



Updated Medium-Term Philippine Development Plan 2004-2010

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Republic of the Philippines

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Foreword



MALACAÑAN PALACE
Manila



When I was elected President of the Republic in 2004, among the first things I did was to direct the formulation of the country's Medium-Term Philippine Development Plan (MTPDP) for 2004-2010. This Plan translated into explicit actions the 10-point agenda that I intended as my development legacy to my countrymen.

This Agenda involves the following: (a) creation of 6-10 million jobs; (b) balancing the budget; (c) digital and transport networks linking the entire country; (d) education for all; (e) electricity and water to be provided to the entire country; (f) the decongestion of Metro Manila; (g) making the Subic-Clark Corridor as the most competitive international service and logistics center in the Southeast Asian region; (h) automation of the electoral process; (i) working towards lasting peace; and (j) closure to the divisive issues of EDSA.

The government has formulated the strategies and measures to bring this agenda into fruition. Crucial reforms to ensure sound fiscal management and monetary policy have been put into place. Social protection measures were implemented to supplement existing support to those in need. These reforms provided a strong and responsive socio-economic framework that greatly facilitated the implementation of the agenda.

The economy initially struggled to recover and find solid ground after the Asian financial crisis in 1997 and the challenge of soaring oil prices. Then the economy moved significantly ahead for the better by 2007, resulting in gross domestic product (GDP) growth of 7.1 percent, the highest in over three decades.

The strong macroeconomic fundamentals have served the country in good stead. These provided the anchor with which to jumpstart the 10-point agenda. All the economic sectors have contributed significantly to our country's growth.

Agriculture, for one, expanded its gross value added contributions as farming, fisheries and forest-related activities sustained production. Despite a setback from the dry spell in 2005 and the typhoons and flashfloods in 2005 and 2006, the sector rebounded in 2007, thereby growing by 4.6 percent, surpassing the year's low-end target of 4.0 percent

Industry, for its part, may have had difficulties in coping with competition arising from globalization and the oil shocks that hit the country before 2008. Nonetheless, most industries noted the need to improve in productivity and to stay competitive in the global market. Thus far, food manufactures, which accounted for about 40 percent of the total real value added of the sector, remained stable because of equally robust private consumption.

Services continued to spearhead the country's economic expansion, growing at an average of 7.1 percent in 2004-2006, remaining steadfast at 8.1 percent in 2007. Strong consumer demand, supported by record levels of remittances, including the liberalized environment in transport, communications and retail, have all contributed to its prominence as the economy's major contributor.

The economic growth has contributed immensely to the achievements of my administration insofar as the targets of the 10-point agenda are concerned. The Updated MTPDP lists down such achievements. More importantly, it also identifies the challenges that remain before my term as President ends, challenges that I intend to strongly implement.

This means that as the MTPDP comes to a close in 2010, I will not slow down in my efforts to ensure socioeconomic development. The country's development remains my primordial concern, and at the end of my term, I intend to see to it that the visions and plans of the MTPDP 2004-2010 shall have been vigorously pursued for the benefit of all.


GLORIA MACAPAGAL-ARROYO

Preface



NATIONAL ECONOMIC
AND DEVELOPMENT AUTHORITY
Pasig City



The administration of President Gloria Macapagal-Arroyo has already passed its mid-term as we come out with the Updated Medium-Term Philippine Development Plan (MTPDP) 2004-2010. This plan has been updated to reflect gains as well as recent challenges, as the country continues to move towards a sustained development momentum.

This document is produced by the National Economic and Development Authority (NEDA), with invaluable inputs from the various government agencies, based on an outline drafted by no less than the President herself. It details the strategies and measures that the administration shall continue to carry out until 2010.

Before this updated plan was printed, it was presented to the various cabinet clusters, the private sector, a group of eminent persons for consultation, and to President Arroyo for her approval.

This plan adheres to the outline of the original MTPDP, spanning 25 chapters to cover the major action concerns of the administration. These chapters consist of five parts, corresponding to five development themes: Economic Growth and Job Creation, Energy, Social Justice and Basic Needs, Education and Youth, and Anticorruption and Good Governance.

The first part covers nine chapters containing the accomplishments as well as the continuing plans and programs to sustain economic growth: Trade and Investment; Agribusiness; Green Philippines (previously titled Environment and Natural Resources); Housing; Tourism; Infrastructure; Fiscal Strength; the Financial Sector; and Labor.

The second part covers the chapters on energy and power sector reforms, focusing on efforts to achieve greater energy independence through the increased

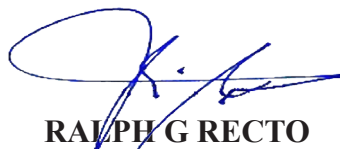
exploration of traditional energy sources such as oil, gas and coal, as well as alternative energy sources.

The third part outlines the various initiatives anchored on the theme Social Justice and Basic Needs. This section contains chapters on the antipoverty efforts of government, efforts to put into place automated elections by 2010, peace and order, attaining national harmony. The antipoverty measures highlight the programs aimed at empowering communities and groups through enhanced livelihood activities through credit support and capacity building, especially through micro, small, and medium scale enterprises (MSMEs). This measure, aside from contributing to the creation of jobs, has proven to improve the lives of the target beneficiaries.

The fourth part contains the chapters focused on education initiatives, science and technology, and culture. The strategies on education cover initiatives in early childhood education, basic education, technical, vocational education and training, and higher education. For science and technology, we emphasize strengthening the culture of science and technology by encouraging innovation. Indeed, innovation is the linchpin for improving industrial, agricultural and professional productivity within the framework of global competition. The fifth part dwells on anticorruption and good governance. Reforms to institutionalize zero tolerance towards graft and corruption are outlined, including the challenges that have to be addressed. For good governance, the chapter on national security has been retained to reflect government policy towards terrorism and the continued operations of secessionist and rebel groups. Constitutional reforms are also discussed, to place into proper perspective the government's efforts to encourage more liberal economic policies that would facilitate the entry of more investments.

This Updated Plan is accompanied by the Strategy Planning Matrices (SPM) which translate the various objectives and strategies in the MTPDP into specific targets, activities, and timelines. Through this companion document, we should be able to monitor and gauge whether we are on the right track in meeting the goals as stated in the Plan.

As the administration of President Arroyo comes to a close, greater attention is required for all sectors in order to successfully implement the MTPDP amidst the challenges brought about by the current global economic crisis as well as by the interest generated by the forthcoming national elections in 2010.



RALPH G RECTO
Socioeconomic Planning Secretary
and NEDA Director-General

Acronyms and Abbreviations

3G	Third Generation Mobile Communication Technology
4Ps	Pantawid Pamilyang Pilipino Program
A&D	alienable and disposable
AAB	Authorized Agents Banks
AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
AARNR	Agriculture, Agrarian Reform and Natural Resources
ABB	Asea Brown Boveri
ABROI	Association of Bank Remittance Officers, Inc.
ABS	asset-backed securities
ACH	automated clearing house
ACI	Asian Institute of Integrity
ACIR	Advisory Commission on Intergovernmental Relations
ACPC	Agricultural Credit Policy Council
ACS	Anti-Corruption Scorecard
ACT	alcohol, cigarette and tobacco
ACT for Peace	Action for Conflict Transformation for Peace in Mindanao
ADAC	Anti-Drug Abuse Council
ADB	Asian Development Bank
ADB-TESDP	Asian Development Bank – Technical Education and Skills Development Project
ADM	alternative delivery mode
ADMP	Ancestral Domain Management Program
ADR	alternative dispute resolution
ADSDPPs	Ancestral Domain Sustainable Development and Protection Plans
AEDMS	Automated Engineering Data Management Section
AEDS	Automated Export Documentation System
AFF	agriculture, fishery and forestry
AFMA	Agriculture and Fisheries Modernization Act
AFMIS	Agriculture and Fisheries Marketing Information System
AFNR	agriculture, forestry and natural resources
AFP	Armed Forces of the Philippines
AFPDDC	AFP Doctrine Development Center
AFPDRTF	AFP Disaster Response Task Force
AFPHRO	AFP Human Rights Office
AFP-RSBS	Armed Forces of the Philippines-Retirement and Separation Benefits System
AHMP	Accelerated Hunger Mitigation Plan
AICO	ASEAN Industrial Cooperation
AIDA	administrative intervention for dispute avoidance
AIDS	Acquired Immune Deficiency Syndrome or Acquired Immunodeficiency Syndrome
AIP	Annual Investment Program

AIPS	Automated Import Permit System
AIR	anti-illegal recruitment
AKPF	Abot-Kaya Pabahay Fund
ALS	Alternative Learning System
AMCFP	Agro-Industry Modernization Credit and Financing Program
AMLA	Anti-Money Laundering Act
AMLC	Anti-Money Laundering Council
AMR	automated meter reading
AMRI	Asiaphil Management Resources Inc.
ANI	Action for Nutrition Improvement
AO	Administrative Order
APEC	Asia-Pacific Economic Cooperation
APIS	Annual Poverty Indicators Survey
APJR	Action Program for Judicial Reform
ARBs	agrarian reform beneficiaries
ARCs	agrarian reform communities
ARFs	agrarian reform funds
ARMM	Autonomous Region in Muslim Mindanao
ASA	air services agreement
ASA	Association for Social Advancement
ASEAN	Association of South East Asian Nations
ASEAN India	ASEAN-India Free Trade Area
ASEAN PIP	ASEAN Priority Integration Program
ASEM	Asia-Europe Meeting
ASF	ARMM Social Fund
ASFP	ARMM Social Fund Project
ASG	Abu Sayyaf Group
ASMS	Automated Spectrum Management System
ASTHRDP	Accelerated S&T Human Resources Development Program
ASTI	Advanced Science and Technology Institute
ATI	Agricultural Training Institute
ATI	Admired Technology Inc.
ATO	Air Transportation Office
ATRIGs	authority to release goods
ATS	alternative trading system
AusAID	Australian Agency for International Development
BAC	Business Action Centers
BAC	Bids and Awards Committee
BAFPS	Bureau of Agriculture and Fisheries Products Standards
BAI	Bureau of Animal Industry
BAP	Bankers' Association of the Philippines
BAR	Bureau of Agricultural Research

BAS	Bureau of Agricultural Statistics
BatMan 1	Batangas-Manila pipeline project
BatMan 2	Bataan-Manila pipeline project
BBP	Balik-Baril Project
BCDA	Bases Conversion Development Authority
BDSs	business development services
BEAM	Basic Education Assistance for Mindanao
BEIS	Basic Education Information System
BEmONC	Basic Emergency Obstetric and Newborn Care
BEs	big enterprises
BESE	Big Enterprise-Small Enterprise Program
BESF	Budget of Expenditures and Sources of Financing
BESRA	Basic Education Sector Reform Agenda
BEST	Business Expense-Savings Training
BETP	Bureau of Export Trade Promotion
BFAD	Bureau of Food and Drugs
BFAR	Bureau of Fisheries and Aquatic Resources
BFP	Bureau of Fire Protection
BHDT	Bureau of Health Devices and Technology
BHFS	Bureau of Health Facilities and Services
BI	Bureau of Immigration
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BIN	Barangay Intelligence Network
BIOCommerce	Biotechnology Commerce
BIONet	Biotechnology Information and Organization Network
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BLGF	Bureau of Local Government Finance
BMBEs	barangay micro business enterprises
BMSMED/BSMED	Bureau of Micro, Small and Medium Enterprise Development/Bureau of Small and Medium Enterprise Development
BNB	Botika ng Bayan
BnB	Botika ng Barangay
BNRS	Business Name Registration System
BOC	Bureau of Customs
BOD	biological oxygen demand
BOI	Board of Investments
BOP	balance of payments
BOT	build-operate-transfer
BPI	Bureau of Plant Industry
BPI	Bank of the Philippine Islands

BPLS	Business Permit Licensing System
BPO	business process outsourcing
BP-OSA	Balik-Paaralan for Out-of-School Adults
BPP	Board of Pardons and Parole
BPS	Bureau of Product Standards
BSCF	billion standard cubic feet
BSE	Bureau of Secondary Education
BSP	Bangko Sentral ng Pilipinas
BSRP	Bayanihan Savings Replication Project
BSWM	Bureau of Soils and Water Management
BTr	Bureau of the Treasury
BTRCP-DTI	Bureau of Trade Regulation and Consumer Protection – Department of Trade and Industry
BuCor	Bureau of Corrections
BWA	Broadband Wireless Access
BWSA	Barangay Waterworks and Sanitation Associations
CA	certification authority
CA	compulsory arbitration
CA	Court of Appeals
CAAP	Civil Aviation Authority of the Philippines
CAAP	Computer Assisted Audited Program
CAATs	Computer Assisted Audit Tools and Techniques
CAB	Civil Aeronautics Board
CAD	Compliance Assistance Desk
CADTs	Certificates of Ancestral Domain Titles
CAG	Consumer Affairs Group
CALA	Cavite-Laguna
CALTs	Certificates of Ancestral Land Titles
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CAMIS	Court Administration Management Information System
CAR	Cordillera Administrative Region
CARHRIHL	Comprehensive Agreement on Respect for Human Rights and International Humanitarian Law
CARL	Comprehensive Agrarian Reform Law
CARP	Comprehensive Agrarian Reform Program
CASURECO IV	Camarines Sur IV Electric Cooperative, Inc.
CAT	Customer Activated Terminals
CATC	Center for Automotive Technology Corporation
CATFABS	Center for Advanced Training in Food and Beverage
CATIAFI	Center for Advanced Technical Industry Automation Federation, Inc.
CATV	cable television
CBA	collective bargaining agreement

CBCP	Catholic Bishops Conference of the Philippines
CBD	Convention on Biodiversity
CBFM	Community-Based Forest Management
CBM	Christoffel Blindenmission
CBMS	Community-Based Monitoring System
CBR	Community Based Rehabilitation
CBRED	Capacity Building to Remove Barriers to Renewable Energy Development
CBRMP	Community-Based Resource Management Project
CCA	Committee on Constitutional Amendment
CCAD	Common Carrier and Authorization Department
CCC	Citizen's Consultative Committee
CCE	core community enterprise
CCO	chemical control order
CCP	Customer's Choice Program
CCP	Cultural Center of the Philippines
CDA	Cooperative Development Authority
CDC	Clark Development Corporation
CDM	Clean Development Mechanism
CEAC-LPP	Community Empowerment Activity Cycle – Local Planning Process
CeC	Community e-Center
CEMMT	Center for Excellence for Modern Manufacturing Technology
CEmONC	Comprehensive Emergency Obstetric and Newborn Care
CENECO	Central Negros Electric Cooperative, Inc.
CEO	chief executive officer
CEPALCO	Cagayan Electric Power & Light Co. Inc.
CEPT	Common Effective Preferential Tariff
CER	Consortium for Electoral Reforms
CER	Collection Efficiency Ratio
CESB	Career Executive Service Board
CEZA	Cagayan Economic Zone Authority
CFL	compact fluorescent lamp
CFM	caseflow management
CFSS	Child-Friendly School System
CHARMP	Cordillera Highland Agricultural Resource Management Project
CHEd	Commission on Higher Education
CHPC	Calaca High Power Corporation
CHR	Commission on Human Rights
CIAC	Clark International Airport Corporation
CIAC	children involved in armed conflict
CICL	children in conflict with the law
CICT	Commission on Information and Communications Technology
CIDA	Canadian International Development Agency

CIIP	Comprehensive Integrated Infrastructure Program
CILC	Computer and Internet Literacy Course
CIO	chief information officer
CIP	combat incentive pay
CIR	Commissioner of Internal Revenue
CIS	Communal Irrigation Systems
CISA	Credit Information System Act
CISL	Collective Investment Schemes Law
CITC	Cottage Industry Technology Center
CITEM	Center for International Trade Expositions and Missions
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
ckm	circuit-kilometers
CLEAR	coastal law enforcement alliance in the region
CLOAs	Certificates of Land Ownership Awards
CLPIMS	Core Local Poverty Indicators Monitoring System
CLUPs	Comprehensive Land Use Plans
CMDC	Capital Market Development Council
CMDD	Capital Market Development Division (of the PSE)
CMDF	Construction Manpower Development Foundation
CME	coconut methyl ester
CMMO	Coastal and Marine Management Office
CMOA	Commission on Maritime and Ocean Affairs
CMP	Community Mortgage Program
CMPL	Code of Muslim Personal Law
CMSMP	Case Management System's Modernization Program
CMTS	Cellular Mobile Telephone Service
CNG	compressed natural gas
CNG-OEM	compressed natural gas – original equipment manufacturer
CNS/ATM	Communications Navigation Surveillance/Air Traffic Management
CO	central office
CO	capital outlay
COA	Commission on Audit
COD	Center of Development
CoDA	Cotton Development Authority
COE	Center of Excellence
COLA	cost-of-living allowance
COMELEC	Commission on Elections
COMSTE	Congressional Commission on Science and Technology and Engineering
COP	certificates of proficiency
COP	Community of Practice
CPA	Cebu Port Authority
CPC	central point contact

CPE	Continuing Professional Education
CPES	Contractors Performance Evaluation System
CPLA	Cordillera People's Liberation Army
CPP	Communist Party of the Philippines
CPPB	Conflict Prevention and Peace Building
CPPR	Country Portfolio Performance Review
CPPR	Center for Public Policy Research
CPR	contraceptive prevalence rate
CPRM	Country Portfolio Review Mission
CPSFP	Consolidated Public Sector Financial Position
CRA	Corporate Recovery Act
CRC	Convention on the Rights of the Child
CREBA	Chamber of Real Estate and Builders Associations
CRM-POS	Cash Register Machine – Point of Sale
CRMS	Customer Relationship Management System
CSC	Civil Service Commission
CSG	Compliance and Surveillance Group
CSI	CHED – Supervised Institution
CSOs	civil society organizations
CTB	Chamber of Thrift Banks
CTC	communications technical course
CTM	communist terrorist movement
CUES	Credit Union Empowerment and Strengthening
CUP	Capability Upgrade Program
CWC	Council for the Welfare of Children
CWS	Coast Watch South
CWTS	Civic Welfare Training Service
CY	calendar year
CY	civil year
DA	Department of Agriculture
DA-GMA	Department of Agriculture – Ginintuang Masaganang Ani
DAO	Department Administrative Order
DAP	Development Academy of the Philippines
DAR	Department of Agrarian Reform
DARAB	Department of Agrarian Reform Adjudication Board
DAS	Defense Acquisition System
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DBM-PS	Department of Budget and Management – Procurement Service
DBP	Development Bank of the Philippines
DC	Department Circular
DCAPS	Defense Capability Assessment and Planning System
DCB	debt conversion bonds

DCCs	day care centers
DDR	disarmament, demobilization and reintegration
DDRR	disarmament, demobilization, rehabilitation and reintegration
DECS	Department of Education, Culture and Sports
DED	detailed engineering design
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DEX	domestic bond exchange
DFA	Department of Foreign Affairs
DHUD	Department of Housing and Urban Development
DICT	Department of Information and Communications Technology
DILG	Department of the Interior and Local Government
DILG-WSSPMO	Department of the Interior and Local Government – Water Supply and Sanitation Program Management Office
DMIA	Diosdado Macapagal International Airport
DML	direct market linkage
DMO	Debt Management Office
DND	Department of National Defense
DO	Department Order
DOE	Department of Energy
DOF	Department of Finance
DOF-NCC	Department of Finance – National Credit Council
DOF-RIPS	Department of Finance – Revenue Integrity Protection Service
DOH	Department of Health
DOJ	Department of Justice
DOJAC	DOJ Action Center
DOLE	Department of Labor and Employment
DOLE-MTC	Department of Labor and Employment – Maritime Training Council
DOLE-NCMB	Department of Labor and Employment – National Conciliation and Mediation Board
DOLE-NMP	Department of Labor and Employment – National Maritime Polytechnic
DOLE-PRC	Department of Labor and Employment – Professional Regulation Commission
DOST	Department of Science and Technology
DOT	Department of Tourism
DOTC	Department of Transportation and Communications
DPG	defense planning guidance
DPUCSP	Development of Poor Urban Communities Sector Project
DPWH	Department of Public Works and Highways
DQ	data quality
DRE	direct recording electronic
DRM	disaster risk management
DRMO	Debt Risk and Management Office

DRMS	Defense Resource Management System
DSDP	Domestic Shipping Development Plan
DSOM	Defense System of Management
DSPF	Defense Strategic Policy Framework
DSPS	Defense Strategic Planning System
DST	documentary stamp tax
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
DTS	Dual Training System
DTT	digital terrestrial television
DTTC	DOST Technology Training Courses
DU	distribution utility
DVP	delivery versus payment
DW	data warehouse
DWRG	Distribution Wheeling Rate Guidelines
E10	10% ethanol-blended gasoline
EASE	Easy and Affordable Secondary Education
EC	electric cooperative
EC	European Commission
EC	Energy Commission
ECC	Environmental Compliance Certificate
ECC	Employees Compensation Commission
ECCD	early childhood care and development
ECD	early childhood development
ECD-KKB	Empowerment and Community Development – Kapangyarihan at Kaunlaran sa Barangay
ECE	Economic Commission for Europe
ECE	early childhood education
ECOP	Employers Confederation of the Philippines
ECP	Employees’ Compensation Program
ECS	extended continental shelf
EDA	Export Development Act
EDC	Energy Development Corporation
EDCOM	Congressional Commission on Education
EER	Effectiveness and Efficiency Review
EFA	education for all
EFPS	Electronic Filing Payment System
EIA	Environmental Impact Assessment
e-KPD	e-Knowledge Public Domain
EMB	Environmental Management Bureau
EMS	Environmental Management System
e-NGAS	Electronic New Government Accounting System
ENGCAPS	Engineering Civic Action Programs

ENR	environment and natural resources
EO	Executive Order
e-ODPS	Enhanced One-Day Power Sales
EOL	Exchange of Letters
EOPT	Ethics-Oriented Personality Test
EPC	Engineering, Procurement and Construction
EPIRA	Electric Power Industry Reform Act
EPPC	EDSA People Power Commission
EPs	emancipation patents
ERC	Energy Regulatory Commission
ERDB	Ecosystems Research and Development Bureau
ERDT	Engineering R&D for Technology
EREs	Emergency Readiness Evaluations
ERP	Enhanced Reintegration Program
ESCS	Education Service Contracting Scheme
ESPCS	Electronic Sanitary and Phytosanitary Certification System
ESVs	earth stations on board vessels
ESWM	Ecological Solid Waste Management
ETEEAP	Expanded Tertiary Education Equivalency and Accreditation Program
ETFs	exchange traded funds
e-TIN	Electronic Tax Identification Number
ETRD	Excise Taxpayers Removal Declaration
EU	European Union
EVAT	Expanded Value Added Tax
EVCS/SOAIS	Electronic Verification Certification System and Special Order Application and Issuance System
EVS	Education Voucher System
F&H	furniture and handicraft
F1	FOURmula One for Health
FAC	Farmland as Collateral
FATF	Financial Action Task Force
FCDU	foreign currency deposit unit
FDIs	foreign direct investments
FDP	Faculty Development Program
FE	forward estimate
FFWS	Flood Forecasting and Warning System
FGDs	focus group discussions
FHSIS	Field Health Service Information System
FIDA	Fiber Industry Development Authority
FIE	fixed-income exchange
FIELDS	Fertilizer; Irrigation and other rural infrastructure; Education and Extension work; Loans, Dryers and other post-harvest facilities; and Seeds

FIES	Family Income and Expenditure Survey
FINEX	Financial Executives Institute of the Philippines
FIO	Field Investigation Office
FIs	financial institutions
FITS	Farmers' Information and Technology Services
FLC	financial literacy campaign
FLGMA	forest land and grazing management agreement
FMR	farm-to-market roads
FMS	Financial Management System
FNRI	Food and Nutrition Research Institute
FOO	Field Operations Office
FP	family planning
FPA	Fertilizer and Pesticide Authority
FPD	Financial Reporting Package
FPI	foreign portfolio investments
FPIC	free, prior and informed consent
FPRDI	Forest Products Research and Development Institute
FPS	Family Planning Survey
FSA	Fisheries School-on-the-Air
FSCIs	Flag State Control Inspections
FSF	Financial Sector Forum
FTA	free trade area
FTI	Food Terminal Inc.
FWFA	Farm Weather Forecast Advisory
FWP	Family Welfare Program
FY	fiscal year
GAA	General Appropriations Act
GAMABA	Gawad sa Manlilikha ng Bayan
GASTPE	Government Assistance to Students and Teachers in Private Education
GCM	Good Citizenship Movement
GDP	gross domestic product
GDRS	Government Disbursement Reporting System
GEM	Growth with Equity in Mindanao
GEMP	Government Energy Management Program
GFI	government financial institutions
GFMD	Global Forum on Migration and Development
GIRs	gross international reserves
GIS	geographic information system
GIS	general information sheet
GLS	general labor standards
GM	grievance machinery
GMA	Greater Modular Access
GMA	Ginintuang Masaganang Ani

