impact on the AFP's capability to plan, support and execute effective operations.

e. Personnel Management System

The program of action for the improvement of the AFP Personnel Management System shall include the following: (1) review and evaluation of AFP personnel policies and personnel management systems; (2) realignment of force structure to address strategy, threat and mission; (3) reduction of personnel costs; and (4) automation of the personnel management information system.

f. Planning, programming and execution of a Multi-Year Capability Upgrade Program for the AFP

Planning, programming and execution of a multiyear capability upgrade program for the AFP will be done under the MYDPS. From the MYCaPS developed under the MYDPS will emerge a three tier multiyear capability upgrade program for the AFP covering a 6-year, 12-year and 18-year horizon. For the mid-term, the 6-year AFP Capability Upgrade Program for the AFP will focus on the basic requirements of the AFP to improve its capabilities in fulfilling its missions in pursuit of its internal security operations.

g. Optimization of the defense budget and improving management controls

Another product of the MYDPS will be the establishment of a multiyear defense budget that will include the allocation of budgets to address military operational requirements (e.g. operations and maintenance, training, recapitalization and upgrading of military assets). This will feature needed improvements in the planning, budgeting and requirements generation systems of the DND and AFP and the creation of structures and systems for oversight within the DND and the AFP Major Services to manage resources and requirements from planning to execution.

h. Creation of a professional acquisition workforce and establishment of a centrally managed defense acquisition system

A defense acquisition system will be established in the DND and the AFP manned by a professional acquisition workforce capable of requirements generation, planning, accountability, reporting and acquisition. The defense acquisition system will be capable of evolving effective acquisition strategies, and policies as well as efficient processes and organizations. In preparation for the transition, the DND and AFP shall establish mechanisms and structures that will serve as precursors for the establishment of a defense acquisition system.

i. Enhancement of the AFP capability to conduct Civil Military Operations

To diminish the underlying socio-economic conditions and spur development in the countryside, the DND and AFP shall support the construction of "Affirmative Action Roads"

that will facilitate economic dispersion in conflict areas. As additional affirmative actions, the DND and AFP will also encourage government departments and agencies to identify and intensify particular programs and action plans that support the counter-insurgency campaign funded under their corresponding budgets. The DND will also support the enhancement of convergence of government efforts at addressing the root causes of the insurgency.

j. Development of accurate baseline data on critical AFP functional areas

The development of accurate baseline data on critical AFP management and functional areas is necessary to readily identify management and operational deficiencies. Accurate baseline data will provide the basis for key assessments that will serve as basis for actions plans that will be developed for the AFP to execute. As the DND and the AFP strengthens its capability for net assessments, a crucial first step will be the development of accurate baseline data.

Over the next six years, government has committed to provide required funding to ensure the full implementation of the PDR program.

B. Upgrading the Capability of the AFP

Under the MYCaPS, the AFP will define a national military strategy in the conduct of internal security operations covering a six-year period that will feature defined and measurable targets and objectives. Within anticipated financial limits, the AFP will identify the required resources to upgrade its capabilities in areas such as mobility, firepower, communications, force protection and combat life support. Upgrading the AFP capabilities in these areas will enable the organization to more effectively perform its missions. In addition, programs to upgrade the operations and training of land force, maritime force, air force as well as Joint Command and Control shall continue to be enhanced.

In general, the land force capability upgrade will focus on projects designed to improve land mobility, command and communication, increase firepower and enhance force protection and combat life support. The maritime force capability upgrade will focus on projects designed to develop and sustain naval mobility, naval patrol capability and naval firepower. The air force capability upgrade will focus on projects designed to develop and sustain airlift, air strike, surveillance, ground support and medical evacuation capabilities. The Joint Command and Control (C2) capability upgrade will focus on training programs on Joint C2, on upgraded equipment, and for establishment of stand-up Joint Special Operations Units.

Over the next six years, a substantial part of the annual budget of the DND and the AFP, supplemented by funds from other sources, will be used to upgrade the capability of the AFP resulting in a stronger and mission-capable AFP.

C. Supporting the Peace Process

The AFP will continue in its mission of protecting our people against internal security threats. In war, there are no unwounded soldiers. Thus, the government's peace initiatives enjoy the support of the defense and military establishment. To sustain the peace process with the Moro Islamic Liberation Front (MILF), observance of the ceasefire by both parties will be ensured. The DND and the AFP will assist the Office of the Presidential Adviser on the Peace Process in the formulation of provisions that will safeguard the cessation of hostilities. However, to achieve complete and lasting peace, the

support of the DND and the AFP in the social development initiatives of government designed to address the root causes of insurgency must be coupled with enhanced capability of the AFP to fulfill its basic mission.