GNP	gross national product
GNSS	Global Navigation Satellite System
GOCCs	government-owned and/or controlled corporations
GP	Green Philippines
GPO	Global Peace Operations
GQMSS	Government Quality Management Systems Standards
GRCM	Gender-Responsive Case Management
GREAT	Gender-Responsive Economic Actions for the Transformation of Women Project
GREET	Grassroots Entrepreneurship in Eco-Tourism (GREET)
GRP	Government of the Republic of the Philippines
GRSC	Geothermal Resources Supply Contract
GRT	gross receipts tax
GS	government securities
GSED	Government Securities Eligible Dealers
GSIS	Government Service Insurance System
GSS	general system specifications
GST	gender sensitivity
GTZ-SMEDSEP	German Agency for Technical Cooperation – Small and Medium Enterprise Development for Sustainable Employment Program
GVA	gross value added
GWh	gigawatt hour
HACCP	Hazard Analysis and Critical Control Point
HB	House bill
HCW	health care waste
HDMF	Home Development Mutual Fund (Pag-IBIG)
HEDP	Higher Education Development Project
HEI	higher education institution
HELP	Health, Education and Livelihood Progress
HGC	Home Guaranty Corporation
HH	household
HIRAM	Helping Reach their Aspirations through Micro-credit Program
HIV	Human Immunodeficiency Virus
HLURB	Housing and Land Use Regulatory Board
HOA	homeowners association
HOJ	Halls of Justice
HOR	House of Representatives
HPWC	Housing Policy Working Committee
HRISSP	Human Resource Information System Strategic Plan
HRM	human resource management
HRMOs	Human Resource Management Officers
HSRA	Health Sector Reform Agenda

HUDCC	Housing and Urban Development Coordinating Council
IAACA	International Association of Anti-Corruption Authorities
IAC	Inter-Agency Committee
IACAT	Inter-Agency Council Against Trafficking
IAEB	Invitation to Apply for Eligibility and to Bid
IAF	International Accreditation Forum
IALAG	Inter-Agency Legal Action Group
IAs	Irrigators' Associations
IAS	International Accounting Standards
IATF	Inter-Agency Transferred Fund
IC	Insurance Commission
ICAO	International Civil Aviation Organization
ICAP	Investment Company Association of the Philippines
ICC	Investment Coordination Committee
ICDL	International Computer Driving License
ICM	integrated coastal management
ICRC	International Committee of the Red Cross
ICRS	International Center for Radio Science
ICT	Information and Communications Technology
ID	Identification
IDAP	Integrity Development Action Plan
IDC	Integrity Development Committee
IDD	international direct dialing
IDPs	Internally Displaced Persons
IDR	Integrity Development Review
IEC	Information and Education Campaign
IEC Drive	Information-Education-Communication Drive
IFAD	International Fund for Agricultural Development
IFG	International Finance Group
IFMA	Industrial Forest Management Agreement
IFRS	International Financial Reporting Standards
IHAP	Investment House Association of the Philippines
IHL	International Humanitarian Law
IKSP	Indigenous Knowledge Systems and Practices
IMCs	Investment Management Contracts
IMF	International Monetary Fund
IMP	Iskolar ng Mahihirap na Pamilya
IMPACT-Cities Alliance	Integrated Approaches to Poverty Reduction at the Neighborhood Level –Cities Alliance
IMR	infant mortality rate
IMT	irrigation management transfer
IMT	International Monitoring Team
InfraCom	Committee on Infrastructure

InfRES	Infrastructure for Rural Productivity Enhancement Sector Project
IOs	Institutional Overviews
IOM	International Organization for Migration
IP	indigenous people
IP	internet protocol
IP	intellectual property
IPAF	Integrated Protected Areas Fund
IPDL	Intellectual Property Digital Library
IPMS	Integrated Program for Micro and Small Food Processors
IPO	Intellectual Property Office
IPOs	initial public offerings
IPP	Investment Priorities Plan
IPP	independent power producer
IPP	Intellectual Property Philippines
IPPA	IPP Administrators
IPR	intellectual property rights
IRA	internal revenue allotment
IRMS	Investment Registration and Monitoring System
IRR	implementing rules and regulations
IS	informal sector
ISA	International Standards on Auditing
ISI	Industrial Support Incorporated
ISLA	Integrated Services for the Livelihood Advancements for Fisherfolks
ISIN	International Security Identification Number
ISM	International Safety Management
ISO	International Organization for Standardization
ISOM	Informal Senior Officials Meeting
ISP	internet service providers
ISPS	International Ship and Port Facility Security
ISSP	Information Systems Strategic Plan
ISTIV	Industrious, Systematic, Time-Conscious, Innovative, Strong Value for Work
IT	information technology
IT-BPO	Information Technology – business process outsourcing
ITC	Industry Tripartite Council
ITCU	International Technology Cooperation Unit
ITS	integrated tax system
IVAP	Improved Voluntary Assessment Program
IVRS	Interactive Voice Response System
IWG	Industry Working Group
IWRM	Integrated Water Resource Management
JBIC	Japan Bank for International Cooperation

JC	Joint Circular
JCPC	Joint Congressional Power Commission
JDS	Jobs-Directed Scholarship
JI	Jemaah Islamiyah
JICA	Japan International Cooperation Agency
JMC	Joint Memorandum Circular
JOW	Justice on Wheels
JPEPA	Japan-Philippines Economic Partnership Agreement
JRSP	Judicial Reform Support Project
JSDF	Japan Social Development Fund
JSMP	Job-Skill Matching Program
JSPS	Japan Society for the Promotion of Science
JTD	Joint Tourism Development
KAGABAY	Katulong at Gabay sa Manggagawang may Kapansanan
KALAHI	Kapit-Bisig Laban sa Kahirapan
KALAHI-CIDSS	Kapit-Bisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services
KaSAPI	Kalusugang Sigurado at Abot-Kaya sa PhilHealth Insurance
KaSH	Kasanayan at Hanapbuhay
KBP	Kalayaan Barangay Program
KCCDFI	Kasanyangan-Mindanao, Center for Community Development Foundation, Inc.
KEGs	key economic generators
KEG	key employment generator
KFCIAS	King Faisal Center for Islamic, Arabic and Asian Studies
KM	knowledge management
KOICA	Korea International Cooperation Agency
KPIs	key performance indicators
kWh	kilowatt hour
LA	letter of authority
LAD	land acquisition and distribution
LBP	Land Bank of the Philippines
LCMP	Localized Community Mortgage Program
LCPC	Local Council for the Protection of Children
LCRA	Lending Company Regulation Act
LDCC	Local Disaster Coordinating Council
LDP	Local Development Program
LDPO	Livelihood Development Program for OFWs
LEDAC	Legislative-Executive Development Advisory Council
LEGS	Labor Education for Graduating Students
LEP	Labor Education Program
LEP	Ladderized Education Program

LES	Ladderized Education System
LET	Licensure Examination for Teachers
LFS	Labor Force Survey
LGAs	local government agencies
LGC	Local Government Code
LGUs	local government units
LHBs	local housing boards
LHP	Labor Relations, Human Relations and Productivity
LIAC	Local Inter-Agency Committees
LMB	Land Management Bureau
LMC	Labor-Management Council/Cooperation
LMEDC	Lakambini Micro-Enterprise Development Center, Inc.
LMEP	Labor and Management Education Program
LMI	labor market information
LMP	League of Municipalities of the Philippines
LN	letter notice
LNG	liquefied natural gas
LOGOFIND	Local Government Finance and Development Project
LPG	liquefied petroleum gas
LRA	Land Registration Authority
LRA-DOJ	Land Registration Authority – Department of Justice
LRT	Light Rail Transit
LRTA	Light Rail Transit Authority
LSEF	Labor Standards Enforcement Framework
LSR	local sectoral representation
LTCaPS	Long-term Capability Planning System
LTFRB	Land Transportation Franchising and Regulatory Board
LTO	Land Transportation Office
LTS	Literacy Training Service
LTs	large taxpayers
LUB	Luzon Urban Beltway
LWUA	Local Water Utilities Administration
M2	broad money
MABS	Micro-enterprise Access to Banking Services
MANCOM	management committee
MAP	Mineral Action Plan
MAP	Monthly Alphalist of Payees
MARINA	Maritime Industry Authority
MART	Money Market Association of the Philippines
MB	Monetary Board
MBAs	Mutual Benefit Associations
MBUSSP	Mindanao Basic Urban Services Sector Project
MC	Memorandum Circular

MCAM	Mobile Court-Annexed Mediation
MCA-PTP	Millennium Challenge Account-Philippine Threshold Program
MCIAA	Mactan-Cebu International Airport Authority
MCW	Magna Carta for Women
MDFO	Municipal Development Fund Office
MDFRD	Miami-Dade Fire Rescue Department
MDGs	Millennium Development Goals
MDS	modified disbursement scheme
MECP	Maritime Equity Corporation of the Philippines
MEDP	Missionary Electrification Development Plan
MERALCO	Manila Electric Company
MET	Maritime Education and Training
MFC	Municipal Financing Corporation
MFI	microfinance institutions
MFO	major final output
MFPC	Microfinance Program Committee
MGB	Mines and Geosciences Bureau
MHPs	mini-hydro plants
MI	metering installations
MIAA	Manila International Airport Authority
MICP	Manila International Container Port
MILF	Moro Islamic Liberation Front
MIMAROPA	Mindoro-Marinduque-Romblon-Palawan
Mindanao NATIN	Mindanao National Initiatives
MIRDC	Metal Industry Research and Development Center
MISO	Management Information Systems Office
MLSD	Middle-Level Skills Development
MLUB	Metro Luzon Urban Beltway
MM	Metro Manila
MMB	million barrels
MMBFOE	million barrels of fuel oil equivalent
MMDA	Metro Manila Development Authority
MMR	maternal mortality ratio
MMS	multimedia messaging service
MMSCF	million standard cubic feet
MNFGCs	monitored non-financial government corporations
MNLF	Moro National Liberation Front
MOA	Memorandum of Agreement
MOGRC	Monte Oro Grid Resources Corp.
MOOE	Maintenance and Other Operating Expenses
MORR	Manual of Rules and Regulations
MOU/MoU	Memorandum of Understanding

MOVE UPS	Mindanao Opportunities for Vitalized Education and Upgrading of Science
MPAD Program	Mindanao Peace and Development Program
MPDIs	mandatory pre-departure inspections
MPS	mean percentage score
MRD	Market Regulation Division (of the PSE)
MRDP	Mindanao Rural Development Program
MRF	material recovery facility
MROs	Mobile Revenue Officers
MRT	Manila Metro Rail Transit
MRT	Metropolitan Railways Transit
MS	Master of Science
MSACC	Multi-Sectoral Anti-Corruption Council
MSMEC	Micro-Small, Medium Enterprises and Cooperatives
MSME-RP	Marketplace for SME Suppliers Receivables Purchases
MSMEs	micro, small and medium enterprises
MSU	Mindanao State University
MTCaPS	Medium-Term Capability Planning System
MTEF	Medium Term Expenditure Framework
MTF-RDP	Mindanao Trust Fund for Reconstruction and Development Program
MTPDP	Medium-Term Philippine Development Plan
MTPIP	Medium Term Public Investment Program
MTPPAN	Medium-Term Philippine Plan of Action for Nutrition
MVA	mega volt ampere
MVAR	mega volt ampere reactive
MVIS	Motor Vehicle Inspection System
MVRP	Mandatory Vessel Retirement Program
MVUC	motor vehicle users charge
MW	megawatt
MWh	megawatt hour
MWLS	Manufacturing Warehouse Liquidation System
MWSS	Metropolitan Waterworks and Sewerage System
MYCaPS	Multi-Year Capability Planning System
MYDPS	Multi-Year Defense Planning System
NACPA	National Anti-Corruption Program of Action
NAIA	Ninoy Aquino International Airport
NALECC	National Law Enforcement Coordinating Committee
NaLUA	National Land Use Act
NAMFREL	National Movement for Free Elections
NAMRIA	National Mapping and Resource Information Authority
NAP	No Audit Program
NAPC	National Anti-Poverty Commission

NAPC-WASCO	National Anti-Poverty Commission – Water and Sanitation Coordinating Office
NAPOLCOM	National Police Commission
NAPWC	Ninoy Aquino Parks and Wildlife Center
NARRDN	National Agriculture and Resources Research and Development Network
NAST	National Academy of Science and Technology
NAT	National Achievement Test
NBB	National Biofuels Board
NBI	National Bureau of Investigation
NCA	national cash allocation
NCAE	National Career Assessment Examination
NCBTS	National Competency-Based Teacher Standards
NCC	National Computer Center
NCC	National Credit Council
NCCA	National Commission on Culture and the Arts
NCCE	National Coordination Council for Education
NCCT	National Council for Children’s Television
NCCTs	Non-Cooperative Countries and Territories
NCDA	National Council on Disability Affairs
NCIP	National Commission on Indigenous People
NCMB	National Coordinating and Monitoring Board
NCO	National Collecting Officer
NCPAG	National College of Public Administration and Governance
NCR	National Capital Region
NCRFW	National Commission on the Role of Filipino Women
NCT	national cultural treasure
NDC	National Development Company
NDC	National Development Corporation
NDCC	National Disaster Coordinating Council
NDCP	National Defense College of the Philippines
NDF	National Democratic Front
NEA	National Electrification Administration
NEC	National Epidemiology Center
NEDA	National Economic and Development Authority
NEECP	National Energy Efficiency and Conservation Program
NEETS	National Educational Evaluation and Testing System
NER	net enrolment rate
NFA	National Food Authority
NG	national government
NGAs	national government agencies
NGCP	National Grid Corporation of the Philippines
NGICS	National Government Internal Control Standards
NGOs	non-government organizations

NGVPPT	Natural Gas Vehicle Program for Public Transport
NHA	National Housing Authority
NHE	Non-Handicapping Environment
NHIP	National Health Insurance Program
NHMFC	National Home Mortgage Finance Corporation
NHRC	National Human Resource Conference
NIA	National Irrigation Administration
NICA	National Intelligence Coordinating Agency
NICS	National ICT Competency Standard
NIPAS	National Integrated Protected Areas System
NIS	National Irrigation Systems
NISP	National Internal Security Plan
NKTI	National Kidney and Transplant Institute
NLAQ	North Luzon Agribusiness Quadrangle
NLEX	North Luzon Expressway
NLRC	North Luzon Railways Corporation
NLRC	National Labor Relations Commission
NLSF	National Livelihood Support Fund
NMCIREMP	Northern Mindanao Community Initiatives and Resource Management Project
NMEC	NDC Maritime Equity Corporation
NMIS	National Meat Inspection Service
NMLC	NDC-Maritime Leasing Corporation
NMVIM	Nationwide Motor Vehicle Inspection and Maintenance
NNC	National Nutrition Council
NPA	non-performing asset
NPA	New Peoples' Army
NPC	National Power Corporation
NPCC	National Price Coordinating Council
NPL	non-performing loan
NPP	new power providers
NRAP-IWPC	National and Regional Action Plan on Improving Workforce Productivity and Competitiveness
NRCP	National Research Council of the Philippines
NRD	Natural Resource Development
NREB	National Renewable Energy Board
NREP	National Renewable Energy Plan
NSC	National Security Council
NSCB	National Statistical Coordination Board
NSCTIP	National Science Complex and Technology Incubation Park
NSM	National Safety Management
NSO	National Statistics Office
NSSMP	National Sewerage and Sanitation Management Plan

NSTP	National Service Training Program
NSW	National Single Window
NSWMC	National Solid Waste Management Commission
NTC	National Telecommunications Commission
NTESDP	National Technical Education and Skills Development Plan
NTRC	National Tax Research Center
NUHRA	National Unified Health Research Agenda
NWIN	National Water Information Network
NWPC	National Wages and Productivity Commission
NWRB	National Water Resources Board
NYC	National Youth Commission
O&O	offshoring and outsourcing
OARC	Open Access and Retail Competition
OCA	Office of the Court Administrator
OCD	Office of Civil Defense
OCJ	Office of the Chief Justice
ODA	official development assistance
ODS	ozone depleting substances
ODW	occupationally-disabled worker
OECD	Organisation for Economic Co-operation and Development
OEMAP	Original Equipment Manufacturing Association of the Philippines
OEOs	other executive offices
OFDA	Office of United States Foreign Disaster Assistance
OFs	overseas Filipinos
OFWs	overseas Filipino workers
OGAs	other government agencies
OGCC	Office of the Government Corporate Counsel
OGCEs	other government corporate entities
OMB	Office of the Ombudsman
OMR	optimal mark reader
OP	Office of the President
OPAE	Office of the Presidential Assistant for Education
OPANGC	Office of the Presidential Adviser for New Government Centers
OPAPP	Office of the Presidential Adviser on the Peace Process
OPIF	Organizational Performance Indicator Framework
OPS	Office of the Press Secretary
OPSD	outstanding public sector debt
OSEC	Office of the Secretary
OSEDC	One Stop Export Documentation Center
OSG	Office of the Solicitor General
OSP	Office of the Special Prosecutor
OSSCs	One Stop Shop Centers
OSYs	out-of-school youths

OTOP	One Town One Product
OVOP	One Village One Product
OVP	Office of the Vice President
OWWA	Overseas Workers Welfare Administration
OWWA-NLSF	Overseas Workers Welfare Administration – National Livelihood Support Fund
OWWA-RO	Overseas Workers Welfare Administration – Regional Office
OWYs	out-of-work youths
P/MWSUs	provincial/municipal water and sanitation units
PA	protected area
PAC	Pacific Accreditation Cooperation
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PAG-IBIG	Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industria at Gobyerno
PAGC	Presidential Anti-Graft Commission
PAL	Philippine Airlines
PAMB	Protected Area Management Board
PAO	Public Attorney’s Office
PAOS	post-arrival orientation seminars
PAP	productivity awareness program
PAP	priority action program
PAPTELCO	Philippine Association of Private Telephone Companies
PARC	Presidential Agrarian Reform Council
PASADA	Public Service Delivery Audit
PASG	Presidential Anti-Smuggling Group
PAWB	Protected Areas and Wildlife Bureau
PBDs	Philippine Bidding Documents
PBR	Philippine Business Registry Project
PBR	performance based regulation
PBRS	Philippine Business Registry System
PBS	Paper on Budget Strategy
PCA	Philippine Coconut Authority
PCA	prompt corrective action
PCAB	Philippine Construction Accreditation Board
PCAMRD	Philippine Council for Aquatic and Marine Research and Development
PCARRD	Philippine Council for Agriculture, Forestry and Natural Resources Research and Development
PCASTRD	Philippine Council for Advanced Science and Technology Research and Development
PCB	polychlorinated biphenyls
PCCI	Philippine Chamber of Commerce and Industry
PCC-RD	Presidential Coordinating Council on Research and Development

PCEP	Philippine Cultural Education Program
PCFC	People's Credit and Finance Corporation
PCG	Philippine Coast Guard
PCGG	Presidential Commission on Good Government
PCHRD	Philippine Council for Health Research and Development
PCIERD	Philippine Council for Industry and Energy Research and Development
PCIRB	Principal Collateralized Interest Reduction Bonds
PCMS	Prosecution Case Management System
PCS	performance contracting system
PCSS	payment, clearing, and settlement systems
PCTC	Philippine Center on Transnational Crime
PCTO	Philippine Chamber of Telecommunication Operators
PD	Presidential Decree
PDAAs	personal digital assistants
PDAF	Priority Development Assistance Fund
PDEX	Philippine Dealing and Exchange Corporation
PDIC	Philippine Deposit Insurance Corporation
PDOS	pre-departure orientation seminar
PDR	Philippine Defense Reform
PDTC	Philippine Depository and Trust Corporation
PDTF	People's Development Trust Fund
PEA	Public Estates Authority
PECR	Philippine Energy Contracting Round
PEDP	Philippine Export Development Plan
PEER	Program for Enhancement of Emergency Response
PEGR	Partnership for Economic Governance Reform
PELCO III	Pampanga III Electric Cooperative, Inc.
PELMATP	Philippine Efficient Lighting Market Transformation Project
PEMC	Philippine Electric Market Corporation
PEO	pre-employment orientation
PEOS	pre-employment orientation seminar
PEP	Philippine Energy Plan
PERA	Personal Equity Retirement Account
PERCs	Partnership for Energy Responsive Companies
PEREZ	Partnership for Energy Responsive Ecozones
PESFA	Private Education Students Financial Assistance
PESO	Public Employment Service Office
PESS	Philippines Education Sector Study
PETEF	Philippine Electronics and Telecommunications Federation, Inc.
PEZA	Philippine Economic Zone Authority
PFDA	Philippine Fisheries Development Authority
PFIAs	private financial institutions
PFZ	Poverty Free Zone

PGIF	Philippine Government Interoperability Framework
PGMA	President Gloria Macapagal Arroyo
PGMA-TWSP	PGMA – Training for Work Scholarship Program
Ph.D	Doctor of Philosophy
PhCERT	Philippine Computer Emergency Response Team
PHIC	Philippine Health Insurance Corporation (PhilHealth)
PhilCoA	Philippine Coconut Authority
PhilExim	Philippine Export Import Credit Agency
PhilGEPS	Philippine Government Electronic Procurement System
PHILJA	Philippine Judicial Academy
PhilPaSS	Philippine Payments and Settlements System
PhilRice	Philippine Rice Research Institute
PHIS	Philippine Health Information System
PHIVOLCS	Philippine Institute of Volcanology and Seismology
PhP	Philippine Peso
PIA	Philippine Information Agency
PIC	Philippine Infrastructure Corporation
PIDS	Philippine Institute for Development Studies
PII	Philippine Information Infrastructure
PIO	Project Implementation Office
PIR	Project Implementation Review
PIs	performance indicators
PISO	Philippine Internet Services Organization
PITAHC	Philippine Institute for Traditional and Alternative Health Care
PITC	Philippine International Trading Corporation
PKI	public key infrastructure
PLLO	Presidential Legislative Liaison Office
PMC	Philippine Mediation Center
PMDC	Philippine Mining Development Corporation
PMO	Project Management Office
PMO	Program Management Office
PMS	Presidential Management Staff
PMS	Performance Management System
PN	Philippine Navy
PNAC	Philippine National AIDS Council
PNB	Philippine National Bank
PNHA	Philippine National Health Accounts
PNHRS	Philippine National Health Research System
PNOC	Philippine National Oil Company
PNOC-AFC	Philippine National Oil Company – Alternative Fuels Corporation
PNOC-EC	Philippine National Oil Company – Exploration Corporation
PNOC-EDC	Philippine National Oil Company – Energy Development Corporation

PNOC-PDC	Philippine National Oil Company – Petrochemical Development Corporation
PNP	Philippine National Police
PNQF	Philippine National Qualifications Framework
PNR	Philippine National Railways
PNRC	Philippine National Red Cross
PNRI	Philippine Nuclear Research Institute
PNS	Philippine National Standards
PO	people’s organization
POC	Peace and Order Council
POEA	Philippine Overseas Employment Administration
POI	program of instruction
POPCOM	Commission on Population
POS	Principal-Only Swap
POS	point of sale
PPA	Philippine Ports Authority
PPA	power purchase agreements
PPA	Parole and Probation Administration
PPA	Philippine Ports Authority
PPASC	Philippine Plan of Action for Senior Citizens
PPBS	Planning, Programming and Budgeting System
PPC	Philippine Postal Corporation
PPCRV	Parish Pastoral Council for Responsible Voting
PPP	public-private partnership
PPS	pro-performance system
PPSC	Philippine Public Safety College
ppt	percentage point
PQA	Philippine Quality Award
PRC	Professional Regulation Commission
PREGINET	Philippine Research, Education, and Government Information Network
PRPA	Private Recruitment and Placement Agency
PRRC	Pasig River and Rehabilitation Commission
PRS	Philippine Reference System
PSs	personal services
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	production-sharing contract
PSC	Philippine Sports Commission
PSCB	Productivity Skills and Capability Building (Program)
PSCI	Port State Control Inspections
PSE	Philippine Stock Exchange
PSGs	policies, standards and guidelines
PSHS	Philippine Science High School
PSPC	Pilipinas Shell Petroleum Corporation

PSR-MTV	Premyo sa Resibo Music Television
PTA	Philippine Tourism Authority
PTC	Philippines Transmarine Carriers
PTE	public telecommunications entity
PTFE	Presidential Task Force on Education
PTG	Philippine Transparency Group
PTIC	Philippine Telecommunications Investment Corporation
PTRI	Philippine Textile Research Institute
PTTC	Philippine Trade Training Center
PU	private utility
PV	Photovoltaic
PVAO	Philippine Veterans Affairs Office
PWDs	persons with disabilities
QMS	quality management standards
QTP	qualified third party
QUEDANCOR	Quedan & Rural Credit Guarantee Corporation
R&D	research and development
RA	reform agenda
RA	Republic Act
RAMO	Revenue Audit Memorandum Order
RAO	reference access offers
RATE	Run After Tax Evaders
RB	Road Board
RBAP	Rural Bankers Association of the Philippines
RBCA	risk-based capital adequacy
RBCO	River Basin Control Office
RBM	results-based management
RBOM	Revised Budget Operations Manual
RBOs	river basin organizations
RCAO	Regional Court Administration Office
RCDA	Regional Council on Disability Affairs
RDCC	Regional Disaster Coordinating Council
RDE	research, development and extension
RDOs	Revenue District Offices
RE	renewable energy
REIT	Real Estate Investment Trust
RETF	renewable energy trust fund
RFID	radio frequency identification
RHBF	rural household business financing
RHOs	regional hearing offices
RHUs	regional hospital units
RIC	Regional ICT Center

RKC	Revised Kyoto Convention
RKCGs	Regional KALAH I Convergence Groups
RMAO	Records Management and Archives Office
RMC	Revenue Memorandum Circular
RMO	Revenue Memorandum Order
RO	regional office
RoBin	Rosario-Biñan Pipeline Project
ROE	reports of examination
ROP	Republic of the Philippines
ROPOAs	real and other properties owned or acquired
RORB	return on rate base
RORO	roll-on roll-off
RoSS	Registry of Scriptless Securities
ROTSD	Radio Operators and Training Schools Division
ROW	right-of-way
RP	rationalization plan
RP	rationalization program
RP	Republic of the Philippines
RP	repurchase
RPM	responsible parenting movement
RPMA	Regional Port Management Authority
RPM	Rebolusyonaryong Partidong Manggagawa ng Mindanao
RPMP-RPA-ABB	Rebolusyonaryong Partidong Manggagawa ng Pilipinas – Revolutionary Proletarian Army – Alex Boncayao Brigade
RP-NFP	Responsible Parenthood and Natural Family Planning
RPSP	Remittance Profiling Survey Project
RRs	reserve requirements
RR	revenue regulation
RRP	reverse repurchase
RRs	rebel returnees
RRTS	Road-RORO Terminal System
RSO	Research Service Office
RSUS	Regional State University System
RTBs	retail Treasury bonds
RTGS	real time gross settlement system
RTS	radio training schools
RTWPB	Regional Tripartite Wages and Productivity Board
RUS	regional university system
RVAT	Reformed Value Added Tax
S&T	science and technology
SAFDZs	Strategic Agriculture and Fishery Development Zones
SAIPS	Social Accord on Industrial Peace and Stability
SALN	statement of assets, liabilities, and net worth

SAPAK	Sama-samang Pagkilos Laban sa Katiwalian Para sa Kabataan
SAR	Special Administrative Region
SAS	service area scheme
SAWT	Summary Alphalist of Withholding Agent
SB	Senate bill
SB Corp.	Small Business Corporation
SBGFC	Small Business Guarantee Finance Corporation
SBIA	Subic Bay International Airport
SBL	securities, borrowing and lending
SBM	Sagip Batang Manggagawa
SBM	school-based management
SBMA	Subic Bay Metropolitan Authority
SBSR	Strengthening the Philippine Shipbuilding and Ship Repair
SC	service contract
SC	Supreme Court
SCALA	sharing computer access locally and abroad
SCC	savings and credit cooperatives
SCCP	Securities Clearing Corporation of the Philippines
SCTEx	Subic-Clark-Tarlac Expressway
SDC	Social Development Committee
SDEC	Special Drug Education Center
SEA-K	Self-Employment Assistance - Kaunlaran
SEARCA	Southeast Asian Regional Center for Graduate Study and Research in Agriculture
SEC	Securities and Exchange Commission
SEDIP	Secondary Education Development and Improvement Project
SEF	Special Education Fund
SEI	Science Education Institute
SEIPI	Semiconductor and Electronics Industries in the Philippines, Inc.
SER	Socio-Economic Report
SERD-CAAM	Socio-Economic Reconstruction and Development of Conflict-Affected Areas in Mindanao
SEs	small enterprises
SES	Supervision and Examination Sector
SESP	Skills-for-Employment Scholarship Program
SETUP	Small Enterprise Technology Upgrading Program
SEZ	special economic zone
SGCC	State Grid Corporation of China
SHFC	Social Housing Finance Corporation
SHS	solar home system
SICP	Self-Insurance Coverage Program
SIFMA	Socialized Industrial Forest Management Agreement
SIP	Social Inclusion Project

SLEX	South Luzon Expressway
SLT	Schools of Living Tradition
SM-AAA	Standardized Methodology on Arbitral Award Assessment
SMEDC	Small and Medium Enterprise Development Council
SMEs	small and medium enterprises
SMI	secondary mortgage institution
SMIS	supply management information system
SMS	short message service
SNITS	Simplified Net Income Taxation Scheme
SOFA	status of forces agreement
SOI	summary of information
SOLAS	Safety of Life at Sea
SOM	Senior Officials Meeting
SONA	State of the Nation Address
SPCW	Strategic Plan for Child Workers
SPP	Social Protection Program
SPSG	Southern Philippines Secessionist Group
SPUG	Small Power Utilities Group
SPV	special purpose vehicle
SRA	Sugar Regulatory Administration
SRC	Securities Regulation Code
SRDP	Self-Reliant Defense Posture
SRDs	short range devices
SRNH	Strong Republic Nautical Highway
SSIS	Small-scale Irrigation System
SSIS	Ship Safety Inspection System
SSIs	social security institutions
SSS	Social Security System
STARCM	Support to Agrarian Reform in Central Mindanao
STI	science, technology and innovation
STII	Science and Technology Information Institute
STP	straight through processing
STRIVE	Strengthening the Implementation of Basic Education in the Visayas
STW	shallow tube well
SUCs	state universities and colleges
SUD	sustainable upland development
SULONG	Small and Medium Enterprises Unified Lending Opportunities for National Growth (Program)
SUP	Seafarers Upgrading Program
SVFA	status of Visiting Forces Agreement
SWIP	small water impounding projects
SWS	Social Weather Stations

SZOPAD	Special Zone of Peace and Development
TA	technical assistance
TAN	Transparency and Accountability Network
TAP	Transition Assistance Project
TAPI	Technology Application and Promotion Institute
TArGET	Tanodbayan Against Government Employees Involved in Trafficking
TAV	technical assistance visit
TAWAG	Tuloy Aral Walang Sagabal
TB	Tuberculosis
TBI	Talisay BioEnergy, Inc.
TCCP	Tariff and Customs Code of the Philippines
TCCs	tax credit certificates
TCRC	Taxpayer Compliance Report Card
TCRPV	Technical Committee on Real Property Valuation
TCVD	Taxpayer Compliance Verification Drive
TCWA	tropical cyclone warning and advisories
TDP	Transmission Development Plan
TECHCOM	technology commercialization
TECHNICOM	Technology Innovation for Commercialization Program
TEI	teacher education institution
TELCOs	telephone companies
TELOF	Telecommunications Office
TESDA	Technical Education and Skills Development Authority
TESDA-ADB	Technical Education and Skills Development Authority – Asian Development Bank
TESDP	Technical Education and Skills Development Program
TEU	twenty-foot equivalent units
TEZ	tourism economic zone
TEZA	Tourism Enterprise Zone Authority
TIICTD	Transport, Infra and ICT Development
TIN	Tax Identification Number
TIPC	Tripartite Industrial Peace Council
TLA	timber license agreement
TLDC	Technology and Livelihood Development Centers
TLRC	Technology Resource Center
TMC	Tollways Management Corporation
TN	Tindahan Natin
TNOs	Tindahan Natin Outlets
TOE	Table of Organization and Equipment
TOR	terms of reference
TOSCON	Training of SME Counselors
TOU	time-of-use
TPI	third party information

TRACON	Terminal Radar Approach Control
TRANSCO	National Transmission Corporation
TRB	Toll Regulatory Board
TRC	Technology Resource Center
TRO	temporary restraining order
TRC	Truth and Reconciliation Commission
TSCs	transition supply contracts
TSP	total suspended particulates
TSS	technical safety standards
TTCTCE	TESDA Training Center Taguig Campus Enterprise
TTI	Telecommunications Training Institute
TULAY	Tulong Alalay sa Taong may Kapansanan
TUP	Technological University of the Philippines
TUPAD	Tulong Pangkabuhayan sa ating Disadvantaged Workers Program
TVET	technical vocational education and training
TWG	technical working group
TWRG	Transmission Wheeling Rate Guidelines
TWSP	Training for Work Scholarship Project
UAP	user acceptance testing
UARPMO	Urban Asset Reform Project Management Office
UC-SCC	universal charge-stranded contract cost
UC-SD	universal charge-stranded debt
UDHA	Urban Development and Housing Act
UFSC	United Farmers Sugar Corporation
UK	United Kingdom
ULAP	Union of Local Authorities of the Philippines
UN	United Nations
UNCAC	United Nations Convention Against Corruption
UNCLOS	United Nations Convention on the Law of the Seas
UNDP	United Nations Development Programme
UNDP-GEF	United Nations Development Programme – Global Environment Fund
UNDP-SIMCPAE	United Nations Development Programme – Strengthening Institutional Mechanisms for the Convergence of Poverty Alleviation Efforts
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFPA	United Nations Population Fund
UNLAD	University Network with Local Government for Agricultural Development
UP	University of the Philippines
UPLB	University of the Philippines – Los Baños
UPLB-CFNR	University of the Philippines – Los Baños – College of Forestry and Natural Resources
UPM-NIH	University of the Philippines – Manila – National Institute for Health
UP-NEC	University of the Philippines – National Engineering Center

URSUMCO	Universal Robina Corporation
US\$	United States of America dollars
USAID	United States Agency for International Development
USD	unsecured subordinated debt
UTPRAS	Unified TVET Program Registration and Accreditation System
UTS	unified ticketing system
VAS	value added service
VASP	value added solutions provider
VASP	value added service provider
VAT	value added tax
VAWC	violence against women and children
VDP	Voluntary Disclosure Program
VE	value engineering
VoIP	Voice-over Internet protocol
VPAs	Volunteer Probation Aides
VSAT	very small aperture terminal
VTMS	Vessel Traffic Management System
WAFS	World Area Forecasts System
WageIS	Wages Determination Process Implementation System
WASAR	National Water Search and Rescue
WB	World Bank
WB PHRD	World Bank's Policy on Human Resources and Development
WEDC	women in especially difficult circumstances
WESM	Wholesale Electricity Spot Market
WHS	wooden-hulled ships
WHSs	world heritage sites
WIE	workers in informal economy
WIS	workers in the informal sector
WISE	walk-in system of examination
WLL	wireless local loop
Worktrep Program	Unlad Kabuhayan Program Laban sa Kahirapan
Worktrepreneurs	micro entrepreneurs
WPLA	Women's Priority Legislative Agenda
WRM	water resource management
WSP	water service provider
WSS	water supply sector
WTO	World Trade Organization
YEF	Youth Employment Framework
ZRCs	zonal research centers

Prologue

Confronting the Global Economic Crisis

An Update: The Economic Resiliency Plan (ERP) to Counter the Negative Effects of the Global Financial Crisis

The preparation of the Updated Medium Term Philippine Development Plan (MTPDP) 2004-2010 coincided with significant events, such as the global financial crisis in late 2008, which necessitated a definite response from the government to mitigate its ill effects on the Philippine economy.

The Philippine ERP was crafted to address the challenges posed by the global economic crisis. The government sees the crisis not only as a threat but also as an opportunity, so it also intends to prepare the country for the global economic rebound.

The responses across the globe have been varied, according to each country's level of development and fiscal space. In general, these can be classified into the fiscal stimulus and monetary policy. The ERP is the Philippines' fiscal stimulus package. Through this plan, the government hopes to mitigate the impact of the crisis so that pertinent projects "hit the ground running" in 2009.

The ERP has the following objectives:

- Ensure sustainable growth and attain the higher end of the growth target in 2009;
- Save and create as many jobs as possible;
- Protect the most vulnerable sectors: the poorest of the poor, returning overseas Filipino workers as well as workers in export industries;
- Ensure low and stable prices to support consumer spending; and
- Further enhance competitiveness in preparation for the global economic rebound.

To achieve these objectives, the government plan follows these general strategies:

Improve revenue collection. Since the ERP is basically a fiscal stimulus package, government must ensure it has enough resources to fund the initiatives lined up under the plan. The Department of Finance (DOF) is in charge of government measures to improve revenue collection;

Implement budget interventions. These include: (a) ensuring the full and quick spending of the 2009 budget; (b) maximizing utilization of the Personal Services and Maintenance and Other Operating Expenditures (MOOE) allocations; (c) realigning resources away from slow moving projects, and (d) continuing support for agriculture. The State intends to upgrade infrastructure and capital stock at the same time expand social protection.

The proposed 2009 Budget amounting to PhP1.4 trillion has been intended for the fiscal stimulus. The budget gives priority to infrastructure, agriculture, social protection, education

and health. These are key public services that will shelter the people and economy from the global economic turmoil and provide the foundation for greater competitiveness in the long term. In line with these priorities, the Executive has proposed to Congress significant increases in the budget of the Departments that implement projects in the priority sectors.

Government will maximize the utilization of the Personal Services (PS) Budget, spending specifically to be responsive in a crisis environment (e.g., spending to mitigate public order and health risks). This will depend on the needs of the sectors. This will be done efficiently to address existing problems of misallocation of government employees by:

- Hiring more teachers, policemen, soldiers; and
- Hiring more doctors/nurses for hospitals and underserved areas

Government will maximize the utilization of the MOOE budget by:

- Stepping-up the repair and rehabilitation of government buildings;
- Fast-tracking purchases of supplies, equipment (patrol cars, ambulances)
- Unbundling the productive component of the MOOE (by the Department of Budget and Management or DBM); and
- Continuing the strong support for agriculture via the FIELDS program.

Accelerate spending for small infrastructure to create jobs. This includes strengthening the absorptive capacity of the infrastructure agencies. The program of work and procurement plans must be prepared under tight deadlines. Contracts will be awarded no later than the first semester of 2009. Some portions of the budget will be realigned away from projects that are encountering difficulties like right-of-way (ROW) problems or those that have no detailed engineering plans.

The Executive may also downscale/defer the implementation of new projects that do not have the approval of the Investment Coordination Committee (ICC) and NEDA Board. Agencies will front load resources for full and quick spending, stressing projects that are quick-disbursing, high impact, and labor intensive. Examples of such rapid projects include accessibility facilities for the disabled, and the construction, repair, or rehabilitation of irrigation systems. During this critical time, the Economic Managers will closely monitor project implementation.

Under frontloading, implementing agencies will spend 60 percent (PhP84.3 billion or approximately US\$1.9 billion) of the productive portion of the 2009 budget during the first semester.

Table A
Proposed Capital Outlay Utilization

	2009 NEP * (in PhP B)	Target CY2009 1st Semester Utilization (in PhP B)
		60% of Budget
Infrastructure Agencies		
DPWH	99.72	59.83
Locally-Funded	74.62	
Foreign-Assisted	25.10	
DOTC	13.01	7.81
Locally-Funded	9.45	
Foreign-Assisted	3.56	
Sub-Total	112.73	67.64

	2009 NEP * (in PhP B)	Target CY2009 1st Semester Utilization (in PhP B)
		60% of Budget
Rural Development Agencies		
DA	4.11	2.47
Locally-Funded	3.88	
Foreign-Assisted	0.23	
NIA	12.43	7.46
Locally-Funded	9.85	
Foreign-Assisted	2.58	
DAR	2.41	1.45
Locally-Funded		
Foreign-Assisted	2.41	
Sub-Total	18.95	11.38
Social Development Agencies		
DepEd	6.46	3.88
Locally-Funded	6.40	
Foreign-Assisted	0.07	
DSWD	0.75	0.45
Locally-Funded	0.75	
Foreign-Assisted		
DOH	1.54	0.92
Locally-Funded	1.50	
Foreign-Assisted	0.04	
Sub-Total	8.75	5.25
GRAND TOTAL	140.43	84.26

*Capital Outlay only

To date, agencies have begun to spell out their commitments to obligate at least 60 percent of their spending program in the first semester of 2009:

- Department of Public Works and Highways (DPWH) commits PhP60 billion in the first semester;
- Department of Agriculture (DA) commits PhP16 billion in the first quarter;
- Department of Transportation and Communications (DOTC) commits PhP13 billion in the first semester; and
- Department of Education (DepEd) commits PhP2.8 billion in the first quarter.

For its part, DBM will release the SARO by February 2009 at the latest.

Expand social protection programs. NEDA has “tweaked” or modified the national government budget to widen the net of social protection. The 2009 budget was crafted so as to respond to the earlier 2008 crisis of high food and fuel prices. Hence, conditional cash transfers for the bottom poor were put in place to address costly rice and rising hunger. Some adjustments were made to cover the vulnerable sectors in this period of global financial crisis.

The ERP hikes the allocation of the Department of Social Welfare and Development (DSWD) for conditional cash transfers (CCT). It adds another PhP5.0 billion to cover an additional

321,000 poor households, or double the 2009 target, giving them a maximum cash grant of PhP9,000 per year.

The ERP adds PhP1 billion for PhilHealth to ensure the full national government (NG) contribution to the National Health Insurance Program (NHIP). This means PhP 1,200 per family x 5 million members = PhP 6 billion.

The ERP increases the allocation of Technical Education and Skills Development Authority (TESDA) by PhP2 billion.

The ERP, through the Department of Labor and Employment (DOLE), allocates PhP 1 billion for Overseas Workers Welfare Association (OWWA) fund for its lending assistance program for returning OFWs.

The ERP will enhance the facilities of the Department of Health (DOH), adding PhP1.97 billion more for primary and secondary hospitals.

Expanding social protection entails these interventions as well:

- Matching grants to local government units (LGUs); and
- Student loans for education (through the Commission on Higher Education and State Universities and Colleges)

Spending for social protection is itself a fiscal stimulus. The conditional cash transfers go to the bottom poor, so the money is fully spent, boosting personal consumption. Supporting more technical education scholars entails funding teachers' salaries. Upgrading health facilities ramps up public construction.

Save jobs, create new employment opportunities. Particularly vulnerable in the crisis are workers in the merchandize export sector and Overseas Filipinos who are laid off. The DOLE has put in place programs to assist these sectors.

The programs for OFWs abroad and those returning cover repatriation assistance, enhanced reintegration services and livelihood assistance. DOLE also created a “payback package” for OFWs which include the setting up of a PhP250 million support fund, skills training to avail of in-demand jobs in other parts of the world, and setting up of DOLE and OWWA desks in the provinces to match OFWs' skills with available jobs. Interventions for overseas workers include the following:

- 24 x 7 heightened monitoring of overseas labor-market displacements;
- Contract monitoring of job orders to determine if there is any decrease in overseas labor demand;
- Registration of workers;
- Redeployment to emerging foreign labor markets;
- Identification and development of new market niches;
- Repatriation assistance;
- Expansion of livelihood enhancement /business formation program;
- Business counseling and strengthening of reintegration services; and
- Massive skills upgrading and retooling services

For export workers, the DOLE maintains Quick Response Teams (QRTs) in its regional offices. The QRTs engage the companies for their Early Warning Monitoring System. They get to know

which firms are likely to shut down or shed workers. Those who are terminated get DOLE assistance in claiming unpaid salaries or in new job placement facilitation. Some may take advantage of the livelihood formation projects. DOLE continues its advocacy to enable afflicted companies to adopt contingency measures to prevent/minimize job losses. Alternatives to laying off workers include: shortened work shifts and work weeks, maximized vacation leaves; and rotating forced leaves, among others.

Helping create jobs are the Comprehensive Livelihood and Emergency Employment Programs (CLEEP). These activities are aligned with Super Region priorities, the needs of the 12 poorest provinces, the 12 most food-poor, provinces, and those of the food-poor in Metro Manila.

Hence, all provinces are rolling out: OYSTER, KALAHY Cash for Work, Tulong Pangkabuhayan sa ating Disadvantaged Workers Program (TUPAD) for roadside maintenance, flood control manpower, and FAME (financial assistance & microfinance for expatriates). The poorest provinces stress OYSTER, TUPAD, KALAHY cash for work to repair health facilities, and self-employment assistance (SEA-K) for the *Botika ng Barangay* livelihood projects. The projects are enumerated by Super Region as follows:

NCR and the most food-poor provinces

- SEA-K for *Tindahan Natin*

Luzon Urban Beltway

- All provinces, cities, NCR towns: fabrication of concrete blocks for construction, OTOP, aggregate recycling, microfinance for transport sector
- Ports: stevedoring, arrastre operation (Subic, Manila, Batangas)
- Hygiene package: Tarlac

Central Philippines (Tourism)

- All provinces: Grassroots Entrepreneurship in Eco-Tourism (GREET), clean and green projects
- All coastal provinces: *Bantay Dagat*

Agribusiness Mindanao and Northern Luzon

- All provinces: construction and maintenance of farm to market roads, organic fertilizer production, goat dispersal, microfinance for CARP beneficiaries
- Northern Luzon Agribusiness Quadrangle: swine raising
- Irrigation repair
- Coastal provinces: *Bantay Dagat*, Integrated Services for the Livelihood Advancements for Fisherfolks (ISLA)
- *Bantay Gubat*

Off-budget interventions. These include tapping the resources of Government Owned and Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs) for large infrastructure projects. Bigger construction projects are critical in case the global crisis extends to a few years. The ERP encourages social security institutions (SSIs) to enhance benefits for its members. These also require partnering with other stakeholders (i.e. the private sector). These interventions are on top of the allocations in the 2009 budget.

The ERP proposes that the SSIs (PhilHealth, Government Service Insurance System and Social Security System) will provide additional benefits to its members. The intervention will be time-bound (say 18 months) and targeted (e.g., for senior citizens) and aimed at increasing purchasing power to help boost domestic consumption. The resources will be taken from the difference between the contributions of SSI members and the claims and benefits granted. This would entail PhP12.5 billion each from the SSIs.

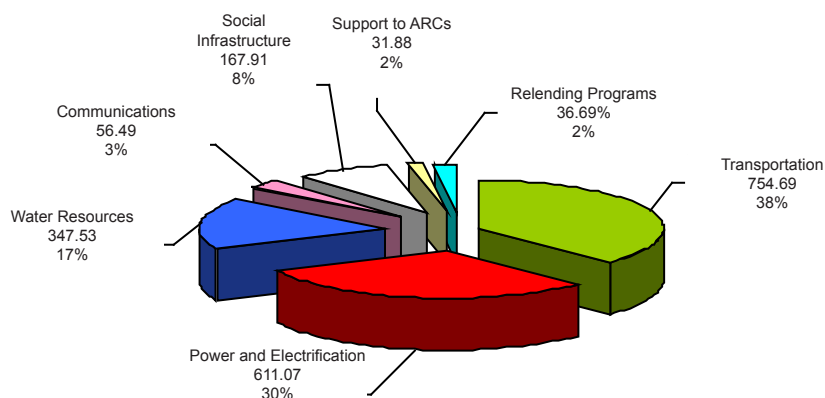
The ERP seeks to raise PhP100 billion with the support of the private sector, GFIs and SSIs to lower borrowing/financing costs for capital expenditures.

The government is accelerating spending for infrastructure under its Comprehensive and Integrated Infrastructure Program (CIIP). The CIIP expands the infrastructure portion of the Medium-Term Public Investment Program (MTPIP). It uses public and private sector sources of financing, including (a) ODA loans; (b) GAA; (c) NG-LGU cost sharing; (d) Public-Private Partnerships (PPP)/Joint Venture (JV); (e) corporate funds; and (f) proceeds accruing from those mandated by law (i.e. EPIRA). Furthermore, the absorptive capacity of agencies is being improved. The push pursues the greater participation of GFIs, GOCCs, LGUs and the private sector.

On December 9, 2009, SSS Secretary Romulo Neri said that the PhP100 billion will be used for human capital formation and for jumpstarting infrastructure projects, as proposed by the Philippine Chamber of Commerce and Industry. Out of the PhP100 billion, PhP50 billion was initially proposed to come from the GFIs and SSIs and eventually from the securitized income from infrastructure projects. The other PhP50 billion was suggested to be sourced from private commercial banks. Below are the initially proposed details of the public sector source of the PhP50 billion and the proposed projects that will be funded.

Figure A
Comprehensive and Integrated Infrastructure Program (CIIP)

2008-2010 and beyond
Total investments = PhP2,006.26 billion



Possible sources of funding:

- Development Bank of the Philippines: PhP12.5 billion;
- Land Bank of the Philippines: PhP12.5 billion;
- Government Service Insurance System: PhP12.5 billion; and
- Social Security System: PhP12.5 billion.

Projects for efficient mass transportation are:

- LRT Line1 Extension;
- MRT 3 Capacity Expansion;
- LRT Line 2 East Extension to Masinag; and
- LRT Line 1 South Extension Project

Projects Tapping Private Sector Financing include:

- Tarlac-La Union Expressway;
- Manila-Cavite Toll Expressway Extension;
- Daanghari-SLEX Link Road;
- SLEX Extension Project;
- Southern Tagalog Arterial Road Project;
- Circumferential-6;
- Diosdado Macapagal Int'l. Airport (Clark); and
- Grand Central Station in EDSA

The fund contribution was initially suggested to be in the form of either equity or long-term loans and, the securitization of individual projects' income for take-up by the private sector.

Other measures. Government will ramp up its housing programs. It will continue to work to expand trade with China and the Middle East nations, and will pursue other strategies to boost investment growth. Moreover, it is implementing various programs to encourage exporting firms to diversify, innovate, and upgrade their products.