D. Enhancing the Ability to Fight Terrorism

Events in the Southern Philippines and throughout the region have highlighted that the threat of terrorism is a real and serious concern for the country and that it should be effectively addressed. In this regard, the AFP is committed to continue its operations against the remnants of the Abu Sayyaf and will seek to further degrade its strength and prevent its resurgence. The AFP will also continue to monitor the activities of other terrorist groups and deny them sanctuaries, training grounds or bases of operation. Support for the upgrade in the capability of the AFP is a key in the success of its missions in this respect.

The AFP will also continue to actively participate in the global fight against terrorism. Additional counter-terrorist units will be created and trained. Specialized and technical trainings will be enhanced. Improving intelligence fusion among the DND, AFP and other government agencies which form part of the intelligence community as well as establishing linkages and stronger ties with our neighbors in the region will facilitate the exchange of information and technology, and contribute to the capability of the AFP to deal with the terrorist threat.

The institutional and strategic improvements in the defense and military establishment achieved in the six-year period will provide the foundation for a strong and mission-capable DND and AFP.

Implementing the needed reforms under the PDR framework and investing in the upgrade of the capability of the DND and the AFP to meet its defined missions augur well for the government's campaign to achieve a lasting peace that will establish an environment conducive to economic growth and development.

Chapter 24

Responsive Foreign Policy

I. SITUATIONER

The Philippines faces eight realities that characterize its international and regional environment to which it has to respond in order to achieve its development goals.

The first reality is that the United States, China and Japan, and their relationship with one another, are the determining influence in the security situation and economic evolution of East Asia.

Second, more and more Philippine foreign policy decisions have to be made in the context of the Association of South East Asian Nations (ASEAN).

Third, the international Islamic community will become more and more important to the Philippines.

Fourth, the coming years will see the redefinition of the role of multilateral and interregional organizations in promoting common interests.

Fifth, the defense of the nation's sovereignty, and the protection of its environment and natural resources can be carried out to the extent that it gets others to respect the Philippine rights over its maritime territory.

Sixth, the country's economic growth will continue to require direct foreign investment.

Seventh, a country like the Philippines can benefit most quickly from international tourism.

And, eight, overseas Filipinos will continue to play a critical role in the country's economic and social stability.

II. GOALS, STRATEGIES AND ACTION PLANS

The foreign policy of the Arroyo administration consists of protecting the interests of the Philippines by responding to eight realities in the global and regional environment.

These eight realities underscore the three pillars of foreign policy: (a) preservation and enhancement of national security; (b) promotion and attainment of economic security; and, (c)

¹ DFA, "Secretary Romulo Pursues Foreign Policy Interest In Partnership With House of Representatives" (www.dfa.gov.ph/news/pr/pr2004/sep/pr538.html, September 13, 2004)

protection of the rights, and the promotion of the welfare and interests, of Filipinos overseas. These pillars overlap and cannot be considered apart from each other. Together with the eight foreign policy realities, they reinforce each other and must be addressed as one whole.¹

A. The United States, China and Japan

1. *The United States*

While the US is a determining influence in East Asia by virtue of its dominant military and economic power, for the Philippines, its importance is more than that. The Philippines values a strong relationship with the American government. The bonds of over a century are tightened by a common political tradition and by world wars fought together, and today by the three million Filipinos who live in America.

After the terrorist attack on the US on September 11, 2001, the bonds became even stronger. The Philippines committed to the fight against global terrorism that erupted as a result of the tragedy. The government joined the war against global terrorism because it has felt the pain of terrorism in the country for many years, and the people who are most often terrorized are the poorest.

The Philippines shall work to keep the relationship with the US firm in propelling the common commitment to fight terrorism domestically, regionally and worldwide. The government will continue to conduct joint training, joint civic action, and intelligence fusion with American troops in the Philippines (Part V, Chapter 22 - Defense Reforms).

2. *China and Japan*

China and Japan have emerged as the most powerful nations in the region. The Philippines, together with the rest of Asia, has a stake in ensuring that the China-Japan relationship exerts a beneficial influence on the region's economic and political stability.

a. China

China is an economic power with the largest growing economy in the world. Its recent membership in the World Trade Organization (WTO) makes China a major market.

China is a major politico-strategic player in international and regional politics. It is a nuclear power and the permanent member of the United Nations Security Council from Asia. It is the only country with direct involvement and stake in the three potential flashpoints in the region – the South China Sea, the Taiwan Strait and the Korean Peninsula.