Funding the Economic Resiliency Plan

A total of PhP330 billion is intended for the package/fiscal stimulus. This is composed of:

- PhP160 billion which is the amount of the increase in the budget from 2008; this funds small, community-level infrastructure which are too many to include here but are listed in the national budget ;
- PhP40 billion tax relief arising from an increase in personal exemptions (PhP20 billion) and the scheduled reduction in corporate tax rates (PhP20 billion) as provided in the RVAT Law;

- PHP100 billion for large infrastructure from GFIs, SSIs, and private commercial banks; the context is that the system is awash with liquidity coming from Filipino businessmen who are bringing back their money, having taken it out from (unstable) American banks. Money lent by the GFIs and SSIs are seen to provide a safe and attractive 9 percent return; and .
- PHP30 billion from SSIs in the form of additional benefits to members. This will be taken from the gap between contributions and claims/benefits.

Table B
Breakdown of PhP160 Billion Component and
Cost of Package- Increase from 2008 to 2009 budget
(BESF 2009)

Particulars	LEVEL		Year on Year
	FY 2008	FY 2009 Proposed	% Change
ECONOMIC SERVICES	298,962	361,396	20.88
<i>Agriculture and Agrarian Reform</i>	43,027	67,283	56.37
<i>Natural Resources & Environment</i>	10,190	13,287	30.39
<i>Trade and Industry</i>	4,789	4,555	(4.89)
<i>Tourism</i>	2,002	2,132	6.49
<i>Power and Energy</i>	4,938	5,573	12.86
<i>Water Resources, Development & Flood Control</i>	13,723	16,671	21.48
<i>Communications, Roads and Other Transport</i>	120,646	138,773	15.02
<i>Other Economic Services</i>	25,891	25,626	(1.02)
<i>Subsidy to LGUs</i>	73,756	87,496	18.63
SOCIAL SERVICES	377,492	433,992	14.97
<i>Education, Culture and Manpower Development</i>	186,635	204,893	9.78
<i>Health</i>	28,664	35,797	24.88
<i>Social Security, Welfare and Employment</i>	69,556	86,348	24.14
<i>Housing and Community Development</i>	5,017	5,337	6.38
<i>Land Distribution</i>	4,127	4,127	-
<i>Other Social Services</i>	5,523	4,994	(9.58)
<i>Subsidy to LGUs</i>	77,970	92,496	18.63
DEFENSE	61,045	65,216	6.83
GENERAL PUBLIC SERVICES	207,355	239,592	15.55
<i>General Administration</i>	62,288	74,749	20.01
<i>Public Order and Safety</i>	74,669	83,611	11.98
<i>Other General Public Services</i>	11,394	11,235	(1.40)
<i>Subsidy to LGUs</i>	59,004	69,997	18.63
NET LENDING	12,000	12,157	1.31
DEBT-SERVICE (interest payments)	269,847	302,650	12.16
GRAND TOTAL	1,226,701	1,415,003	15.35
TOTAL Net of Interest payments	956,854	1,112,353	16.25
Increase from 2008 to 2009 Net of Interest Payments	PhP155,499		

Table C
Summary of Obligations, By General Overhead/Line
Operations/Project FY 2008-2009

Particulars	2008		2009	
	Amount	% Distribution	Amount	% Distribution
Programs	421,396,666	34.35%	501,971,215	35.47%
<i>General Administration</i>				
<i>And Support</i>	42,858,176	3.49%	44,882,459	3.17%
<i>Support to Operations</i>	18,676,229	1.52%	23,845,042	1.69%
<i>Operations</i>	359,862,261	29.34%	433,243,714	30.62%
Projects	523,456,334	42.67%	598,221,785	42.28%
<i>Locally-Funded</i>	490,122,756	39.95%	557,414,406	39.39%
<i>Foreign-Assisted</i>	33,333,578	2.72%	40,807,379	2.88%
Net Lending	12,000,000	0.98%	12,157,000	0.86%
Interest Payment	269,847,000	22.00%	302,650,000	21.39%
Grand Total	1,226,700,000	100.00%	1,415,000,000	100.00%

Introduction

The Macroeconomy

2004-2008 Macroeconomic Performance

During the formulation of the original Medium-Term Philippine Development Plan (MTPDP) 2004-2010, the Philippine economy had just weathered both external and domestic shocks. At the external front, the economy was still feeling the brunt of the Asian financial crisis. The American-led war on terrorism and the SARS-scare also put pressure on the country's exports. Domestically, the political noise, to some extent, resulted in fiscal gridlocks, constraining the government to run under reenacted budgets. While inflation was mild in 2002-2003, pressures started to build up by 2004 due to fast increasing world oil prices on account of the geopolitical tensions in Iraq and surging demand from China and India. A major threat to growth emerged from the swelling fiscal deficit as actual performance fell short of the targets.

With a fresh mandate in 2004, the government formulated the country's MTPDP 2004-2010 with a macroeconomic framework designed to maintain macroeconomic stability. The framework was based on a fiscal policy aimed at ensuring sound fiscal management and providing support to monetary policy over the medium term.

The government implemented crucial reforms to improve tax collections, increase revenues and prudently manage expenditures. Consequently, the budget deficit was contained resulting in the lowering of interest rates. Record levels of overseas remittances coupled with increasing export earnings led to an improvement in the country's credit outlook. These further attracted foreign portfolio and direct investments which boosted the peso's strength. Despite high oil prices in 2007, domestic inflation was kept low due to a stronger peso. Hence, from an economy struggling to recover and find solid ground after the Asian financial crisis, it emerged significantly better in 2007.

However, by the start of 2008, upward price pressures were felt anew in the early months as prices of cereals in the world market started to escalate. This added to the continuing fast rise of petroleum prices, which picked up in the latter part of 2007 and continued to soar in the early part of 2008 until it reached its peak in August. Exports growth also started to decelerate due to the softening of the US economy which later on translated into a global financial crisis. All these posed downside risks to economic growth in the first three quarters of 2008.

Stronger Macroeconomic Fundamentals

Gross domestic product (GDP) adjusted for inflation grew above historical averages at 6.4 percent, 5.0 percent, 5.4 percent, and 7.2 percent from 2004 to 2007, respectively. Meanwhile, the real gross national product (GNP) steadily grew by 6.9 percent in 2004, 5.4 percent in 2005, 5.5 percent in 2006, and 8.0 percent in 2007. However, economic growth slowed down to 4.6 percent in terms of GDP and 5.9 percent in terms of GNP in the first three quarters of 2008 amidst combined effects of the weakness in the global economy and soaring oil and food prices (Table 1).

Table 1
Growth Target Versus Actual Economic Performance, 2004-2008

	2004		2005			2006		
	Plan Target	Actual	Plan Target	Emerging	Actual	Plan Target	Emerging	Actual
GNP	5.2-6.0	6.9	5.5-6.4	5.5	5.4	6.5-7.5	5.9-6.5	5.5
GDP	4.9-5.8	6.4	5.3-6.3	5.3	5.0	6.3-7.3	5.5-6.1	5.4
Agriculture	4.0-5.0	5.2	4.2-5.2	3.0	2.0	4.2-5.2	3.4-3.9	3.7
Industry	4.4-5.2	5.2	5.4-6.4	4.7	3.8	7.2-8.2	5.4-6.2	4.8
Services	5.7-6.6	7.7	5.7-6.6	6.6	7.0	6.5-7.5	6.3-7.0	6.5

The emerging annual target figures were approved by the DBCC on the following dates:

2005: 20 September 2005; 2006: 8 November 2006; 2007: 14 December 2007; 2008: 11 November 2008

Sources: MTPDP 2004-2010, Development Budget Coordination Committee (DBCC), National Statistical Coordination Board (NSCB)

These notwithstanding, the country's 6.0 percent average annual growth for the period 2004-2007 compares well with neighboring countries such as Malaysia (6.1%), Indonesia (5.6%), Thailand (5.3%), Taiwan (5.2%), and South Korea (4.8%).

Table 2
Comparative GDP Growth Rates of Selected Asian Economies (in percent)

Country	2004	2005	2006	2007	Q1-Q3 2008	Average 2004-2007
Philippines	6.4	5.0	5.4	7.2	4.6	6.0
Malaysia	6.8	5.3	5.8	6.3	6.3	6.1
Indonesia	5.0	5.7	5.5	6.3	6.3	5.6
Thailand	6.3	4.6	5.2	4.9	5.1	5.3
China	10.1	10.4	11.6	11.9	9.9	11.0
Vietnam	7.8	8.4	8.2	8.5	6.6	8.2
Singapore	9.0	7.3	8.2	7.7	2.8	8.0
Taiwan	6.2	4.2	4.8	5.7	3.3	5.2
Hong Kong	8.5	7.1	7.0	6.4	4.4	7.2
South Korea	4.7	4.2	5.1	5.0	4.8	4.8

Source: <http://aric.adb.org>

The Philippines' healthy economic performance was accompanied by sound macroeconomic fundamentals. The fiscal reforms initiated by the government were well-received by credit rating agencies, international creditors, investors, and development partners; effective monetary management kept inflation rate in check; and the overall balance of payments (BOP) position recorded surpluses starting 2005. As a result, market confidence in the economy was invigorated, characterized by vibrant inflows of foreign direct and portfolio investments, Philippine stocks surging at its pre-Asian crisis levels, robust external demand, stronger peso and a significantly reduced public debt.

Fiscal Sector. Fiscal consolidation continues to be the government's priority with fiscal policies and administrative measures focused on improving tax and revenue efforts, balancing the budget, reducing debt and at the same time, spending more on infrastructure and basic social services. The

Table 1 (Continued)

2007			2008		
Plan Target	Emerging	Actual	Plan Target	Emerging	Actual (Q1-Q3)
6.9-7.8	8.0-8.3	8.0	7.0-8.0	4.7-5.4	5.9
6.5-7.5	6.9-7.3	7.2	6.8-7.8	4.1-4.8	4.6
4.0-5.0	4.5-4.9	4.9	4.1-5.1	3.6-4.6	3.4
7.3-8.3	6.5-6.7	7.1	7.8-8.8	3.9-4.6	4.9
6.9-7.9	8.2-8.5	8.1	7.1-8.1	4.4-5.0	4.8

National Government (NG) has consistently been on track with its annual deficit program. The NG fiscal deficit for 2007 reached PhP12.4 billion, registering an overperformance of PhP50.6 billion vis-à-vis the programmed deficit of PhP63 billion¹. This is PhP52.4 billion (or 80.9%) lower than the PhP64.8 billion deficit level in 2006. As of November 2008, NG deficit stood at PhP66.7 billion, which is 629.4 percent lower than the recorded surplus during the same period a year ago. This higher fiscal deficit reflected the accelerated spending of the government in response to the global financial crisis. However, with improved revenue collections, NG still managed to keep its deficit below the PhP75 billion 2008 full year deficit target. Nontax sources of revenues yielded significant income for the government, growing at an annual average of 10.3 percent for the period 2004-2006. In 2007, nontax revenues were 70 percent higher than the 2006 level at PhP203 billion, due to proceeds from privatization. Collection of tax revenues also improved particularly from the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC). The implementation of the Reformed Value Added Tax (RVAT) law boosted the collection of VAT and other percentage taxes.

In 2007, revenue collections reached PhP1,136.6 billion, PhP17.8 billion higher than the programmed level, attributable to nontax revenues particularly proceeds from privatization and the Bureau of Treasury (BTr) income. In January to November 2008, revenue collections already reached PhP1,081.6 billion. Meanwhile, nontax revenues in 2007 reached PhP203.6 billion, double than the PhP101.8 billion in 2004. However, in the first 11 months of 2008, nontax revenues stood at PhP108.8 billion. Meanwhile, tax revenues already reached PhP972.8 billion in January to November 2008, 14.5 percent higher than the PhP849.4 billion in the same period of 2007. Tax revenue collections in 2007 registered at PhP932.9 billion.

Efficient debt management resulted in a 2.61 percent decline in NG regular outstanding debt between 2004 and 2007. As of end-December 2007, this stood at PhP3.7 trillion, of which, PhP1.5 trillion or 40.7 percent was owed to foreign creditors while PhP2.2 trillion or 59.3 percent was payable to domestic creditors. This resulted from the prudent fiscal expenditure management of the government alongside the appreciation of the Peso against the US dollar. As of end-October 2008, total outstanding debt stood at PhP4.2 trillion, comprised of 43.1 percent foreign debt (PhP1.8 trillion) and 56.9 percent domestic debt (PhP2.4 trillion).

Prices. Since 2004, inflation was kept at single-digit levels despite pressure emanating mainly from international oil prices. Inflation averaged 6.2 percent in 2006, lower than the 7.6 percent inflation rate in 2005 but slightly higher than the 6.0 percent inflation rate recorded in 2004. For 2007, average inflation of 2.8 percent was well below the target of 4-5 percent. With reduced inflation,

¹ Based on the 2008 Budget of Expenditures and Sources of Financing (BESF) NG Fiscal Program

91-day Treasury bill interest rates were flexibly lowered further from 7.3 percent in 2004 and 6.4 percent in 2005 to 5.4 percent in 2006. For 2007, the average 91-day Treasury bill rate was around 3.4 percent.

In 2008, the inflation rate rose to 9.3 percent as the escalating prices of commodities in the world market, particularly petroleum and cereals, in the early part of 2008 fueled domestic prices.

External Sector. In keeping with the Plan's objective of maintaining a sound balance of payments (BOP) position, the Philippines registered a BOP surplus of US\$3.8 billion in 2006, a 56.4 percent increase from the 2005 BOP surplus of US\$2.4 billion. For 2007, the country's BOP surplus more than doubled to a record high of US\$8.6 billion, given the reversal of the country's capital and financial account balance, from a net outflow in 2006 to a net inflow.

The surplus is partly attributed to the strong surge in OFW remittances, growing at an annual average of 19.1 percent for the period 2004-2006. Total remittances in 2007 rose by 13.2 percent to US\$14.4 billion given the growing number of commercial banks and local money transfer agents in countries with high concentration of Filipino overseas workers. Remittances in the first 11 months of 2008 already reached US\$15.0 billion. Also contributing positively were the inflows of foreign portfolio investments (FPI) with net FPI reaching US\$3.6 billion in 2007; however, this was 22.6 percent lower than the US\$4.6 billion recorded in 2006. Positive investor sentiment because of strong economic fundamentals, outlook upgrades in the country's credit rating and the strengthening of the Peso helped bolster FPI inflows.

However, in the first three quarters of 2008, net FPI worsened as investor confidence weakened due to the ongoing crisis in global financial markets, registering an outflow of US\$2.4 billion. Likewise, foreign direct investment flows posted a net outflow in 2007 following net inflows in 2004 to 2006. In 2008, BOP registered a surplus of US\$88 million.

From a slowdown in 2005, exports² from the Philippines rebounded in 2006 to reach US\$46.5 billion due to the recovery of the electronics industry, which grew by 8.7 percent. However, exports experienced a setback with the slowdown of the US economy. By 2007, total merchandise exports grew by only 6.4 percent vis-à-vis the 15.6 percent registered in 2006. Further slowdown was registered in the first nine months of 2008 as merchandise exports only grew 4.3 percent. On the average, imports outpaced exports in the first three quarters of 2008, supportive of an expanding economy with around 66.0 percent of total imports accounted for by raw materials and intermediate goods, and capital goods.

As the country's overall external position improved, accompanied by an environment conducive to foreign exchange inflows, the gross international reserves (GIR) increased to about US\$23 billion as of end-December 2006. In 2007, GIR stood at US\$33.8 billion covering 5.7 months worth of goods imports and payments for services and income. From 2004-2007, total GIR has exceeded the annual targets set in the Plan. Furthermore, the level of reserves remained healthy after the US\$220 million prepayment of the remaining credit to the International Monetary Fund (IMF) and the US\$72 million prepayment on various Asian Development Bank (ADB) loans. In 2008, GIR reached an all-time high of US\$37.6 million, enough to cover imports worth 5.7 months.

² Exports and imports are based on the Balance of Payments (BOP) concept

Growth and Performance

Production

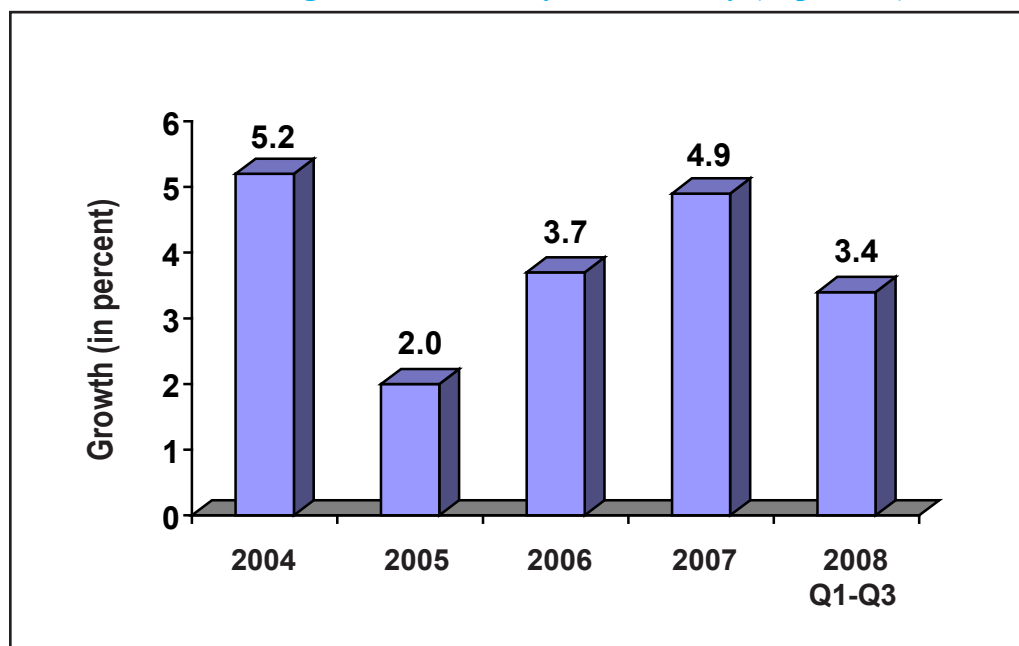
Agriculture. Gross value added in the agriculture, fishery and forestry sector expanded by 5.2 percent in 2004, above the target set for the period. Favorable weather conditions and proactive government support such as seed distribution, effective control of pests and diseases, and crop shifting boded well for the sector. In 2005 and 2006 however, production eased to 2.0 percent and 3.7 percent, respectively, falling short of the Plan targets for the period. Growth picked up to 4.9 percent in 2007, surpassing the low-end target of 4.0 percent. This, however, was not sustained as growth slowed down to 3.4 percent in the first three quarters of 2008 due to the shortfalls in livestock production and other crops (Figure 1).

The sector received significant government support in agriculture through the Agriculture and Fisheries Modernization Act (AFMA) and other programs such as the *Ginintuang Masaganang Ani* (GMA) Rice and Corn Program, GMA Livestock and Poultry Program and GMA Fisheries Program. Assistance from these programs include investments in irrigation facilities, distribution of high yielding seed varieties, area expansion, and knowledge dissemination pushed growth of the sector.

However, gains from the programs were diminished as crop outputs suffered from the dry spell during the first half of 2005 and the typhoons and flashfloods that struck the country in 2005 and in 2006.

Meanwhile, fishery production continued to grow at an annual average of 6.9 percent in 2004-2007 given the increased use of better fishing equipment. Aquaculture output was also high, boosted by seaweed production.

Figure 1
Growth in Agriculture, Fishery and Forestry (in percent)



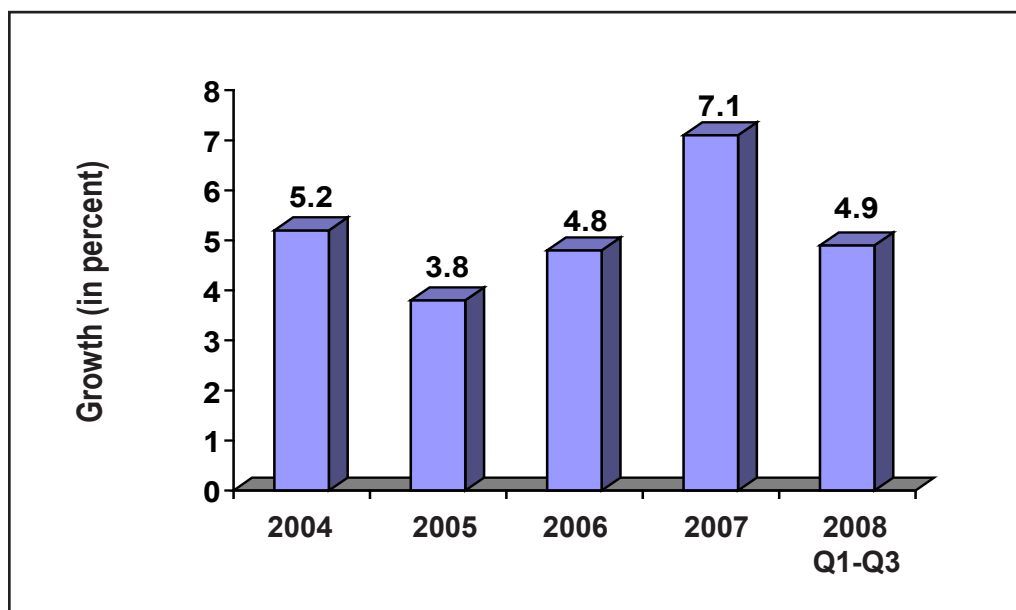
Source: NSCB

Industry. After reaching the high-end growth target in 2004, the industry sector posted below-target growths in 2005 and 2006. Growth rose significantly to 7.1 percent in 2007 on account of mining and construction. This variable performance is also partly traced to modest manufacturing production and subdued public and private construction activities in 2004-2005 (Figure 2).

The manufacturing sector has been having difficulty in coping with the heightened competition arising from globalization and the shocks that hit the economy, particularly high oil prices. The relatively large trade deficit, save for 2001, also indicated that industries failed to improve their competitiveness. Nonetheless, food manufactures, which account for about 40 percent of total real value added of the sector, remained stable given strong private consumption.

Following a lackluster growth due to an unstable fiscal position, the construction sector grew by 9.6 percent in 2006 and 23.1 percent in 2007 driven by strong public construction. The pace of private construction similarly picked up prompted by the booming real estate sector and the government's determination to expedite the improvement of the country's infrastructure system. After posting negative growths in 2005 and 2006, private construction expanded by 15.9 percent in 2007 and kept the pace in the first three quarters of 2008 with 10.6 percent growth rate. In contrast, public construction contracted by 1.9 percent in the same period in 2008 as limited absorptive capacity dragged down the government's plan to frontload infrastructure projects in order to counter the expected beating from the slowing US economy and rising inflation.

Figure 2
Growth in Industry (in percent)



Source: NSCB

Although registering an average expansion of two percent in 2004-2006, the mining sector offers a bright spot to the industry sector. In 2004, the Supreme Court upheld the provision of the Philippine General Mining Act of 1995 to allow foreign-owned firms to explore and process minerals in the country. The government's thrust to revitalize the mining sector in 2005 resulted in hefty investment expansions and attracted new investors. This renewed interest in the mining sector at a time of high world prices of metals ramped up production of gold, copper, chromium, nickel, and other metallic minerals. The Malampaya gas field has also started gas condensate production. Given strong government policy support and surging external industrial demand, the mining and quarrying sector expanded strongly by 25.9 percent in 2007. Increasing prices of metals in the world market owing to intensified demand for metals, especially copper from fast-rising economies like India and China, boosted production. The sector, however, also experienced setbacks such as the cyanide spills in the Rapu-rapu project in 2006. In the first three quarters of 2008, mining contracted by 2.2 percent as production fell by 12.4 percent in the second quarter and further by 4.1 percent in the third quarter given steep declines in the production of copper and nickel. In addition, Semirara Mining, the largest coal producer in the country, reported lower production due to heavy rains in the second and third quarters of 2008.

Driven by high demand from the growing services sector, the utilities subsector grew at an average of 4.9 percent from 2004 to 2007. Reaching a growth of 6.7 percent in 2007, the sector has been performing within target except for the weak 2.5 percent growth in 2005. Growth rose by 8.6 percent in the first three quarters of 2008, up from 6.2 percent in the same period a year ago.

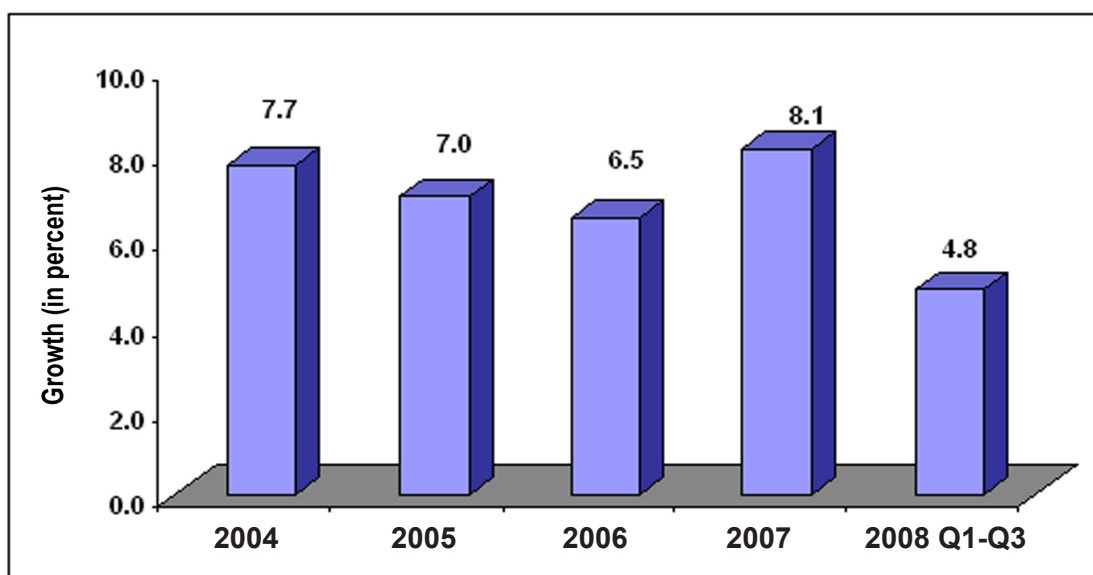
Services. The services sector has been spearheading economic expansion, growing at an average of 7.1 percent in 2004-2006 and remained steadfast at 8.1 percent in 2007 (Figure 3). With this performance, services was the only production sector that has been within, if not exceeding, the Plan targets for 2004-2007. As the global crisis unfolds, growth registered at 4.8 percent in the first three quarters of 2008. Strong consumer demand supported by record levels of remittances from overseas Filipinos and a liberalized environment in transport, communications, and retail trade spurred growth in the sector. The IT-related businesses, such as business process outsourcing (BPOs) and call centers, and the robust growth of cellular phone services in the country benefited from the government's liberalization efforts to expand broadband services, promote the development of e-commerce and e-business, and improve transparency and speed up the delivery of frontline government services through IT. Because of these, the transportation, communications, and storage subsector grew by an average of 8.3 percent from 2004-2007. Growth declined to 3.7 percent growth in January to September of 2008 on effects of high oil prices.

The trade services sector gained from strong remittances from overseas Filipinos and the expansion in agriculture to post an average of 6.7 percent annually for the period 2004-2007. For the first three quarters of 2008, growth stood at 4.7 percent, lower than the 8.0 percent growth for the same period a year ago. The same trend is evident in private services. From an annual average of 8.4 percent in 2004-2007 due to upbeat activities in business services including BPOs, medical and health services, personal services, and recreational services, growth slowed to 5.6 percent in the first nine months of 2008. Meanwhile, policy support such as streamlined issuance of housing permits and clearances, promotion of rent-to-own schemes, and affordable home-financing packages augured well for the ownership of dwellings and real estate sector to post an average of 5.5 percent per year in 2004-2007, and further by 7.1 percent in the first three quarters of 2008.

The financial subsector expanded at a remarkable pace of 11.9 percent per year from 2004-2007. Although bank lending remained tepid, bank income increased mainly due to the development of new financial instruments, higher interest income from fee-based activities, and increased financial transactions, including remittances, coursed through the formal channels of the financial system. Returns from the purchase of government securities also contributed positively. The implementation of the Special Purpose Vehicle (SPV) Act helped improve the asset quality of banks as the number of problem assets of the banking system fell to manageable levels. Consequently, the nonperforming loans ratio of universal and commercial banks decreased from 12.7 percent in 2004 to 5.7 percent in 2006 and further to 4.4 percent in 2007. The ratio held at 4.0 percent as of October 2008. With the global financial crisis at its heels, the finance sector growth declined to 4.8 percent in the first nine months of 2008 relative to the 14.0 percent posted in the same period in 2007. The impact of the subprime mortgage crisis in the US became more apparent in the local financial market as global investors preferred more stable and established markets and became cautious of emerging markets.

Meanwhile, government services grew at a relatively slower pace of 2.6 percent, on the average, each year during 2004-2007 as government adhered to its fiscal program. Counteracting the effects of the ongoing crisis, the subsector posted a higher 3.3 percent increase in January to September 2008 from 2.5 percent in the same period the previous year.

Figure 3
Growth in Services (in percent)



Source: NSCB

Expenditure

Growth was largely driven by consumption as exports expansion remained vulnerable to the developments in the US economy as well as the global IT industry. Private consumption rose at an average of 5.5 percent annually over the period 2004-2007 and by 4.6 percent in the first three quarters of 2008.

Overall investment spending rebounded to 11.2 percent and 8.2 percent in 2007 and January to September 2008, from a contraction of 8.8 percent and a slight growth of 5 percent in 2005 and

2006, respectively. In terms of ratios to GDP, investments-to-GDP declined from 20.3 percent in 2004 to 18.2 percent in 2007. This is attributed to generally weak fixed capital investments despite increased investments in priority sectors such as mining and construction machinery, sugar mill machinery, telecommunications, and transportation (road, air, and water) equipment. The huge investments in air transport were due to the refueling of major domestic airlines. In 2007, public construction rose substantially by 29.6 percent while private construction showed signs of recovery as it registered a growth of 15.9 percent. After a contraction in 2005 and a slight uptick in 2006, expenditure on durable equipment grew by 4.5 percent in 2007 and by 4.3 in the first three quarters of 2008. Sustaining this positive trend is critical to economic growth given that investment in durable equipment indicates future increase in production capacity.

Net exports, in real terms, as shown by the national income accounts data, remained in deficit, although this was substantially narrowed down from PhP89 billion in 2004 to PhP14.5 billion in 2006. For 2007, net exports registered a surplus of PhP51.0 billion, in real terms. For the first nine months of 2008, surplus in net exports reached PhP73.5 billion. This improvement in net exports can be traced to the slowdown in imports as well as the increased exports of nonfactor services, which include earnings from contact centers.

Labor and Poverty

Increased globalization and faster economic growth have provided opportunities for the Filipino workforce as more workers are absorbed into the labor market. Using the old concept of unemployment on which the Plan targets were based, the unemployment rate improved from 11.9 percent in 2004 to 11.4, 11.1 and 10.8 percent in 2005-2007, respectively, lower than the Plan targets. Nonetheless, unemployment remains high and meeting job creation targets continue to be a challenge. Using the new ILO-based methodology, unemployment rate stood at 8.0 percent in 2006, 7.3 percent in 2007 and 7.4 percent in 2008. The estimated 3.5 million employment generated in the 2004-2008 period represents a backlog of about 3.5 million, given a target of at least 1.4 million employment created per year. Moreover, employment creation in 2008 suffered following a slowing economy, generating only 530,000 new employment.

With weak employment creation, higher prices and population increases in 2004-2006, the incidence of poor families in the Philippines increased by 2.5 percentage points to 26.9 percent in 2006 from 24.4 percent in 2003. In terms of population, the number of poor Filipinos increased from 23.8 million in 2003 to 27.6 million in 2006.

However, with greater macroeconomic stability, the government is in a better position to fight the perennial problem of poverty.

Growth Strategy

Policies shall remain supportive of the Plan's goals of poverty alleviation and improved income and wealth distribution. For the remainder of the planning period, the government aims to achieve its growth targets on account of: (a) a sound fiscal policy and manageable consolidated public sector deficit (*Chapter 7: Fiscal Strength*) while implementing a fiscal stimulus program to provide support to the economy amidst the ongoing global economic crisis; (b) enhancing the impact of public spending through public-private partnerships in major infrastructure projects (*Chapter 6: Infrastructure*); (c) improving the investment climate to boost the country's competitiveness (*Chapter*

1: *Trade and Investment*); and (d) accelerating the spill-over effects of growth to the poor (*Chapter 12: Responding to the Basic Needs of the Poor*).

Underpinning the fiscal program are measures to boost the revenues-to-GDP ratio primarily from higher revenue collection efficiency (both tax and nontax). A credible fiscal program based on transparency and accountability shall be continued to maintain investor and creditor confidence on the economy (*Chapter 7: Fiscal Sector*). Accompanying a sound fiscal policy is a monetary policy that remains consistent with the economy's direction towards a sustained noninflationary growth committed to price stability, financial intermediation efficiency, and a more developed capital market to improve domestic resource mobilization (*Chapter 8: Financial Sector*).

To ensure the provision of appropriate infrastructure in the country, the government in 2006 set forth an investment-enhancing strategy by regrouping the geographic regions of the country into "super regions" with the aim of spreading development in the countryside. Through the Super Regions, the investment priority plan shall focus on areas where the Philippines can maximize the potential of its natural, geographical, and human resource advantages thereby promoting economies of scale as well as enhancing functional linkages to boost economic and market potentials. Further, infrastructure requirements shall be financed mostly from build-operate-transfer (BOT)-type modes without government guarantees ³.

The government also recognizes the need to raise the country's competitiveness. When the original MTPDP was crafted in 2004, five strategic measures for increasing competitiveness were identified and these shall remain as the guiding objectives for the remainder of the planning period (*Chapter 1: Trade and Investment*).

Thus, the government will focus its efforts to improve the business environment to further attract investments. The National Competitive Council, in consultation with the private sector, has formulated an action agenda aimed at strengthening the country's competitiveness. The action agenda focuses on institutionalizing reforms towards a more efficient energy sector, adopting time-bound processing of projects, institutionalizing private sector briefings on investment and economic issues, pursuing the passage of investment-related laws, and jumpstarting key infrastructure projects.

Following the economic gains achieved so far, the government will embark on an accelerated phase of ensuring social payback, aimed at enabling the poor to benefit more from growth and to cushion the impact of the global financial crisis. To achieve the plan's goal of responding to the basic needs of the poor and vulnerable, the national budget will be realigned to increasingly invest more on social services. In particular, the government recognizes the following priority areas as significantly affecting long-term human development - health, nutrition, education, shelter, income and assets, and social protection.

Given these strategies, the productive sectors of the economy are expected to respond positively. Nonetheless, major changes in the macro assumptions particularly emanating from higher oil and commodity prices and the global economic slowdown led the DBCC to revise the medium-term growth targets (Table 3).

³ The need for an effective public-private partnership in the provision of priority infrastructure projects has led to the amendment of the Implementing Rules and Regulations (IRR) of the Build-Operate-Transfer (BOT) Law and is now awaiting approval from the BOT Law IRR Committee. See also Chapter 6 for details of infrastructure projects under the Super Regions.

The agriculture sector is targeted to grow at an average of 3.9-4.9 percent annually in 2008-2010 on a sustained basis as the government works in partnership with the private sector to develop some 1.36 million hectares of land for agribusiness and to complete the two million hectares targeted until 2010 (*Chapter 2: Agribusiness*). Moreover, the government bolstered its support for the sector as weaknesses were highlighted in light of the developments in early 2008. The implementation of the FIELDS (Fertilizer; Irrigation and other rural infrastructure; Education and Extension work; Loans, Dryers and other post-harvest facilities; and Seeds) program is expected to boost the sector's productivity.

Industry, on the other hand, is expected to expand at an average of 4.1-4.9 percent annually for the period 2008-2010. Industry growth will be mainly supported by public construction. Construction will grow strongly as the government beefs up infrastructure spending not only to stimulate the

Table 3
Medium-Term Macroeconomic Targets, 2008-2010

	FY Actual		FY Targets*		
	2007	2008	2008	2009	2010
GNP	8.0	na	4.7-5.4	4.3-5.2	5.7-6.6
GDP	7.2	na	4.1-4.8	3.7-4.7	5.2-6.2
Inflation Rate	2.8	9.3	4±1.0	3.5 ±1.0	na
<i>Projection</i>			<i>9.0-11.0</i>	<i>6.0-8.0</i>	na
91-Day T-bill Rate	3.4	5.4	5.1-7.1	5.5-7.5	na
Fiscal Balance (% of GDP)	-0.2	na	-1.0 ^{a/}	-1.2 ^{a/}	na
Consolidated Public Sector Balance (% of GDP)	0.55	na	-0.3 ^{a/}	0.5 ^{a/}	na
Exports of Goods (US\$ million)	49,512	na	50,307-51,294	50,810-52,833	na
<i>Growth Rate (%)</i>	6.4	na	2.0-4.0	1.0-3.0	na
Imports of Goods (US\$ million)	57,723	na	63,312-64,463	65,845-68,331	na
<i>Growth Rate (%)</i>	8.4	na	10.0-12.0	4.0-6.0	na
Poverty Incidence (Families)(%)	26.9 ^{b/}	26.9 ^{b/}	23.4 ^{b/}	22.3 ^{b/}	20.9 ^{b/}
Unemployment Rate	7.3 ^{c/}	7.4 ^{c/}	na	8.6 ^{c/}	8.2 ^{c/}

Sources: NSCB, NSO, NEDA, BSP, DOF, BTr

The average Dubai oil prices assumptions (per barrel) are US\$95-105 for 2008 and US\$75-90 for 2009; The exchange rate assumptions (Php/US\$) are PhP42-45 for 2008 and PhP45-48 for 2009.

* The macroassumptions for 2008-2009 were approved by the DBCC on November 11, 2008.

na - not available

a/ Based on November 11, 2008 fiscal program. The CPSD figures are as of September 16, 2008.

b/ The figure for 2007 is the actual 2006 poverty incidence estimate. For 2008-2010, the figures were re-estimated using actual 2006 poverty incidence and growth targets for 2008-2010.

c/ Using the new definition of unemployment implemented in 2005. For 2009-2010, the targets were estimated using actual 2008 and growth targets for 2009-2010.

economy in response to the global crisis but also to improve the country's competitiveness. Private construction will, likewise, move along with business expansions, the growth in overseas Filipino remittances and the BPO industry in 2008. This is expected to slowdown in 2009, due to weaker confidence caused by the global economic slowdown, but will eventually pick up in 2010. With increased competition, manufacturing will grow in accordance with the country's competitive advantage and resources. However, the impact of weaker economies of the country's major trading partners and possible lower consumption due to heightened uncertainties and risk averseness of consumers are seen as downside risks to the industry's growth potential.

The services sector is seen to grow at an annual average of 4.8-5.5 percent for 2008-2010. While this is expected to be dampened by the impact of the global financial crisis, positive prospects arise from the sustained expansion of information technology (IT)-enabled businesses such as contact/call centers and BPOs, which are, at the same time, expected to prop up the real estate industry. The more aggressive tourism promotional activities, the pursuit of more liberalized air travel policies, and the gains of the transportation sector from the infrastructure projects of the government will also provide support to the sector. The financial subsector will be adversely affected by weak investor sentiment but will gain from the development of savings products for small savers and OFWs (*Chapter 8: Financial Sector*).

The sudden change in the global and regional economic environment in 2008 can undermine the momentum of the country's economic growth especially in 2009. This notwithstanding, the resilience developed over the recent past is expected to boost the country's growth for the remainder of the medium term.

Chapter 1

Trade and Investments

The government supported the growth of micro, small and medium enterprises (MSMEs), exports and investments from 2004 to 2008 through the implementation of strategic programs and projects. Loans to MSMEs under the SME Unified Lending Opportunities for National Growth (SULONG) Program reached PhP147.26 billion or 69.4 percent of the revised 2010 target. Total merchandise exports in 2006 grew by 15.6 percent and earnings from exports of services reached 42.4 percent, allowing total export revenues to exceed the US\$50 billion target in 2006. Investments likewise improved as a result of a favorable investment climate anchored on stable macroeconomic fundamentals.

ASSESSMENT AND CHALLENGES

Entrepreneurship. Loan releases to MSMEs from 2004 to October 2008 under the SULONG Program amounted to PhP147.26 billion (Table 1.1), which is 69.4 percent of the revised 2010 target. Moreover, under the Program, an estimated 1.84 million jobs¹ were supported, of which 30 percent or 552,225 were new jobs. A separate Microfinance Program covers microenterprises administered by the People's Credit and Finance Corporation (*Chapter 12: Basic Needs*). As of June 2008, total loans under the Microfinance Program amounted to PhP98.27 billion, generating 1,773,138 jobs and benefiting 4,095,282 clients. Total loan releases under both programs aim to achieve the Medium-Term Philippine Development Plan (MTPDP) target of providing loans amounting to PhP310 billion to MSMEs by 2010.

Table 1.1
SULONG Program Performance Under Revised SULONG Target^a, 2004-October 2008

GFI/ GOCC	Accomplishment (PhP billion)										Growth Rate		
	2004		2005		2006		2007		Jan-Oct 2008 ^a		2005	2006	2007
	Actual	% to Target	Actual	% to Target	Actual	% to Target	Actual	% to Target	Actual	% to Target			
LBP	12.56	139.6	17.43	176.1	16.21	148.9	16.35	136.5	14.57	110.6	38.8	-7	0.9
DBP	9.87	109.7	10.49	105.9	11.05	101.5	8.52	71.1	9.66	99.0	6.2	5.4	-22.9
SBGFC ^b	3.27	130.7	2.94	98.0	3.44	95.6	2.69	62.3	2.34	49.7	-10.1	17.1	-21.9
PhilExim	0.4	33.7	0.15	10.7	0.2	11.7	0.33	15.8	0.18	12.1	-61.9	31.2	62.4
Quedancor	0.83	84.8	0.56	47.5	1.13	80.3	0.55	32.2	0.15	35.5	-32.6	102.1	-51.6
NLSF ^b	0.12	14.4	0.03	2.6	0.06	100	0.05	67.1	0.01	16.0	-78.3	140	-21.7
SSS	0.17	166	0.13	107.5	0.3	217.1	0.1	57.1	0.41	196.5	-22.3	135.7	68.1
TOTAL/ % to target	27.22	115.4	31.73	119.7	32.39	112.8	28.59	88.5	27.33	91.6	16.6	2.1	-11.8

Source: Small Business Guarantee and Finance Corporation

a/-SULONG Target for 2004-2010 revised from PhP310 billion to PhP212.21 billion to exclude microfinance lending

b/-Target commitments by Small Business Finance Guarantee Corporation and National Livelihood Support Fund includes microfinance lending

Notes:

SBGFC, NLSF and Quedancor loans do not include microfinance

SSS loan releases to self-employed and voluntary members are lumped under SULONG 2

No. of accounts refers to number of borrowers

SSS microloans follow 1:1 loan to job ratio

¹ Following formula for jobs supported, i.e. ratio of PhP80,000 average loan size=one job supported. It is estimated that 30% of total jobs supported are new

As of the third quarter of 2008, some 8,072 new SMEs were developed while 25,578 were assisted under the One Town-One Product (OTOP) Program. OTOP products were sold in 3,413 market outlets nationwide and 561 Pasalubong Centers. Since its inception in 2004, the OTOP Program has already generated PhP7.7 billion in investments and 268,519 jobs and realized earnings worth PhP8.2 billion from domestic sales and US\$340.4 million from exports (Table 1.2).

Table 1.2
OTOP Performance as of Third Quarter 2008

Performance Indicator	Total	Performance Indicator	Total
New SMEs developed	8,072	Investments	PhP7.7 billion
New SMEs assisted	25,578	Employment generated	268,519
Pasalubong Centers	561	Sales Generated Domestic Exports	PhP8.2 billion US\$340.4 million
OTOP market outlets nationwide	3,413		

Source: Small Business Guarantee and Finance Corporation

To further promote and strengthen entrepreneurship, Republic Act (RA) No. 9501 amending the Magna Carta for MSMEs was signed into law on May 23, 2008. Department of Trade and Industry (DTI) Department Administrative Order No. 09 series of 2008 issued on August 20, 2008, implemented the RA. The law directs credit institutions to increase their mandatory allocation for micro and small enterprises from six percent to at least eight percent of their total loan portfolio and at least two percent of their total loan portfolio for medium enterprises.

However, MSMEs continue to have difficulty in meeting the necessary documentary requirements imposed by government financial institutions (GFIs). SULONG GFIs have already standardized their lending guidelines and procedures so that SMEs can gain better access to credit under the Program. More efforts to enhance borrower financial literacy needs to be put in place so that MSME borrowers can meet the GFIs' prudential requirements. In addition, measures to expand the reach of the microfinance program should be explored to ensure that the poor sectors will benefit from the program. On the part of the GFIs, a continuing challenge is how to make their wholesale lending rates attractive to the banking sector. On the other hand, for the microborrower sector, the challenge is to shift their activities to higher value-added activities as well as increase their asset size.

Moreover, there remains a need for support from the government, specifically in interventions such as marketing, technical and financial support, product development and advocacy to fully realize the MSMEs' potential for growth and development.

Investments. Total investments approved by the country's investment promotion agencies such as the Board of Investments (BOIs), Philippine Economic Zone Authority (PEZA), Clark Development Authority (CDA), and Subic Bay Metropolitan Authority (SBMA) increased by an average of 78.6 percent from 2004-2007. Total approved foreign direct investments (FDI) sustained its growth momentum from 2006-2007 while approved local investments slightly dipped in 2007 (Table 1.3). Investment approvals continued its upward momentum in the first semester of 2008. Meanwhile, FDI inflows as recorded by the Bangko Sentral ng Pilipinas (BSP) grew by an average of 67 percent from 2004 to 2007.

Overall, the positive performance could be attributed to the favorable investment climate during the period with investors citing improved fiscal performance and stable macroeconomic fundamentals as factors. The government's aggressive and focused promotion campaign to attract investments has also contributed to increased investments. Manufacturing accounted for more than half of total approved investments. Around half a million jobs was projected to be generated from the total investment commitments in 2004-2007.

However, cautious investor sentiment due to the slowdown in global economy particularly in the US resulted in the decline of FDIs inflows for the period January-November 2008.

Table 1.3
Approved Investments and Foreign Direct Investment Inflows, 2004 to First Semester 2008

	Value					Growth Rate				
	2004	2005	2006	2007	1st Sem 2008	2004	2005	2006	2007	1st Sem 2008
Total Approved Investments ^{/a} (PhP billion)	221.8	231.2	357.0	385.8	293.1	247.7	4.2	54.4	8.1	90.7
Local	47.9	135.4	191.1	170.6	198.4	60.9	182.6	41.1	-10.8	161.2
Foreign	173.9	95.8	165.9	215.2	94.6	411.3	-44.9	73.2	29.8	21.8
Actual FDIs ^{/b} (US\$ billion)	0.7	1.8	2.9	2.9	1.65	40.5	169.8	58	0.2	-40.9 ^{/c}

Source: National Statistical Coordination Board

a/- Includes BOI, PEZA, CDC and SBMA

b/- Based on BSP Balance of Payments data

c/- Jan-Nov. 2008

Combined investments in the MTPDP priority activities accounted for 18.6 percent of total approved BOI investments from 2004-2008 (Table 1.4). Electronics, mining and mineral processing, tourism, agribusiness and information technology (IT) services accounted for 80.5 percent of total BOI approved investments in the MTPDP priority areas during the same period.

Trade. The Philippine Export Development Plan (PEDP) 2005-2007 identified three milestones to measure the success of the export sector: first, increase exports to US\$50 billion by 2006; second, job generation under the President's Ten-Point Agenda; and third, share of priority exports to total exports as a measure of diversification. The first milestone was successfully achieved, with exports of goods and services surpassing the US\$50 billion target and 10 percent growth rate in 2006 (Table 1.5). Merchandise exports, in particular, surpassed the 10 percent target registering a growth of 15.6 percent at US\$46.5 billion in 2006.

Exports of goods and services in 2007 registered a 9.1 percent increase at US\$57.8 billion, but growth of merchandise exports decelerated to 6.0 percent during the same period. The deceleration continued in the first quarter of 2008 with exports of goods and services growing by 6.4 percent compared to 12.1 percent in the same period in 2007. Exports of goods were dampened by slowdown in the US market and high production costs particularly in energy and logistics, and partly due to the strong peso.