The Philippine government recognizes the government of the People's Republic of China as the sole legal government of China and respects the position of the Chinese government that there is but one China. The Philippines desire a healthy, comprehensive, long-term relationship with China that transcends the specific matters at issue between the two countries, the South China Sea issue and the constant arrest and detention of Chinese

fishermen caught in Philippine waters. This strategy of comprehensive, long-term engagement involves the development of all-around, multidimensional and far-sighted relations with China. It involves taking advantage of China's growing economy and entry into the WTO by expanding trade with China and by attracting Chinese tourists to the Philippines.

Relative to the cross-strait issues, the Philippines desires that cross-strait issues be solved through peaceful means. It adheres to the consensus in ASEAN that peace and stability should be maintained in the Asia-Pacific region and that China and Taiwan should be encouraged to dialogue.

b. Japan

The Philippines should move to strengthen bilateral economic and political relations with Japan. This will be done through the conclusion of the Japan-Philippines Economic Partnership Agreement (JPEPA) (Part I, Chapter 1 - Trade and Investment).

B. Association of South East Asian Nations (ASEAN)

As a founding member of the ASEAN, the Philippines fully supports the vision for a more united and integrated ASEAN Community, working together towards economic growth, social progress, and cultural development in the region.² The government considers the large market of ASEAN as responsive to its economic development; however, it cannot be denied that ASEAN is also becoming more and more an instrument towards the security of the region. Thus, the Philippines shall continue to share intelligence and operational information with its allies in Indonesia and Malaysia to curtail the movements of the Jemaah Islamiyah and the Al Qaeda cells in the region (Chapter 23: Defense Against Threats to National Security).

C. Islamic Community

The government will seek to form stronger relations with the Organization of Islamic Communities (OIC) beyond the overseas workers related issues. It will strengthen and broaden mutually supportive arrangements to advance reconciliation and secure abiding economic prosperity in Southern Philippines.³ The country shall continue to forge peace in Mindanao through third party facilitation, through the deployment of an international monitoring team to seal stability on the ground and the sustained deployment of multilateral development partnerships⁴ (Chapter 14: National Harmony: The Peace Process).

D. Regional Arrangements and Multilateral Organizations

The Philippines shall promote its national interest in regional arrangements and multilateral organizations through development diplomacy in the areas of trade, investment, and technology

² DFA, "ASEAN The Key To Regional Integration And Cooperation In Trade —Secretary Albert" (www.dfa.gov.ph/news/pr/pr2004/aug/pr472.htm, August 12, 2004)

³ From the President's Departure Speech for Malaysia, August 7, 2001.

⁴ From the President's speech during the Philippine National Police Change of Command Ceremony of PNP Dir. Gen. Edgardo B. Aglipay, Vice Dir. Gen. Hermogenes Ebdane, Jr. (Ret.), August 23, 2004.

transfer, among others, with the ASEAN, Asia Pacific Economic Council (APEC), Asia-Europe Meeting (ASEM), Forum for East Asia-Latin America Cooperation (FEALAC), United Nations (UN) and WTO. Diplomatic initiatives will be pursued through active involvement in negotiations in the multilateral trading regime to promote the country's interest in agriculture, rules of origin, nontariff barriers, infrastructure projects and intellectual property matters (Part I, Chapter 1 - Trade and Investment).

The country will continue to support peacekeeping operations of the UN in war-torn areas such as Kosovo, East Timor, Liberia, Haiti, and Sudan. The government shall also continue to actively participate in regional/international cooperation exercises that seek to echo its concern for the rights of the child, women's rights and human rights as well as to address transnational crimes. It shall pursue the strengthening of legislation and legal frameworks as well as the structures of institutions involved in the fight against domestic and transnational crimes. The Philippines will also push for the immediate ratification of the UN Convention Against Corruption (Part V, Chapter 20 - Anti-Corruption).

E. Territorial Rights: The Spratlys in the South China Sea

Some 64,976 square miles in the South China Sea, inside of which are 33 islets, atolls, cays, reefs, shoals and others, are claimed by the Philippines, calling them the Kalayaan (freedom) island group. The Philippines and China and others like Vietnam, Malaysia, Brunei and Taiwan have conflicting claims over the area or some part of it.

The country's policy towards the South China Sea adheres to the 2002 Asean-China Declaration of Conduct in the South China Sea, whereby the parties agreed to settle disputes in a peaceful and friendly manner through consultation and refrain from using force or threat of force to resolve disputes. While the Declaration of Conduct was being negotiated, President Arroyo of the Philippines and President Jiang Zemin of the People's Republic of China agreed in 2001 to transform the South China Sea from a region of conflict to a region of cooperation. Accordingly, the Philippines and China agreed to conduct joint research undertakings in the South China Sea.