Table 1.4
BOI-Approved Investments in MTPDP Priority Activities, 2004-2008

	Value (PhP million)					Growth Rate (%)			
	2004	2005	2006	2007	2008	2005	2006	2007	2008
Agribusiness	984	1,971	6,065	2,329	9,138	100.3	207.7	-65.0	2.9
Health Care and Wellness	30	1,759	455	60	1,522	5,763.3	-74.1	-93.2	24.4
Garments	117	75	286	15	78	-35.9	284.0	-94.8	4.2
IT Services	1,399	1,614	2,664	3,166	1,406	15.4	65.1	18.8	-0.6
Mining and Mineral Processing	1,528	8,294	16,137	13,776	8,205	442.8	94.5	-14.6	-0.4
Tourism	161	2,752	4,988	16,034	8,747	1,609.3	81.2	221.5	-0.5
Shipbuilding	-	574	-	91	12,123	-	-	-	132.2
Jewelry	-	41	35	10	0	-	-14.6	-71.4	-1.0
Electronics	18	834	34,101	13,821	265	4,533.3	3,988.8	-59.5	-1.0
Automotive	72	3,255	132	4,292	2,218	4,420.8	-95.9	3,152	-0.5
Subtotal MTPDP	4,309	21,169	64,863	53,294	43,702	391.3	206.4	-17.7	-18.5
Others	153,166	141,603	120,060	157,360	242,940	-7.5	-15.2	31.0	54.3
Shipping	-	514	770	4,548	-	-	50	490.6	-

Source: BOI

Table 1.5
Export Performance, 2004-2008 (January to September)

	FOB Value (US\$ billion)					Growth Rate (%)				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
Goods and Services										
Plan Target	43.1	47.2	52.3	58.2	n.a.	10.0	10.0	10.0	11.0	n.a.
Actual	42.8	44.8	52.9	57.8	45.7 ^a	10.6	4.6	18.3	9.1	6.8
% to target	99.3	94.5	101.1	99.3	n.a.					
Goods										
Plan Target	39.8	43.8	48.2	53.5	50.3-51.3 ^b	10.0	10.0	10.0	11.0	2.0-4.0 ^b
Actual	38.8	40.3	46.5	49.3	38.3 ^a	9.8	3.8	15.6	6.0	4.3 ^a
% to Target	97.5	92.0	96.5	92.1	76.1-74.7					

Sources: MTPDP 2004-2010, PEDP 2002-2004, BSP Balance of Payments 2005-2007

a/- January to September 2008

b/- DBCC revised estimates as of November 11, 2008

Exports of goods in the third quarter of 2008 grew by 4.3 percent at US\$38.3 billion despite the expected slack in demand due to the global economic slowdown. The double digit growth rates for petroleum products; mineral products, particularly copper metal, gold and copper concentrates; and coconut products as well as manufactured products such as food and beverages, wood manufactures, machinery and transport equipment and chemicals, among others, contributed to the increase in exports. Exports of goods and services in the first nine months of 2008 grew by 6.8 percent at US\$45.7 billion.

The electronics sector continued to dominate the country's export basket with semiconductors accounting for about half of merchandise exports rendering the country vulnerable to the fluctuations in the global electronics market. However, there are indications of diversification as evidenced by the increasing share of revenue streams² to total merchandise exports in 2007 and in the first nine months of 2008 (Table 1.6).

Table 1.6
Export Performance of Revenue Streams, January 2004 to September 2008
(Share to Total Merchandise Exports, in percent)

Commodity	2004	2005	2006	2007	January to September 2008
Traditional Exports	54.6	56.7	51.0	51.0	51.7
Of which: Semiconductors	47.1	49.0	47.1	44.4	43.4
Revenue Streams	31.9	29.0	28.4	28.9	30.5
Other Products	13.5	14.3	17.5	20.1	17.8

Source: DTI-Bureau of Export Trade Promotion

Efforts to forge relations with the rest of the world to increase market access and investment opportunities were carried out. The country continued to liberalize trade with the ASEAN, with approximately 80 percent of tariff lines in the Philippine Inclusion List under the Common Effective Preferential Tariff (CEPT) Scheme of the ASEAN Free Trade Area (AFTA) having zero duties. Furthermore, the Philippines, together with her ASEAN partners, signed free trade agreements (FTAs) with China, Korea and Japan. The Philippines and ASEAN are scheduled to sign FTAs with Australia and New Zealand, and India. The Philippines also signed the Japan-Philippines Economic Partnership Agreement (JPEPA) which was ratified by the Senate on October 8, 2008. The implementation of the provisions of the JPEPA is expected to further expand Philippine exports of goods and services to Japan. Moreover, the Philippines continues to participate in the World Trade Organization (WTO).

The government also revitalized its participation in the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) in order to strengthen cross-border trade, tourism and investments in the subregion and accelerate socioeconomic development in the southern Philippines. To date, total EAGA investments in Mindanao and Palawan, the EAGA-covered areas in the country, amounted to US\$29 million. Most of these investments came from Malaysia.

The Philippines' total trade with the rest of the world grew at an annual average of 9.0 percent over the period 2004-2007, with exports to China showing positive growth throughout the period.

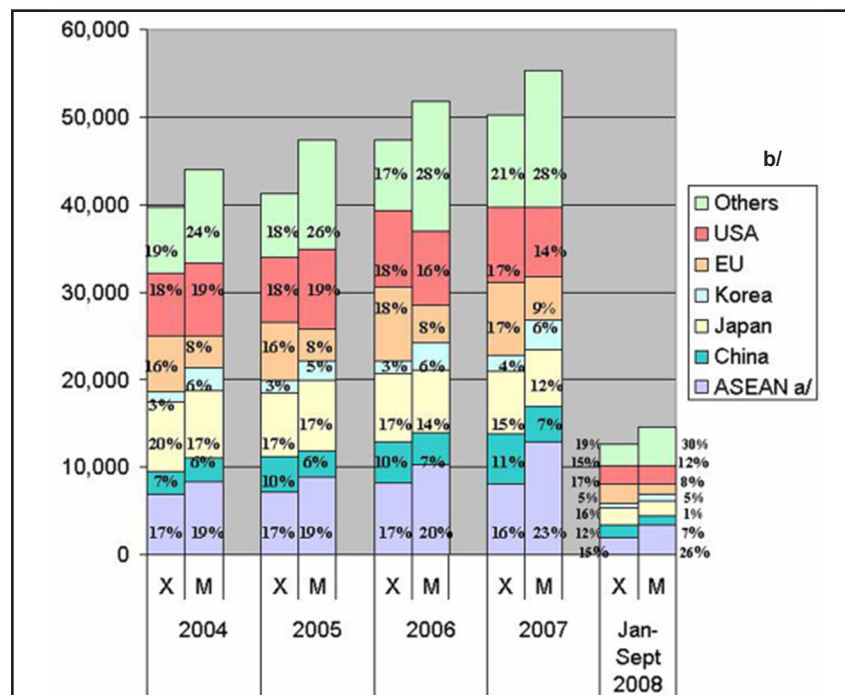
² Includes wearables (excluding garments), food, motor parts, home furnishing, marine products, seaweeds and caragenan, giftwares/household decors, construction materials, organic products and electronic products (except semiconductors)

Total trade with China, European Union (EU) and ASEAN grew the fastest, resulting in the expansion of their shares to total trade from 6 percent, 12 percent and 18 percent in 2004 to 9 percent, 13 percent and 20 percent, respectively. However, the shares of the US and Japan to total trade declined from 18 percent and 19 percent in 2004 to 16 percent and 13 percent, respectively (Figure 1.1).

Measures to simplify procedures and reduce transaction costs were pursued. Executive Order (EO) 554 was issued in 2006 to eliminate export clearances and fees and streamline documentation procedures. Likewise, EO 589 exempted exporters from paying the travel tax to help them remain competitive, especially with the recent strengthening of the Philippine peso.

The use of the automated export declaration system (AEDS) for electronics exports and its roll out to automotive parts and components, and deployment of X-ray machines to major Philippine ports helped simplify declaration and inspection procedures as well as reduce transaction costs. Fees for the use of X-ray machines have been reduced from US\$20 to US\$5 for a 20-foot container and from US\$40 to US\$10 for a 40-foot container. Meanwhile, the National Single Window (NSW), a system which enables single submission of data and information, synchronized processing and decision making for customs release and clearance of cargo, has been pilot tested with certain bureaus of the Department of Agriculture (DA). A Php280-million Export Promotion Fund was also established in early 2007 to provide supplemental financing for the promotion and development of Philippine exports.

Figure 1.1
Direction of Trade, 2004 -September 2008



Source: Bangko Sentral ng Pilipinas

a/ - Excludes Cambodia

b/ - Includes Hawaii

X = Exports

M = Imports

Information and Communications Technology (ICT). The government has continued to provide an environment for the expansion of digital infrastructure at a lower cost to sustain the competitiveness of the ICT industry. Over the past years, the Philippines has established itself as a top destination for IT-Business Process Outsourcing (BPO) activities. Total IT-BPO revenues in the Philippines grew from US\$1.5 billion in 2004 to US\$4.9 billion in 2007, with direct employment of 300,000 personnel. Meanwhile, a total of PhP71.18 billion investments in IT and IT-enabled services sector were approved by BOI and PEZA in 2007.

A major factor that attracts investments to ICT is the pool of about 29 million knowledge workers who are not only technically proficient and inherently creative, but also fluent in the English language. The relatively low wages, notably the second-lowest hourly wage for offshore professionals next to India, have also contributed to making the country a major player in the industry. Filipinos are also known for their excellent work ethics and high level of employee loyalty and dedication, resulting in low attrition rates. The country also offers service providers and customers, world-class telecommunications networks and BPO workplace facilities, and financial incentives with competitive investment packages for IT and IT-enabled services investors.

According to the 2007 World Investment Report, global FDI inflows will continue to increase beyond 2007. Thus, it is important that the country improve its infrastructure facilities, quality of human resources, security and overall business environment to strengthen its competitiveness and attract more investments to secure a bigger share of global FDI inflows.

STRATEGIC FRAMEWORK

Support and Strengthen MSMEs. In line with the national vision to create globally competitive MSMEs, the government will strengthen its program to support three million entrepreneurs and MSMEs through the continued provision of credit, technology, and marketing assistance. Further efforts to enhance borrower financial literacy shall be put in place. Loans to self-employed small business owners will be tripled by 2010. Existing MSMEs will also be empowered to generate additional employment through increased lending and promotion of the Big Enterprise-Small Enterprise (BESE) program.

Access to various sources of financing shall be improved through the SULONG Program complemented by the Microfinance Program to reach the goal of tripling the loans to MSMEs by 2010. The overall revised target of the GFIs involved in the SULONG Program is expected to reach PhP212.2 billion by 2010 from a base of PhP23.6 billion in 2004 (Table 1.7).

The participation of private financial institutions to promote and comply with the mandatory lending quota to MSMEs shall be enforced. The establishment of the SME credit rating/scoring system shall be fasttracked. The implementation and operation of the SME Capital Market shall be strengthened and venture capital financing shall be promoted.

The OTOP Program shall continue to be enhanced through a comprehensive package of assistance to MSMEs and overseas Filipino workers (OFWs) which shall include product/design development, skills and entrepreneurial training, marketing assistance and introduction of appropriate technologies. The BESE Program shall also be promoted as a source of technology and market to ensure the sustainability of MSMEs. The industry clustering approach shall be used to capitalize on complementation among towns within a province or a region. Moreover, technology based entrepreneurship shall be encouraged and supported (*Chapter 19: Science and Technology*).

Table 1.7
Revised Sulong Targets, 2004-2010 (PhP billion)*

GFI/GOCC	2004	2005	2006	2007	2008	2009	2010	Total
DBP	9.00	9.90	10.89	11.98	9.76	11.22	12.90	75.65
LBP	9.00	9.90	10.89	11.98	13.18	14.49	15.94	85.38
NLSF	0.80	0.96	0.06	0.07	0.09	0.10	0.12	2.21
PhilExim	1.20	1.44	1.73	2.07	1.49	1.79	2.15	11.88
SBGCF ^{a/}	2.50	3.00	3.60	4.32	4.70	5.26	5.90	29.28
Quedancor ^{b/}	0.98	1.18	1.41	1.70	0.42	0.42	0.42	6.53
SSS	0.10	0.12	0.14	0.17	0.21	0.25	0.30	1.29
Projected Total	23.58	26.50	28.72	32.29	29.84	33.54	37.74	212.21

Notes:

* SULONG target for 2004-2010 was revised to exclude microfinance lending and to incorporate changes in the GFI's internal projections based on 2007 accomplishments

^{a/} SBGFC's targets include its microfinance commitment

^{b/} Quedancor's targets for 2008-2010 are assumed flat and subject to revision. The agency is currently undergoing rehabilitation.

Increase Investments. The Philippines will strive to raise investments to 25-28 percent of gross domestic product (GDP) by 2010 from 18 percent of GDP in 2007. Increased spending on public infrastructure shall be pursued through greater private sector participation (*Chapter 6: Infrastructure*).

The government shall explore, in cooperation with the private sector, measures to improve competitiveness such as developing competitive human resources through improved access to food (*Chapter 2: Agribusiness*), basic health needs (*Chapter 12*) and education (*Chapter 18*); enhancing cost competitiveness by improving infrastructure (*Chapter 6*) and access to cheap power (*Chapters 10 and 11*) and telecommunications, as well as reducing bureaucratic red tape (*Chapter 21: Anti-Corruption*); mobilizing and disseminating knowledge to upgrade technologies, and increase productivity (*Chapter 19: Science and Technology*).

Proactive investment promotion measures will be pursued, especially in the 10 identified priority areas in the MTPDP (Table 1.4), to increase and sustain investments and generate jobs. Investment promotion shall adopt a more targeted approach by focusing on selected industries and priority target countries (United States, Europe, Japan, Taiwan, Singapore, China and Middle East countries). Moreover, the government will continue to offer fiscal and nonfiscal incentives to attract FDIs particularly in the priority areas such as ICT, mining and tourism. In addition, the strategies identified in the Offshoring and Outsourcing Philippines Roadmap 2010 such as increasing industry recruits through training and developing next wave cities or ICT hubs shall be implemented to further capitalize on the growing ICT and BPO sector.

Furthermore, procedures for entry and exit of business persons will be improved through, among others, the implementation of the Pro-Investment Visa Program that will allow the issuance of visa to foreign investors and businessmen upon their arrival. This visa shall be valid for three months with total aggregate length of stay not to exceed three years.

With respect to the BIMP-EAGA region, the government recognizes the wealth of investment opportunities in the agro-industry (including fishery, forestry and food processing) and tourism sectors. Investments in raw material outsourcing, processing and marketing of tuna and sardines shall

be promoted, as well as high-value aquaculture and mariculture, e.g., tilapia, grouper, abalone, and seaweeds. Conservation efforts will also be undertaken to protect the rich biodiversity in the Coral Triangle area and the Sulu-Sulawesi Seas which are rich spawning and fishing grounds for tuna and sardines.

Expand and Diversify Exports. In the face of the global economic slowdown, particularly in the Philippines' major trading partners, the United States, Japan and EU, the Philippines will continue to pursue efforts to diversify and increase exports of goods to two to four percent in 2008 and one to three percent in 2009³. The growth in trade in services is expected to outpace growth in merchandise exports. To achieve this growth, the following strategies will be implemented:

1. Maximize exports and investment opportunities offered by trade agreements.

The Philippines will continue to participate and enter into international trade agreements. The implementation of trade liberalization initiatives under the JPEPA, ASEAN, ASEAN-China and ASEAN-Korea FTAs are expected to enable the country to capitalize on the economic growth of the region. The Philippines will further pursue diversification of export markets and goods such that the impact of the current economic slowdown of trade partners such as the US and EU will be minimized.

The Philippines will continue to promote and intensify external trade and marketing activities in Mindanao and Palawan under the BIMP-EAGA, particularly, cooperation on trade facilitation, transport, tourism and environment, among others. The BIMP-EAGA is an important strategy complementing ASEAN initiatives to achieve the ASEAN Economic Community by 2015. In this regard, the following strategic objectives will be pursued:

- a. Promote intra- and extra-EAGA trade and investments in agro-industry and natural resources, tourism, transport, infrastructure and ICT, with particular emphasis on SME development in these sectors;
- b. Coordinate the management of natural resources for sustainable development in the subregion;
- c. Coordinate the planning and implementation of infrastructure support to economic integration, e.g., power plants, water and sewerage systems and ports with bulk handling facilities, with active participation of the private sector and;
- d. Strengthen the Philippine-EAGA institutional mechanism for effective implementation of the roadmap.

The country will also continue to explore possible Partnership Cooperation Agreement with the EU and FTA with the US, among others. The Philippines also remains committed to participating in multilateral trade negotiations under the WTO towards the conclusion of the Doha Development Round.

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

Export promotion will be pursued in the following priority markets: US, China, Japan, ASEAN, EU, Australia, New Zealand, South Korea, India, Canada, United Arab Emirates and Kingdom of Saudi Arabia. Moreover, the country will continue to focus on the development and promotion of the following products: marine, construction materials/

³ Estimates for export growth in 2010 are not available

services, gifts, toys, housewares and holiday decor, home furnishings, and logistics services. Exports of goods covered under the areas identified for investment promotion will also be pushed. The processing of specialty food items such as *halal* foods is considered a promising sector, particularly for the Middle East countries, and BIMP-EAGA region.

The PEDP 2008-2010 outlines the strategies for developing these key products and promoting Philippine exports to the identified priority markets.

3. *Improve transaction costs and flows.*

Efforts to promote better efficiency, transparency and accountability will continue to be pursued. The automation of import and export documentation and clearance procedures, i.e., the establishment of the NSW and roll out of the AEDS to other products, shall be pursued to facilitate the entry and exit of goods. The implementation of the Philippine Business Registry (PBR) and the Senate ratification of the Revised Kyoto Convention (RKC) will be pursued to reduce red tape and transaction costs. The PBR will serve as a portal to facilitate business registration and licensing while the RKC will simplify and harmonize customs procedures.

4. *Develop more competitive export products and services and maintain and diversify existing markets.*

The alignment of Philippine product standards with international benchmarks as well as the promotion of innovation and upgrading of exports to high end and more value-added products will continue to be pursued. New markets shall be explored for Philippine goods and services.

Legislative Agenda. The government will work towards the passage of the bill establishing a Credit Information System to make information on credit history and track record of individual and corporate borrowers, including SMEs, more accessible to financial institutions as well as help integrate SMEs into the mainstream financial sector. The government will also pursue the amendment of RA 9178 or the Barangay MicroBusiness Enterprise Law to be more attuned to the needs of microenterprises.

The passage of the Incentives Rationalization Bill shall be sought in order to adopt a strategic fiscal incentives framework to ensure fiscal sustainability and competitiveness of the Philippines as an investment site. The bill will also institutionalize reforms by clarifying the mandates and roles of key government agencies involved in investment promotion. In the ICT sector, proposed measures to prevent illegal activities such as computer fraud, forgery and sabotage, unauthorized access to or interception of computer data and unsolicited commercial communications, among others, shall also be pursued.

In addition, the amendments to the Electric Power Industry Reform Act (RA 9136) and Customs Brokers Act (RA 9280) will be pushed to reduce power and transaction costs for exporters.

SUPER REGIONS STRATEGY

Investments in infrastructure, particularly in the areas that have been identified as Super Regions, will be pursued to ensure that the greater population, especially those in rural areas, will be given the opportunity to secure a share of the gains of economic development. These will include

construction of roads, airports and seaports in the Super Regions as well as the revitalization of the country's railway systems and further development of the Roll-On-Roll-Off (RORO) ports (*Chapter 6: Infrastructure*). Such efforts are envisioned to supplement existing efforts to develop SMEs and spur investments in the countryside as well as facilitate the transport of goods and services to domestic and international markets. In addition, government will pursue efforts to attract investments in alternative energy sources, e.g., wind power, to reduce dependence on imported oil and promote cleaner technology.

To further develop ICT and the knowledge economy, the Philippine Cyber Corridor will continue to be prioritized. Launched in 2005, the Philippine Cyber Corridor is a virtual ICT corridor stretching over 600 miles from North to South of the Philippine Archipelago to provide a variety of IT-BPO services at par with global standards, supported by a US\$20 billion bandwidth digital fiber optic network. The Corridor is envisioned to strengthen the country's education, telecommunication and technology resources, thus supporting government's priorities to develop ICT and the knowledge economy. Within the Corridor, various cities have been identified as alternative sites to host IT-BPO companies. These "Next Wave Cities" have been identified to have the adequate infrastructure and stable supply of talent, among others, to support the requirements of locators.

Chapter 2

Agribusiness

ASSESSMENT AND CHALLENGES

The Philippines' agriculture, fisheries and forestry (AFF) sector, which contributes roughly one-fifth or 19 percent to the country's gross domestic product (GDP) and employs almost one-third of the labor force, has been growing at a respectable but modest pace compared with its neighbouring countries.

From 2004-2007, overall annual productivity of the sector grew by an average of 3.9 percent. This growth, however, fell short of the average MTPDP target growth rate of 4.1-5.1 percent (Table 2.1). In 2005, growth dipped to a seven-year low of 2.0 percent due to severe weather disturbances that adversely affected production levels. Increasing annual growth, however, has been evident in 2006 and 2007, with the sector growing at 3.7 and 4.9 percent, respectively (Figure 2.1). The sector is expected to slow down in 2008 compared to the year ago figure, with first to third quarter 2008 growth rate of 3.4 percent, lower than the growth rate of 4.6 percent during the same period in 2007. The slowing down of the sector in 2008 is attributed to the contraction of the livestock subsector and decreased growth in the fisheries subsector.

Table 2.1
Agriculture, Fishery and Forestry Sector Growth Rate: Actual Versus 2004-2010 Targets

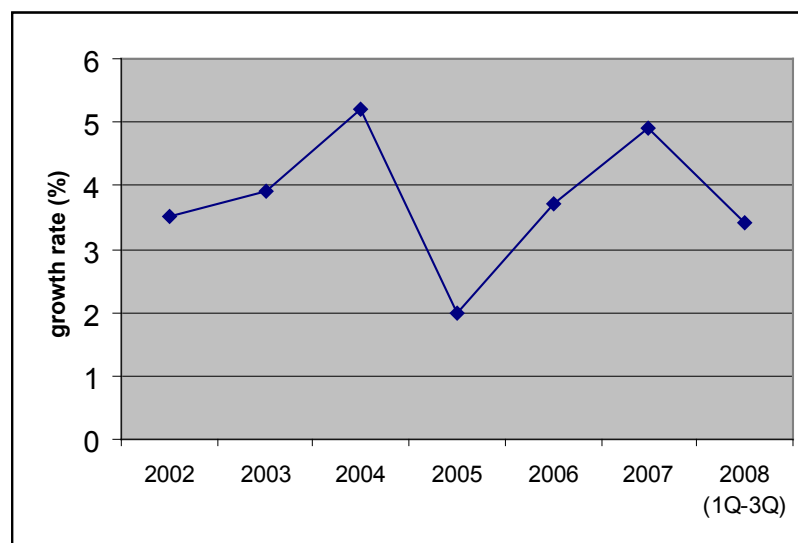
Plan Period	Growth rate (%)		
	MTPDP 2004-2010 targets	2008 Revised targets*	Actual
2004	4.0-5.0	-	5.2
2005	4.2-5.2	-	2.0
2006	4.2-5.2	-	3.7
2007	4.0-5.0	-	4.9
Four-year average	4.1-5.1	-	3.9
2008	4.1-5.1	4.3-5.2	3.4 (1Q-3Q)
2009	4.2-5.2	5.1-6.2	-
2010	4.0-5.0	5.2-6.2	-

Source: National Statistical Coordination Board (NSCB), November 2008

* Revised growth rate target for AFF sector, approved by DBCC on August 2008

Improved agriculture and fisheries performance in 2006 and 2007 was due to sustained output growths in the crops, livestock and fisheries subsectors, where both value and volume of production increased (Table 2.2). The fishery subsector set the growth pace in those years (averaging 6.9% in the last four years) with significant output increases in the seaweeds/aquaculture subsector, compensating for the contraction in the poultry subsector and low growth rate of livestock.

Figure 2.1
Agriculture, Fishery and Forestry Sector Growth Rate: Actual Versus 2002-2008 Q3 Targets



Source: National Statistical Coordination Board (NSCB), November 2008

Table 2.2
Subsector Contribution to Agriculture and Fisheries Growth Rate, 2004-2008 3Q

	Growth Rate (percent)						
	2004	2005	2006	2007	Average 2004-2007	1Q-3Q 2007	1Q-3Q 2008
Agriculture	4.0	0.9	3.0	4.5	3.1	3.0	3.4
<i>Crops</i>	5.1	0.7	3.9	5.8	3.9	4.7	4.5
<i>Livestock</i>	-1.0	2.4	2.4	2.4	1.5	2.1	-2.0
<i>Poultry</i>	4.2	0.1	-0.4	0.2	1.0	0.0	4.8
Fishery	8.9	5.9	5.9	6.9	6.9	8.5	3.4

Source: NSCB, November 2008

Likewise, while the crops and poultry subsectors posted higher growth rates during the first three quarters of 2008 compared with the same period in 2007, their combined growth was not enough to compensate for the contraction in the livestock subsector, due to the decline in hog fattener stocks and occurrence of swine diseases in a number of Central and Southern Luzon provinces. In addition, the fishery sector grew at a much slower pace, attributed to the drop in municipal fishing due to bad weather conditions and lesser occurrence of frigate tuna, big-eyed scad, Indian mackerel and other tuna species.

The AFF sector contributed almost Php252 million to the country's total GDP in 2007 (Table 2.3). The services and industry sectors, on the other hand, accounted for the remaining 81 percent of the country's domestic income. The first to third quarter 2008 contribution of the AFF sector to GDP shows a 0.2 percent decrease in value compared with the same period in 2007.

Table 2.3
Gross Domestic Product by Industrial Origin (in Constant Prices), 2004-3Q 2008

Sector	Value at constant prices (PhP thousand)				2007	Value at constant prices (PhP thousand)		1Q-3Q 2008
	2004	2005	2006	2007	% Contribution	1Q-3Q 2007	1Q-3Q 2008	% Contribution
AFF	226,417	230,954	239,499	251,272	18.36	175,470	181,375	17.52
Industry	382,419	396,882	415,985	445,486	32.55	327,734	343,713	33.20
Services	545,458	583,616	621,389	671,883	49.09	486,807	510,215	49.28
Total	1,154,295	1,211,452	1,276,873	1,368,641	100.0	990,011	1,035,303	100.0

Source: National Statistics Office and NSCB, November 2008

Growth in the sector, however, did not translate to economic gains for the rural population. According to the Asian Development Bank¹, the average income of the poor in the agriculture sector was about 84.5 percent of the poverty line, and inequality was highest among families who rely on agriculture and fisheries as a source of livelihood. While there was an overall decrease in poverty incidence in the Philippines from 2000 to 2003, latest official data on poverty incidence, showing a 2.5 percent increase from 2003 to 2006 (Table 2.4) reflected the need to further translate agriculture growth and development in improving the welfare of people. Focus areas include Mindanao (CARAGA, ARMM, and Region IX), Regions IV-B, V and VIII where poverty incidence has remained the highest and agriculture the predominant economic subsector.

Table 2.4
Poverty Incidence by Major Island Grouping, 2000, 2003 and 2006

Island Group	Poverty Incidence of Families (percent)		
	2000	2003	2006
Philippines	27.5	24.4	26.9
Luzon	20.0	17.4	20.0
Visayas	35.0	29.4	33.0
Mindanao	39.3	37.7	38.8

Source: NSCB, 2008

In absolute terms, the sector employed, on the average, 11.5 million persons annually, or roughly 35.7 percent of the country's labor force in 2004-2007 (Table 2.5). The trend observed in the last three years indicated a slow down in the number of people engaged in agriculture (Figure 2.2). In 2008, however, employment² in agriculture increased, compared to the same period in 2007.

¹ www.adb.org/Documents/Books/Poverty-in-the-Philippines/chap6.pdf, 2005

² Employed/employment refers to persons aged 15 years old and above who, during the reference week, are reported either: (a) at work even for an hour; or (b) with job/business even though not at work because of temporary illness/injury, vacation or other leave of absence, bad weather, strike/labor dispute, or other reasons. Likewise, persons who are expected to report for work or start operation of a farm or business enterprise within two weeks from the date of the enumerator's visit are considered employed.

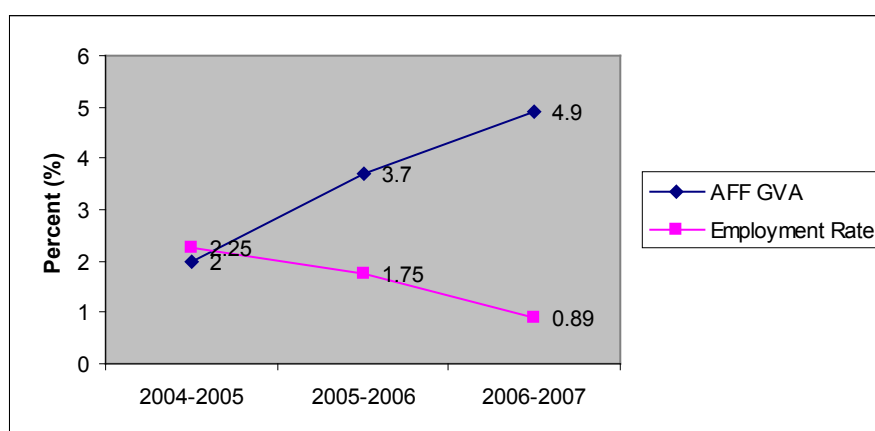
Despite intensive promotions to adopt the agribusiness system in the countryside, high underemployment rate (48.8 percent of 17.5 percent country's rate) in the agriculture sector is still prevalent (NSO, 2008). This is attributed to the seasonal nature of agriculture work coupled with very low levels of diversification and cropping intensity.

Table 2.5
Employed Persons by Major Industry Group, 2004-2008 Q3

Sector	Number of Employed Persons (in thousands)				
	2004	2005	2006	2007	2008 Q1-Q3
Agriculture	11,229	11,481	11,682	11,785	12,028
Industry	4,980	5,012	4,997	5,121	5,047
Services	15,039	15,468	15,957	16,654	17,016
Total	31,248	31,961	32,635	33,560	34,090

Source: NSO, 2008

Figure 2.2
GVA and Employment Growths in AFF, 2004-2007



Source: NSO, 2008

Goal 1: Cost-effectively develop at least two million hectares of new land for agribusiness in order to contribute two million out of the 10 million jobs targeted as a legacy by 2010.

As of September 2008, 61 percent of the target or 1,222,983 hectares of land have been developed for agribusiness (including agroforestry) from 2005 to third quarter of 2008 (Table 2.6) with Region X registering the highest accomplishment of 180,948 hectares followed by the Region VIII (134,388 hectares) and Region XII (120,160 hectares).

For the remaining period, 713,293 hectares of lands (Table 2.7) is targeted to be developed through the collaborative efforts of the Departments of Agriculture (DA), Agrarian Reform (DAR) and Environment and Natural Resources (DENR).

Access to land is crucial for rural poverty reduction as it not only improves equity, but also enables new asset owners to secure access to financial capital. This, in turn, will allow for investments and productivity improvements in the sector.

Table 2.6
Agribusiness Lands (including agroforestry) Developed by Region, 2005-2008 Q3

Region	Accomplishment (hectares)				
	2005	2006	2007	1 st – 3 rd Quarter 2008	Total
CAR	4,551	4,895	5,288	1,253	15,987
I	7,963	6,221	8,787	4,265	27,236
II	18,819	12,432	13,908	2,098	47,257
III	13,294	11,244	6,505	7,102	38,145
IV-A	18,738	34,323	25,096	7,309	85,466
IV-B	10,503	10,692	11,460	7,139	39,794
V	9,952	13,032	9,069	4,137	36,190
VI	11,076	14,728	19,609	8,429	53,842
VII	26,158	27,791	24,347	13,300	91,596
VIII	59,791	34,206	31,458	8,933	134,388
IX	12,963	37,483	16,959	14,066	81,471
X	32,394	93,504	31,624	23,426	180,948
XI	48,901	26,476	23,308	12,923	111,608
XII	39,728	46,151	20,676	13,605	120,160
CARAGA	26,470	14,023	23,853	14,278	78,624
ARMM	22,676	22,608	22,614	12,375	80,273
Philippines Total	363,977	409,809	294,561	154,637	1,222,983

Source: National Convergence Initiative Secretariat, 2009

Table 2.7
Agribusiness Lands Development Targets, in Hectares, 2008-2010

Year	2008-2010 Targets
2008	285,857
2009	218,218
2010	209,218
Total	713,293

Source: National Convergence Initiative Secretariat, 2008

In terms of land acquisition and distribution (LAD), some underperformance was noted due to the following: (a) budget shortfalls; (b) slow delivery of agrarian justice (i.e. few government lawyers to handle agrarian reform cases); (c) erroneous and defective land titles; (d) problems in identifying landowners; (e) resistance of landowners; and (f) problems in appropriate land valuation of acquired land. DAR originally projected to complete its LAD program by 2008, i.e. a total of 771,384 hectares of private and government-owned agricultural lands were programmed for distribution in 2005-2008 or an average of 192,846 hectares per year, which will contribute to the opening up of new lands for agribusiness development. From 2004-2007, however, the total budget appropriated by Congress to DAR's LAD activity only covered 390,000 hectares. This led DAR to downscale and peg its annual targets to 130,000 hectares starting 2005 until 2008, explaining the above-average LAD performance for 2005 (Table 2.8). Thus, from 2004-September 2008, DAR was able to distribute a total of 570,360 hectares, 90.5 per cent of total funded target.

In terms of jobs generation, Table 2.9 shows that 1,888,816 jobs³ have been developed from 2005 to third quarter 2008, including 256,048 new jobs for agrarian reform beneficiaries.

Table 2.8
Land Acquisition and Distribution 2004-2008 (September)

Year	MTPDP Target (hectares)	Funded Target ^{a/}	Accomplishment (hectares)	Accomplishment rate (%)	
				Per MTPDP Target	Per Funded Target
2004	212,121	110,046	104,069	49.06	94.57
2005	122,931	130,000	131,069	106.6	100.82
2006	214,000	130,000	125,177	58.49	96.29
2007	214,000	130,000	134,041 ^{b/}	62.64	103.11
Sub-Total	763,052	500,046	494,356	64.66	98.86
2008	220,453	130,000	76,004	34.47	58.46
Total	983,505	630,046	570,360	57.99	90.53

Source: DAR Planning Services, as of September 30, 2008

a/ Revised targets based on approved budget/re-enacted budget

b/ Number of hectares reported for 2007 covers additional areas in ARMM that are not within DAR's original scope of 4,290,453 hectares.

Table 2.9
Jobs Generated in the Agriculture Sector, 2005-2008 3Q

Region	Accomplishments				
	2005	2006	2007	Q1-Q3 2008	Total
CAR	6,119	5,359	6,075	2,079	19,632
I	8,296	9,008	4,549	7,486	29,339
II	28,811	18,894	18,468	6,329	72,502
III	17,774	15,521	8,737	11,842	53,874
IV-A	25,218	38,039	29,844	7,844	100,945
IV-B	34,102	69,651	50,949	30,943	185,645
V	11,004	17,643	9,366	10,085	48,098
VI	14,797	18,587	23,605	9,157	66,146
VII	26,931	30,532	29,869	18,605	105,937
VIII	71,358	49,687	43,248	15,402	179,695
IX	35,361	84,932	42,245	43,033	205,571
X	36,717	103,036	30,849	37,235	207,837
XI	59,122	36,877	34,566	20,229	150,794
XII	56,774	71,361	30,047	40,790	198,972
XIII	34,103	26,008	28,053	19,358	107,522
ARMM	35,906	50,327	42,500	25,575	154,308
TOTAL	502,393	645,462	432,969	305,992	1,888,816

Source: National Convergence Initiative Secretariat, February 2009

³ A job is considered an activity that a person does for a living. In agriculture, one job is equal to 90 man days in crop production; for swine production, one job is generated by raising 25 heads of swine.

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 nonwage goods such as corn must be reduced. This also means that the government will continue to fight for self-sufficiency in rice production by increasing the price and production efficiency and competitiveness.

Palay production steadily increased during the period 2004-2007 (Table 2.10) due to a number of factors, including increase in the use of certified and hybrid seeds, intensified efforts towards pest and disease control and continuous rehabilitation, restoration and repair of existing irrigation systems (Table 2.11). The same trend was noted for 2008 when the level of palay production exhibited a 7.2 percent increase from the same period in 2007. However, despite increasing palay production, there remains substantial import dependence for rice due to low production levels relative to increasing per capita consumption which grew from 116 kg in 2004 to 120 kg in 2006 until 2008. Thus, domestic rice production was able to supply only an average of 84.9 percent of the rice consumption requirement of the country for 2004-2007 and 85.9 percent as of September 2008. The deficit, however, did not compromise the stability of total supply given timely import arrivals in 2004-2007.

In 2008, domestic rice prices both at the retail and farmgate levels escalated rapidly, growing at 42 percent and 43 percent, respectively, compared with the average levels in the last three years. Insufficient domestic production and rising prices of imported rice further pushed rice prices upwards in the domestic market to as much as PhP40 per kg of well-milled rice in some regions of the country. The inability to meet increasing consumption vis-à-vis domestic rice production is attributed to losses due to climatic aberrations such as floods, typhoons and droughts; very high postharvest losses due to inadequate facilities and farm-to-market roads, as well as insufficient improvements in irrigation development. Other factors affecting local production are: (a) increasing cost of inputs; (b) shift to more profitable, short-gestating commodities; and (c) increasing incidence of land conversion from agriculture to non-agriculture uses such as for industrial and commercial purposes, as well as settlements.

The price of rice in the Philippines is higher compared with other Southeast Asian countries, except Indonesia. Sustained increases were noted (Table 2.12 and Figure 2.3) despite the disproportions in the domestic supply and demand situation of the product. As the top rice importing country in the world for two years in a row now, the Philippines was severely affected in early 2008, when rice prices rose to over 20 percent. This was due to increasing prices of imported rice in the world market resulting from the thinning of the world market supply as world production generally decreased. The challenge lies in making rice readily available at an affordable price to address the long-standing poverty problem in the countryside.

Table 2.10
Rice: Retail Price, Production, and Sufficiency Level, 2004–2008 3Q

Item	Year				Average (2004– 2007)	1Q -3Q 2008
	2004	2005	2006	2007		
Rice Prices (PhP/kg)						
Retail	19.9	21.8	22.4	23.60	21.9	31.2
Farm gate (palay)	9.4	10.4	10.5	11.2	10.1	14.5
Palay Production ('000MT)	14,496.8	14,603.0	15,326.7	16,240.2	15,166.7	10,587.7
Total Rice Supply ('000MT)	12,727.4	13,365.0	13,772.3	14,615.1	13,619.9	15,422.0
Beginning Stocks	2,362.0	2,051.0	2,094.0	2,253.0	2,190.0	2,119.0
Domestic	9,364.4	9,492.0	9,962.3	10,556.1	9,843.7	10,977.0
Imports	1,001.0	1,822.0	1,716.0	1,806.0	1,586.2	2,326.0
Total requirement ('000MT)	10,966.0	11,378.0	11,519.0	12,496.0	11,589.8	12,775.0
Per Capita Consumption	116.0	118.0	120.0	120.0	118.8	120.0
Sufficiency level (%)	85.4	83.4	86.5	84.5	84.9	85.9
Surplus (Deficit) ('000MT)	(1,601.6)	(1,886)	(1,556.7)	(1,939.9)	(1,746.1)	(1,798.0)

Source: DA-Ginintuang Masaganang Ani (GMA) Rice Program, BAS and NFA, 2008

Table 2.11
Physical Accomplishments in Irrigation Development, 2004–November 2008

Irrigated area (hectares)	Total		
	Target	Accomplishment	Accomplishment rate (percent)
Rehabilitation	385,669	494,380	128.19
Restoration	89,170	130,597	146.46
New generation	82,318	57,520	69.88

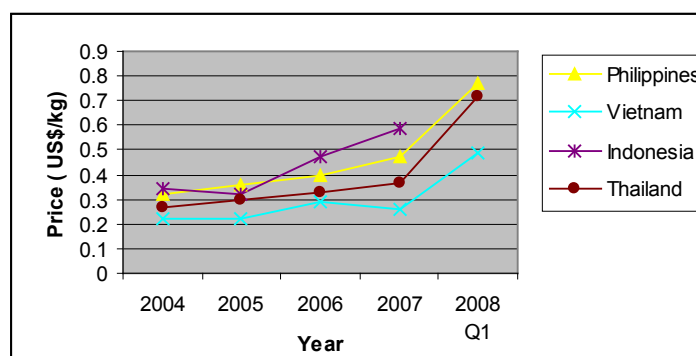
Source: DA-National Irrigation Administration and DA-Planning, 2009

Table 2.12
Comparative Wholesale Price of Rice, 2004–2008 1Q

Country	Wholesale Price of Rice (US\$/kg)				
	2004	2005	2006	2007	1Q 2008
Philippines	0.32	0.36	0.40	0.47	0.77
Vietnam	0.22	0.22	0.29	0.26	0.49
Indonesia	0.34	0.32	0.47	0.59	-
Thailand	0.26	0.30	0.33	0.36	0.72

Sources: <http://afsis.oae.go.th> accessed January 2009; Philippine data: www.countrystat.bas.gov.ph, June 2008; Vietnam data: Vietnam Net Bridge News, May 2008; Indonesia data: Indonesia Grain and Feed Rice Update 2007; Thailand data: David, Dawe. Rice Today.2008

Figure 2.3
Trends in Rice Prices, Selected Countries, 2004-2008 1Q



Sources: <http://afsis.oae.go.th> accessed January 2009; Philippine data: www.countrystat.bas.gov.ph, June 2008; Vietnam data: Vietnam Net Bridge News, May 2008; Indonesia data: Indonesia Grain and Feed Rice Update 2007; Thailand data: David, Dawe. Rice Today.2008

Table 2.13
Volume of Production of Selected Wage Goods, 2004–2008 (1Q-3Q)

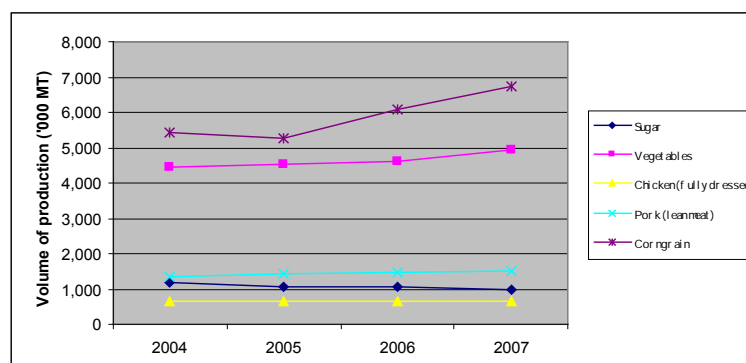
Wage goods	In '000 MT					
	2004	2005	2006	2007	1Q-3Q 2007	1Q-3Q 2008
Sugar (refined)	1,172	1,055	1,061	1,000	793	891 ^{a/}
Vegetables	4,455	4,546	4,598	4,956	2,584 ^{b/}	2,593 ^{b/}
Chicken (dressed)	658	649	644	648	435	461 ^{a/}
Pork (lean meat)	1,366	1,415	1,467	1,502	1,071	1,042 ^{a/}
Bangus (milkfish)	274	289	315	350	243	243
Tilapia	146	163	202	241	185	200
Corn	5,413	5,253	6,082	6,737	5,291	5,549

Sources: DA-Bureau of Agricultural Statistics (BAS), 2009; Sugar Regulatory Administration, 2009

a/ preliminary

b/ January – June

Figure 2.4a
Trends in Production: Crops, Pork and Poultry, 2004-2007



Sources: DA-Bureau of Agricultural Statistics (BAS), 2009; Sugar Regulatory Administration, 2009

For other commodities, sustained gains in production were evident in corn grain and pork (Table 2.13 and Figure 2.4a). The rise in pork production in 2006 and 2007 was due to the maintenance of the foot and mouth disease (FMD)-free status in most parts of the country and major

pork-producing provinces. In the case of corn grain, the relatively good production in 2006 and 2007 was due to the continued use of hybrid and good quality open-pollinated variety seeds by corn farmers as well as good weather, e.g., sufficient rainfall and less destructive typhoons in 2007, which allowed farmers to plant early and cultivate in fallow areas, particularly in Cagayan Valley. On the other hand, the slight decrease in chicken production from 2004-2006 was attributed to declining demand and closure of small chicken farms.

From 2004 to 2007, the volume of sugar production decreased from 1,172,000 to 1,000,000 metric tons (MT) due to the stunted growth of the crops resulting from dry spells, occurrence of heavy rains and typhoons, shutting down of milling operations at the Hacienda Luisita Sugar Estate and conversion of sugar lands to corn plantation in Bukidnon in 2005. In 2006, production slightly recovered owing to the increase in area planted to sugarcane, relatively good weather, use of high-yielding varieties and better milling efficiency. However, the prolonged dry spell and unusual wet season in 2007, poor milling and the continued high cost of farm inputs, particularly fertilizers, contributed to the decline in sugar production during the year. On the other hand, sugar production was up by 32.96 percent by the third quarter of 2008, compared with the same period in 2007 due to extended milling operations up to August by the Central Azucarera de Don Pedro of Batangas and the United Farmers Sugar Corporation (UFSC) and Dacongcong of Negros Occidental. The operations of the other sugar mills (e.g., Peñafrancia Sugar Mills in Camarines Sur, Lopez Sugar Corporation in Negros Occidental, Universal Robina Corporation (URSUMCO), Tolong in Negros Oriental and Davao Sugar Central in Davao del Sur) were also extended to July. The improvements in agro-climatic conditions in Albay and Sorsogon and the expanding market of processors led to the increase in area devoted to sugarcane for panocha and muscovado in Sultan Kudarat.

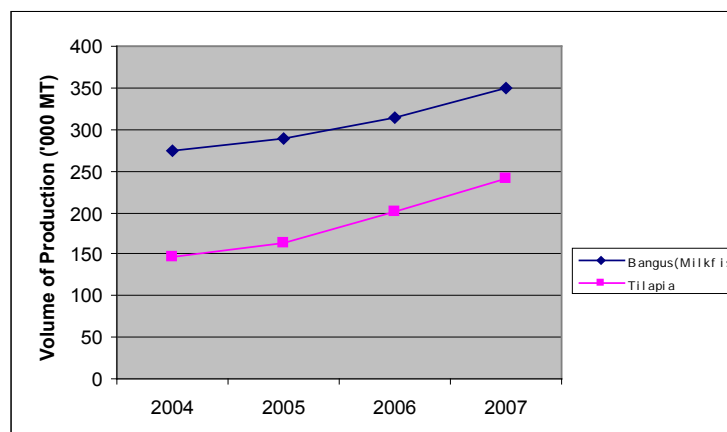
The increase in vegetable production in 2007 was due to increased output increments from onion and cabbage by 92.2 percent and 35.6 percent, respectively, from 2006 negative growth rates. Onion growers in Ilocos Norte, Nueva Ecija and Mindoro Occidental enjoyed good market prices during the first semester of 2007. Likewise, the availability of good planting materials, seed subsidies of DA-LGUs in Benguet, Mountain Province and Cebu, lower incidence of pests and diseases in Ifugao and Cebu, area expansion and newly opened areas in Benguet and Ifugao, coupled with improved irrigation facilities and increased number of trading outlets due to sustained better market price encouraged area expansion in Bukidnon also boosted production growth during the third quarter of 2008.

Production of bangus and tilapia exhibited an increasing trend from 2004-2007 (Figure 2.4b). For the first to third quarters of 2008, however, bangus production level was the same as that for the similar period in 2007, while a slight increase was reported for tilapia. Good quality fingerlings for bangus and tilapia became available in Eastern Visayas and Sarangani. There were also reports of usage of GET-EXCEL tilapia and intensive feeding of bangus and grouper due to higher demand in Bohol in the fourth quarter of 2007 as well as newly opened fresh water pens and more bangus and tilapia fingerlings stocked in Maguindanao.

Despite the erratic production of sugar, bangus and tilapia, their contribution has been sufficient to meet domestic consumption requirements (Table 2.14). Chicken showed a decreasing trend towards meeting self-sufficiency while corn production has been increasing enough to meet local consumption requirements. On the other hand, while pork production has gone up over the years, it is still unable to meet the local requirement.

Generally, retail prices of wage goods continue to soar, with those of sugar and vegetables rising by an average of 32 and 14 percent, respectively in 2006 (Table 2.15 and Figure 2.5). The general rise in prices is attributed to the low supply of these commodities specifically in Metro Manila due to typhoon Milenyo in 2006. There was also a big leap in the price of bangus (from PhP89.59 in 2006 to PhP96.6 in 2007) and tilapia by over PhP3.00/kg in 2007 due to the continuing rise in the cost of oil and production inputs.