The defense of the state is primordial. The Armed Forces of the Philippines (AFP) shall ensure the national sovereignty and territorial integrity of the Republic and meet the challenges of international terrorism and other threats to national security. The Philippines is committed to combat terrorism and to support international efforts that address the root causes of terrorism.

F. Direct Foreign Investment

Investments in infrastructure and export-oriented enterprises shall be promoted. A more competitive incentives package with focus on priority areas, namely, infrastructure, information technology, automotive, electronics, mining, agribusiness, health care, tourism, housing and shipbuilding shall be drawn up. Europe, along with the US, China, Japan, and ASEAN will be tapped as major sources of foreign direct investments, technology transfer and trade through development diplomacy (Part I, Chapter 1 - Trade and Investment; Part I, Chapter 2 - Agribusiness; Part I, Chapter 6 - Infrastructure; Part I, Chapter 5 - Tourism; Part I, Chapter 4 - Housing Construction; and Part III, Chapter 12 - Anti-Poverty Program).

G. Tourism

Cebu-Bohol-Camiguin, Metro Manila-Tagaytay, Northern Palawan, Boracay, Clark-Subic, Cordillera, Ilocos and Davao shall be enhanced as tourism hubs. The airline industry shall also be liberalized to boost tourism (Part I, Chapter 5 - Tourism).

H. Overseas Filipinos

The fact that the Philippines gets a tenth of its gross national product (GNP) from its overseas workers, many of these in the Middle East, resonates throughout government's foreign policy.

The Philippine commitment to the coalition against global terrorism must take into account that the Philippines is a special circumstance. Unlike other countries, 8 million Filipinos live and work abroad. Some 1.5 million Filipinos live and work in the Middle East and more than 4 thousand are in Iraq as Overseas Filipino workers (OFWs). The life and livelihood of these OFWs involves some hazard in the war against terrorism. Many of them are truck drivers and construction workers vulnerable to terrorist attacks. Combat troops of other coalition members are by definition not as vulnerable. The government's policy is to reduce that vulnerability.

The government will continue to provide progressive consular and legal assistance to Filipinos abroad. It shall also strengthen the welfare mechanisms for OFWs by aggressively forging new bilateral agreements with host countries. OFWs shall be tapped as sources of capital, new skills and technology by implementing the entrepreneurship program under an expanded OFW Reintegration Program (Part I, Chapter 1 - Trade and Investment; Part III, Chapter 12 - Basic Needs - Anti-Poverty Program; and Part IV, Chapter 19 - Science and Technology).

The Philippines will push for the review and amendment of the Foreign Service Act, the Migrant Workers Act, the Passport Law, and the Overseas Absentee Voting Law that will help in the pursuit of protecting the interest of the Filipinos overseas.

Chapter 25

Constitutional Reforms

I. SITUATIONER

The EDSA Revolution of 1986 allowed the country to restore its democratic institutions and restart its economic recovery. However, the country's seriously weakened economy, political instability and unabated corruption have continued to retard efforts to achieve progress. Applying the solutions to these problems depends crucially on the presence of effective political institutions, effective and accountable political parties and more liberal economic policies.

The country's political institutions have become less effective to address problems under the present presidential setup. The separation of powers and checks and balances between the executive and legislative branches often result in delays in legislation and policymaking. The executive has to resort to compromise and concession to pass the annual appropriations bill and the other major initiatives. But even when good legislation is passed, it may suffer from execution problems because of the lack of legislative support to impose or raise taxes that are needed for its implementation. National policymaking has come to depend on the lowest-common-denominator of agreement among executive and legislative branches of the government.

The national government remains highly centralized, slow and unresponsive to the needs of the people in the rural areas and cultural communities. Although local governments are supposed to enjoy local autonomy under the 1987 Constitution and the Local Government Code, they are in fact controlled in many ways by the national government on which many of them have become habitually dependent for guidance and resources. This inhibits local initiative and resourcefulness to effect progress and development within their territories and communities.

The 1987 Constitution provides for a free and open party system that would afford free choice to the people and encourage citizens' participation in governance. Seventeen years into the implementation of the charter, personalistic politics and the lack of effective, cohesive and functional political parties that focus on issues and policies still dominate the political system of the country. The current party system offers no meaningful policy choices since political parties form around well-known personalities and families, instead of well-defined programs of government. This has made popularity, and not intelligence, competence, or experience, the winning qualification for public office.

Though elections enable the country to change its leaders from time to time, these have not made much difference to improve leadership and governance. Elections cannot make political leaders accountable to the people without effective and responsible political parties that offer meaningful policy alternatives.

Along with these political challenges, the paucity of investment and domestic capital resources remain to be one of the fundamental problems of the economy. Though various structural reforms in banking, power and retail trade sectors helped sustain the moderate growth of the Philippine economy, such legislative and administrative reforms fell short of delivering the expected investments that would create jobs and spur economic growth.

It is observed that the problem is systemic, rooted in the protectionist policies in the Constitution. These policies prevent the flow of foreign capital, technology and production skills into our economy.

The Constitutional provision providing for a self-reliant and independent economy effectively controlled by Filipinos, limiting the practice of all professions to Filipino citizens, reserving certain areas of investments, and giving preference in the grant of rights, privileges, and concessions covering national economy and patrimony to Filipino individuals and corporations, stifled economic innovations and reforms that would open up the economy to foreign capital and investment. The question on what constitute national patrimony also remains a problem in determining areas of investments wherein foreign equity may be allowed.

Moreover, the limitations set by the Constitution on the ownership, transfer and conveyance of private lands have barred foreign individuals (save in case of hereditary succession) and foreign corporations to own land. These discouraged foreign investor's confidence for long-term ventures. The limitations of foreign equity in domestic public utilities to forty percent (40%), advertising industry to thirty percent (30%), educational institutions to forty percent (40%) and no equity participation at all in mass media prevents access of both international and domestic capital and the transfer of new technologies. These would have delivered the vital facilities and services in an economical and financially prudent manner.

The difference between the ownership requirement in media (100% Filipino) and in telecommunications (40%) likewise hinders the convergence of media, information technology and telecommunications industries. On the other hand, limiting foreign equity participation (40%) in companies (engaged in developing natural resources and confining involvement of foreign corporations to technical and financial assistance in the large-scale exploration, development and utilization of minerals, petroleum, and other mineral oils remain) is a major stumbling block in the entry of capital and more efficient technology needed in the exploration of natural resources.

II. GOALS, STRATEGIES, ACTION PLANS

The reassessment of the Constitution through a Constitutional Convention to implement the needed structural and systemic reforms in political institutions and the electoral and political party systems is imperative. The reassessment may include: (a) shift from the current presidential form of government with its separation of powers between the executive and legislative to a unicameral parliamentary form of government that would unify and coordinate those two functions in the parliament; (b) change from the present centralized unitary system to a decentralized federal system; (c) structural and functional reforms affecting the electoral and political party systems; and (d) defining political dynasties and making the Constitutional prohibition against political dynasties self-executory.

Fusing the powers of the executive and legislative in a unicameral parliamentary system would reduce if not totally eliminate delays in legislation and policy-making. As such, development efforts and other poverty reduction initiatives would be immediately acted upon. A unicameral parliament will likewise make law-making simpler and more efficient by doing away with duplication in a two-chamber legislature.

This basic change shall be accompanied by meaningful political reforms, particularly a law on political parties. This would spur the rehabilitation of societal organizations and mass movements, and clean up of our electoral processes. Measures to subsidize political parties in the margins of competition will be promoted to diminish the influence of moneyed power brokers in the electoral process. This will also assist the parties in advocating public issues for the nation's future.

The structural and functional reforms affecting the electoral system and political party system shall be pursued to create the fertile ground for true reforms. The politics of personality and patronage must give way to a new politics of party programs and a process of institutionalized consultations with the people.

The shift from unitary system to federal system would remove the centralized structures and systems that impose and sustain local dependence and stifle local initiative and resourcefulness. Federalism is not merely a political form. It will have implications on the political economy of the nation. The new structures and processes and responsibilities under a federal setup will challenge and energize local governments and cultural communities to effectively deal with local poverty, unemployment, inadequate social services and infrastructures, and lower productivity. Decentralization of progress and development to the countryside will thus be achieved. Nonetheless, the issue of economic viability and the preparedness of component states under a federal setup shall be addressed.

The country now lives in a global economy, closely interconnected by trade and investments. Thus, government should also be able to effect fundamental reforms and changes in the restrictive Constitutional provisions on national economy and patrimony to bring in investment that will create jobs and opportunities and eventually reduce poverty.

Specifically, the Constitutional preference to Filipinos in the granting of rights, privileges, and concessions on national economy and patrimony and in certain economic activities shall be reviewed. A categorical definition and scope of the national patrimony shall also be provided.

The economic provisions of the Constitution will involve strengthening the legislative branch's regulatory frameworks, safeguard mechanisms, conditions, and limitations.