Figure 2.4b
Trends in Production: Bangus and Tilapia, 2004-2007



Source: DA- BAS, 2008

Table 2.14
Contribution of Domestic Production to Domestic Consumption of Selected Goods, 2004-2007

Year	Sugar	Chicken	Pork	Bangus	Tilapia	Corn
2004	100.0	97.0	97.6	100.0	100.0	99.6
2005	100.0	96.0	97.8	100.0	100.0	98.7
2006	100.0	95.0	97.6	100.0	100.0	95.2
2007	100.0	94.5	96.6	100.0	100.0	97.8

Source: DA-BAS, 2008

Table 2.15
Retail Prices of Wage Goods, 2004-2008 Q3

Wage goods	Average retail prices (in PhP/kg)					
	2004	2005	2006	2007	1Q - 3Q 2007	1Q - 3Q 2008
Sugar (refined)	23.8	26.1	34.4	33.7	37.1	37.8
Vegetables ^{1/}	32.9	35.0	39.9	40.1	35.5	44.2
Chicken (dressed)	101.9	103.8	106.8	112.3	107.9	118.4
Pork (lean meat)	132.4	139.3	138.4	139.3	140.7	158.4
Bangus (milkfish)	85.1	87.4	89.6	96.6	91.9	101.8
Tilapia	67.4	69.3	70.5	74.1	66.1	76.9
Corn grain	14.8	14.8	15.2	15.6	15.5	17.4

Source: DA- BAS, 2009

1/ ampalaya, cabbage, carrots, eggplant, habichuelas, onion(red), pechay (native), sitao, tomato, white potato

Figure 2.5
Percent Change in Average Retail Prices of Wage Goods, 2004-2008 3Q

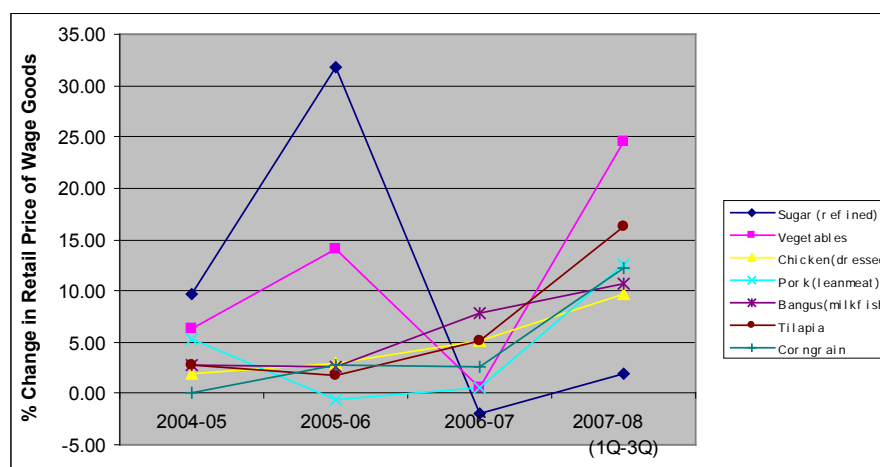


Table 2.16
Inflation Rate, 2004-2008 3Q

	Inflation Rate (%)			
	2005	2006	2007	2008 (1Q-3Q)
All items	7.63	6.24	2.8	9.2
A. Food	6.5	5.5	3.3	13.2
Rice	7.0	3.7	3.4	28.7
Corn	5.5	4.7	4.4	22.0
Dairy Products	9.9	6.0	5.5	12.9
Eggs	3.5	5.6	6.8	7.4
Fish	6.7	5.1	3.3	8.9
Fruits and vegetables	5.0	8.8	2.9	12.0
Meat	5.9	2.4	2.6	8.8
B. Beverage	5.9	6.2	3.6	5.0
C. Tobacco	6.2	3.9	2.3	3.5
D. Non-food	8.7	6.9	2.3	6.1

Source: NSO, 2009

The rising trend in the prices of wage goods persisted during the third quarter of 2008 due to the continued increase in costs of production (e.g., cost of imported feed ingredients), transport fuel, freight and shipping as well as changing consumer preferences. For fisheries, in particular, the daily number of fishing trips was reduced due to increasing fuel cost. Likewise, higher power costs for storage of pork and other meat products contributed to price increases. For the chicken industry, the increase in price is attributed to the growing demand for the product, a substitution effect caused by health-related problems afflicting the hog sector (e.g., hog cholera, porcine respiratory reproductive syndrome, swine flu and porcine endemic diarrhea, among others).

While the rate of price increase of goods slowed down from 2005 to 2007, from 7.63 to 2.8 percent, the cost of goods escalated during the first three quarters of 2008 for both food and nonfood items (Table 2.16). The inflation rate for food alone rose to 13.2 percent in the first to third quarter of 2008, from 3.3 percent in 2007.

STRATEGIC FRAMEWORK

Vision

The agriculture and fisheries sector is envisioned to be increasingly competitive and diversified, driven by productive, profitable producers/farmers integrated to the markets by efficient supply/value chains and driven by private investments in a business climate of strong public-private partnerships. The sector should significantly contribute to poverty reduction, sustainable growth and overall competitiveness of the economy.

Strategies

To achieve the vision, DA, DAR and DENR shall maximize complementation of rural development efforts in collaboration with the local government units (LGUs) through the convergence initiative. LGUs shall serve as the focal institution to boost and scale up agriculture development in the countryside. This initiative will optimize resources, create substantial effect in the short term, and make possible model building across ecosystems and production systems, and efficient small producers in the long term.

The complementation of rural development agencies' efforts and collaboration with LGUs as well as the private sector will be done in the course of implementation of the following strategies:

Continue the effort to develop new lands for agribusiness

Agribusiness development aims to address operational inefficiencies in the agriculture and fisheries sector and its inherent vulnerabilities. Along with value chain management, it is seen as the catalyst for accelerating growth in the sector, creating jobs and stabilizing incomes, thus increasing rural welfare. New lands developed for agribusiness are lands classified as underutilized, idle, marginal, and/or agrarian, idle bodies of water and forestlands, made more productive through the provision of access to the whole range of support services ranging from input supply to production, to postproduction initiatives, as well as value-adding processes, marketing, logistics support and consumer feedback.

The remaining 713,293 hectares of the targeted two million hectares new lands for agribusiness must be developed by 2010. Land distribution must be completed at the soonest time possible, with sustained support services provision, as well as preservation and enhancement of gains already accomplished under CARP. This, in turn, can be done by:

- Completion of the validation and delineation of the following:
 - Underutilized farmlands, which can be made more productive through increased cropping intensity, intercropping and diversification;
 - Idle and marginal lands, including denuded upland areas;
 - Idle offshore and inland bodies of water for aquaculture;
 - Prime and semiprime agrarian reform lands⁴ and adjacent areas for agribusiness development; and

⁴ Prime agrarian reform lands are ARCs that have: 1) the potential to become key production center for various crops; 2) volume of production and land utilization rate that can support market demands; 3) the potential to project high agro-industrial development and integrated agribusiness system; and 4) the presence of critical infra facilities. Semi-prime agrarian lands are ARCs: 1) with a scale of production that cannot meet market demands; 2) have lands that are not fully used; 3) that can be production support to prime agricultural ARCs; 4) can be midprocessing and market link of the inaccessible ARCs; and 5) have limited infrastructure facilities.

Source: Memo Circular 14 Series of 1999. Department of Agrarian Reform

- Forestlands and land use to determine suitable land uses such as for agroforestry, tree plantation, grazing, biofuels production, ecotourism, and other development projects.
- Acceleration and/or completion of surveys, classification and distribution of private agricultural lands, government-owned lands (under DAR-CARP), and public agricultural alienable and disposable lands (under DENR-CARP).

Facilitate and promote diversification of production base and livelihood options

- Strengthen community-based and environment-friendly intensification and diversification programs
 - Promote crop, livestock and fishery integrated farming systems (especially nontraditional high-value crops including fruits and vegetables as well as indigenous crops (banaba, malunggay, lagundi, saluyot, mangosteen, etc.) for natural ingredients);
 - Promote aquaculture enterprise programs (sea cage culture of various species such as sea bass, grouper, pompano, milkfish, cobia, freshwater tilapia, red snapper and sea bream) and sustain seaweed farming in nontraditional areas; and
 - Promote the National Biofuels Feedstock Program where to the extent possible, private investments will be consolidated for more effective program implementation.
- Promote off- and nonfarm enterprises
 - Harness the biodiversity potential for livelihood activities (e.g., ecotourism, wildlife farming, pharmaceutical, essential oils, natural ingredients, etc);
 - Develop small and microenterprise (i.e., agri-processing) programs with corresponding access facilitation services to affordable credit, market and other extension services;
 - Provide training and education to enhance entrepreneurial capacities of individual farmers, fishers and their organizations; and
 - Operationalize and strengthen KALAH I Farmers' Centers for wider dissemination of technologies.
- Pursue Sustainable Upland Development
 - Promote more diversified cropping systems for nontimber and nonforest products in suitable areas as means of livelihood for upland settlers, including suitable crops for biofuel production; and
 - Develop community-based forest management (CBFM) areas as agribusiness enterprises.

Facilitate access to and/or provide irrigation services and facilities

- Irrigation development programs shall be instrumental in promoting diversification and improving productivity of high-value commercial crops and sugar, among others. Resources will be focused on the following:
 - Rehabilitation of existing national irrigation systems and facilities;

- Restoration of existing national irrigation systems and facilities;
- Establishment of small-scale but high-impact irrigation projects such as diversion dams, small water impounding projects (SWIP) and shallow tube wells (STWs), among others;
- For existing rice-based farming systems, construction of new, cost-effective and sustainable multicommodity irrigation facilities will be promoted. The national government (DA-National Irrigation Authority [NIA] and Bureau of Soils and Water Management [BSWM]) will focus on national irrigation systems (NIS) and LGUs on communal irrigation systems (CIS).
 - Irrigation management transfer (IMT) and capacity building program for irrigators' associations (IAs) on proper operation and maintenance of facilities; and
 - National government technical assistance on development and maintenance of CIS and small-scale irrigation systems (SSIPs)
- Convergence of efforts to address restoration/regeneration of forests in critical watersheds to preserve rivers and other fresh water systems in support of providing adequate and reliable water supply for irrigation, domestic and industrial uses.

Promote “Filipinnovation” in agriculture and fisheries research and development

“Filipinnovation” recognizes the role of innovation in the pursuit of Philippine competitiveness as a nation in a globalized setting. It acknowledges the need to introduce a mindset of innovation to strengthen human capital and increase industry productivity (*See Chapter 19: Science, Technology and Innovation for a detailed discussion on Filipinnovation*).

- Intensify science and technology development, application and innovation of farmers, entrepreneurs, state universities and colleges, as well as other stakeholders. Research and development (R&D) efforts will be focused on addressing bottlenecks in the supply chain to maximize the use of available resources and for greater impact;
- Transform research, development and extension (RDE) institutions into market-sensitive and demand-driven change agents with the national government focusing on capacity building of LGUs to deliver extension services using, among others, the Philippine Rice Research Institute (PhilRice), Philippine Council for Agriculture, Forestry and Natural Resources Research and Development (PCARRD), the Open Academy for Philippine Agriculture, as well as provincial extension models of Agricultural Training Institute (ATI) and PhilRice;
- Transform existing current agriculture and fisheries database and information systems into an integrated knowledge management system for the sector;
- Rationalize, organize and upgrade existing and/or establish new, as necessary, laboratories in order to effectively serve the RDE system;
- Technology research and generation on the following:
 - Appropriate climate change adaptation models, including mitigation measures,

- Use optimisation of water resources,
 - Second generation biofuels production and alternative sources of energy,
 - Natural ingredients from indigenous plants, and
 - Market-driven product development;
- Develop an integrated national common spatial database for agriculture, fisheries and environment (DENR-National Mapping and Resource Information Authority [NAMRIA], DA-Bureau of Fisheries and Aquatic Resources (BFAR) and BWSM, among others) for planning and programming purposes, in support of growth initiatives.

Facilitate access to credit support

Improve credit supply through credit-facilitating agencies such as the DA-Agricultural Credit Policy Council in partnership with the government and private financial institutions:

- Focus on the implementation of the Agriculture and Fishery Modernization Act (AFMA)-mandated Agro Industry Modernization Credit and Financing Program (AMCFP) by:
 - Making agri credit and microfinance work for agriculture through the Agri-Fishery Microfinance Program,
 - Expanding agriculture credit through the Cooperative Bank Agriculture Lending Program
 - Sustaining the agri-microfinance fund pool by intensifying the collection of DCP funds into the AMCFP; and
 - Strengthening the capability of credit providers through the implementation of institutional capacity building programs.
- Step up the adoption of alternative and innovative financing schemes such as the Rural Household Business Financing (RHBF) Program, and the Direct Market Linkage (DML) Program primarily for small farmers and fishers who do not have access to bank financing or do not have collateral to offer.
- Expand microfinance initiatives for the self-employed, micro enterprises and hard-to-reach areas including agrarian reform zones, indigenous people (IP) communities, among others (*Chapter 12: Responding to the Basic Needs of the Poor*).
- LBP to deliver PhP88.45 billion in loan releases to small farmers and fisherfolk, agribusiness and agri-infra projects to LGUs.

Reduce and manage risks and uncertainties inherent in agriculture to increase capital productivity and investments

- Rationalize the agricultural credit guarantee and insurance systems;
- Resolve agricultural, fishery and agrarian property rights conflicts and uncertainties, including the completion of the implementing rules and regulations on the delineation of municipal waters with offshore islands;

- Implement geohydrometeorological assessment program, including conduct of soil stability measures for landslide-vulnerable areas;
- Build capacities of planners and implementers (national and LGUs) on disaster and risk management planning skills;
- Provide emergency assistance and disaster-mitigation projects for calamity-stricken areas;
- Conduct geohazard assessment and mapping of priority municipalities nationwide; and
- Identify relocation sites for communities vulnerable to landslide / flood hazards

Increase the effectiveness, adequacy and efficiency of the agricultural sector's logistical support system for both farm inputs and produce, especially for agricultural and fishery food products

- Cost-effectively link infrastructure support and postharvest facilities with the nautical highway, and production areas to major markets:
 - Promote the transport of agricultural and fishery products through the roll-on roll-off ferry logistics system; and enhance public-private sector tie-up on strategic cold storage and transport facilities;
- Construct or rehabilitate necessary physical infrastructure support such as:
 - Farm-to-market roads in validated priority production areas; bridges; postharvest facilities; multipurpose centers; and tramline systems;
- Reduce postharvest losses and facilitate the flow of goods:
 - Develop regional and municipal fish port complexes in the validated priority production areas; and
 - Promote the construction and repair of vital postharvest facilities and equipment by the private sector, such as the National Cold Chain Program for all perishable commodities; food lane; grains-highway bulk handling; and ice plants (for livestock and fisheries).

Provide effective market assistance services

- Aggressively promote products in both international and domestic markets by conducting regular investment fora and trade fairs for farmers, fisherfolk and business groups, as well as vertical and horizontal integration and innovative market linkages to shorten the supply chain and increase the efficiency of agribusiness logistics through:
 - *Barangay Bagsakan* centers, *Pork in a Box* and *May Gulay* (with strategic focus on Visayas and Mindanao); forward-contracting mechanisms; and Biotechnology Information and Organization Network (BIONet) and Biotechnology Commerce (BIOCommerce).
- Establish and/or update appropriate market information systems:
 - Agriculture and Fisheries Marketing Information System (AFMIS); Electronic marketing program; and *Bantay Presyo*.

Provide efficient trade facilitation services

- Strengthen the DA-Bureau of Agriculture and Fisheries Products Standards (BAFPS) and its product standards development program; and
- Complete the rationalization, modernization and harmonization of the disparate regulatory agencies into a national quarantine and inspection system with dual functions of border protection and trade and export facilitation (See *Chapter 24: Bureaucratic Reforms*).

Develop the capacities of agribusiness stakeholders for value chain management

- Organize and build capacities of farmers and fisherfolk and their organizations for the establishment and management of production, processing and marketing cooperatives and associations in coordination with other concerned agencies (i.e., DTI, DOLE, CDA, SEC, TESDA, etc);

Box 2.1

The Philippine Rice Masterplan, 2009-2013¹

World agricultural production has been unable to match the rising rate of population growth. Contributing to low agricultural productivity in the Philippines include the inability to maximize production due to the limited access of farmers to quality seeds, fertilizers, technology for efficient production, irrigation and water resources, credit and loan guarantee for inputs and post-harvest facilities, and fertile lands. In 2008, the shortage of rice supply in the international market due to trade restrictions, bad weather, high cost of inputs and increasing demand for rice brought about rapid income growth in China, India and other Asian countries has caused a continuous rise in the price of rice in the country. Food inflation rate soared to 17.0 percent in September 2008 from 6.2 percent in January 2008 and 2.9 percent in the first to third quarter of 2007².

Poor Filipino consumer households spend a greater proportion of their expenditure on food commodities than the nonpoor do. Rice alone, for example, takes up around 20 percent of the poor's expenditure³. This consumption pattern indicates that rising food prices have greater adverse impact on the standard of living of the poor. Given current trends of uncontrollable upswing of rice prices and decreased inventories, it is imperative for Government to launch a Rice Self Sufficiency Plan to ensure the affordability and accessibility of rice for all Filipinos and improve and sustain rice productivity and income of rice farmers, thus achieving 100 percent rice self-sufficiency by 2013.

The Rice Self-Sufficiency Plan puts to work the President's FIELDS (Fertilizer, Irrigation and Infrastructure, Education and Extension, Loans and insurance, Dryers and other postharvest facilities, and Seeds) program⁴. The Plan will operationalize LGU-centered planning intervention and implementation of governors and mayors from 49 focus provinces and implement the clustering approach as the main strategy to infuse technological interventions to increase productivity. Strategic interventions to achieve higher yields will also be pursued. These are: improvement of irrigation systems' effectiveness and efficiency through rehabilitation, use of high-quality hybrid and inbred seeds; integrated crop management, provision of credit assistance for shallow-tube wells and surface water pumps establishment; continuing research and development; and delivery of extension support services.

¹ Philippine Rice Research Institute, October 2008. Philippine Rice Masterplan 2009-2013: Enhancing provincial rice self-sufficiency (draft)

² National Statistics Office, 2008

³ International Rice Research Institute and Philippine Rice Research Institute, 2006. Why does the Philippines import rice? Meeting the challenge of trade liberalization

⁴ The FIELDS program is a PhP43.7 billion-targeted package of assistance to farmers and fishers aimed at stabilizing prices and ensuring more available supply of food, including rice

- Form and build capacities of national and location-specific strategic alliances among the national and local governments, business groups and/or 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);
- Promote and develop capacities on good agricultural, aquaculture and processing practices (including hazard analysis and critical control points-HACCP and traceability) and standards to ensure quality and acceptability in targeted markets;
- Build capacities for agriculture and fisheries export trade promotion; and
- Integrate the knowledge management system into the human resource development program of the bureaucracy, including provision of technical and vocational education.

Governance reforms

Government will continue to implement critical governance reforms to establish a bureaucracy that will effectively respond to the demands of a productive and enterprising agricultural sector (refer to *Chapter 24: Bureaucratic Reforms* for a list of bureaucratic reforms for the agribusiness sector).

Legislative Agenda

For the remaining Plan period, the following are considered priority bills to modernize agriculture, fisheries and agroindustry, increase rural welfare, and thus reduce rural poverty. Most of these contain policies that have been priorities in previous Plan documents but not even one has been passed into a law. Higher prioritization to ensure ratification within the planning period is called for.

- National Land Use Act which will guide the optimum allocation of land among competing uses within the framework of sustainable development. It shall also provide a mechanism for resolving land use policy conflicts taking into consideration the principles of social equity and economic efficiency (*See also Chapter 3: Green Philippines*).
- Defining the Archipelagic Baseline of the Philippines to conform to the provisions of the United Nations Convention on the Law of the Sea (UNCLOS).
- Agri-Agra Law amendment to ensure that agri-agra funds are used for rural credit. A key consideration in the reform direction is to ensure that the operational as well as institutional mechanism to carry out amendments will be fleshed out to align with current efforts under RA 8435 (AFMA) Section 3 to engender policy consistency and harness the use of existing structures to improve credit access by farmers and fisherfolk. Avenues for mainstreaming the intent of the proposed amendments within the management of the Agro-Industry Modernization Credit and Financing Program (AMCFP) which is under the oversight of the Agriculture Credit Policy Council (ACPC) is emphasized.
- Comprehensive Agrarian Reform Law (CARL) of 1998 review for the purpose of seeking a just and fair distribution of lands to legitimate farm workers and tillers as well as providing for the necessary requisites to ensure their productive use. Review of the CARL

and its proposed extension beyond June 2008 is already underway which forms part of current efforts to strengthen the Comprehensive Agrarian Reform Program Congress is in the midst of deliberations, in coordination with key offices in the executive branch, with regard to appropriate scope and coverage, timeframe, and funding of the proposed extension to harmonize various proposals stipulated in different versions of the bill in Congress.

The Masterplan Study by Southeast Asian Regional Center for Graduate Study and Research in Agriculture (SEARCA) is in the final stages of discussion in the DBCC-TWG Agricultural Performance, with the following broad directions:

- Extension of the Comprehensive Agrarian Reform Program for another 10 years with estimated budget of Php315 billion;
- Focused land tenure security program:
 - Completion of public land distribution of DENR covering 700,000 hectares;
 - Completion of unfinished LAD partial accomplishment (subdivision and individual titling of collective CLOAs, among others);
 - Expanded attention for non-LAD modalities; and
 - Rationalized LAD on large private agricultural lands covering 1.077 million hectares, subject to capacity to pay of government beneficiary and/or focused selection.
- Augment support service delivery and coordination thru enhanced capacity of LGUs, CARP implementing agencies (IAs), including the Presidential Agrarian Reform Council (PARC); and
- Harmonization of ARC connectivity areas with Strategic Agriculture and Fishery Development Zones (SAFDZs) for more comprehensive coverage of the rural sector.

To carry out the above directions, the proposed Masterplan will consist of six program areas:

- Policy reform (e.g., support to Land Administration, review of ICC cost sharing policy);
- Asset reform (e.g., completion of balance and unfinished businesses, improve amortization);
- Support Services;
- Infrastructure Development;
- Credit/Rural Finance; and
- Institutional Development.

Other priority bills in government's legislative agenda include:

- National Food Authority (NFA) Reorganization Act, to further rationalize the grains sector trading. The ultimate purpose is to restructure the NFA to separate its regulatory and proprietary functions. NFA shall grant import permits for rice to all applicants, subject to the payment of all taxes and duties. The passage is envisioned to effect the implementation of NFA activities consistent with its mandate; and
- Technology Transfer Act to provide the framework and support for the ownership, management, use and commercialization of intellectual property (IP) generated from R&D funded by government, as well as protect local enterprises from restrictions imposed by

the foreign owner of technologies or manufacturer of products. The passage of this act is envisioned to promote more effective use and management of IPs from R&D pursuits and hopes to encourage government agencies and even private firms to commercialize their IP assets and invest in R&D.

Policy Reforms

- Rationalize the agriculture bureaucracy through the efficient and effective, convergence and complementation of the Agriculture, Agrarian Reform and Natural Resources (AARNR) service agencies and related offices by enforcing measures to address institutional overlaps. Specifically, the convergence effort will operationalize the sustainable development paradigm in the rural sector through the integration of the social, economic and environmental aspects of rural development (*Chapter 24: Bureaucratic Reforms*);
- Reorient and restructure the DA-NIA's management strategy along with streamlining of its plantilla to address NIA's financial problems, improve system operation and in response to the greater role played by irrigators associations (IAs) in system management;
- Pursue volumetric pricing for irrigation. Consistent with the above restructuring, volumetric pricing provides a means for greater contract assurances for service delivery to the IAs as well as a powerful incentive to properly maintain the distribution system, to improve equity of head- and tail-end distribution, and to conserve water resources;
- Use the coconut levy fund for social services for coconut farmers and their communities, and for the development of coconut-based agribusinesses;
- Establish public-private sector mechanisms for finance mobilization in support of the provisions under the Philippine Fisheries Code (RA 8550):
 - PhP100 million Municipal Fishery Grant Fund;
 - PhP250 million Fishing Vessels Development Fund;
 - PhP100 million Special Fisheries Science and Approfishitech Fund; and
 - PhP50 million Aquaculture Investment Fund;
- Rationalize the rental fee of public lands for agricultural production such as in pasture and fishpond lease agreements to reflect the commensurate value of the resource being used;
- 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; and
- Sector agencies to adopt standard and transparent prioritization criteria and process for infrastructure and other support services in agriculture and fisheries, primarily considering cost effectiveness, efficiency parameters.

SUPER REGIONS STRATEGY

North Luzon Agribusiness Quadrangle

The North Luzon Agribusiness Quadrangle (NLAQ) is composed of the Cordillera Administrative Region (CAR), Region I, II and portions of Region III, particularly north of Baler, Aurora, and north of Tarlac City in Tarlac, north of Cabanatuan City, Nueva Ecija, and north of Subic, Zambales. Around 19 provinces are covered by NLAQ.

North Luzon has been identified as an agribusiness area because 37 percent of the country's total rice production comes from there. Twenty-six percent of corn and 65 percent of vegetables are also produced in this area. It is also near East Asian markets (Greater China, Japan, Korea and Far Eastern Russia) and the urban concentrations of Central Luzon, Metro Manila and Calabarzon.

The development themes for NLAQ are to make the region the food basket of Luzon and Metro Manila through agriculture and mariculture development, and enhance its investment climate. Table 2.17 shows the specific strategies and activities for these themes.

Table 2.17
North Luzon Agribusiness

Strategy	Activity	Focus area/entity
Diversification	Expansion of mariculture and fishery potential	Oyster, mussel and seaweed production in Bondoc, Pagudpud, Balaoan, Sto. Tomas, Dasol, Anda
SUCs research, development and extension activities	Research and development projects on: -highland vegetable farming and forest plantation -aquaculture and fisheries -silkworm culture	-Benguet State University -Central Luzon State University -Don Mariano Marcos State University
	Demonstration farm establishment	Giant bamboo and mushroom production center in Isabela
	Facilitation of technology dissemination and adoption	Livestock and poultry development in Region 2
Construction and repair of postharvest facilities and equipment	PhP13 million allocation for grains-highway bulk handling, cold storage and ice plants for livestock and fisheries	
Generation of new and rehabilitation and restoration of irrigated areas	PhP18.641 billion allocation for construction and restoration of three major irrigation projects, covering 125.614 hectares and contributing 1.4 million metric tons to annual rice production.	Agno River Irrigation Project will provide year-round irrigation to 34,450 hectares, benefit 28,000 families in 17 municipalities and cities in Pangasinan and contribute an additional 110,000 metric tons (MT) to the country's rice production.

Strategy	Activity	Focus area/entity
Generation of new and rehabilitation and restoration of irrigated areas		Banaoang Pump Irrigation Project will provide irrigation to 6,312 hectares in eight municipalities in the first district of Ilocos Sur, add 72,900 MT of rice annually and benefit 5,334 farm households.
		Casencan Multi-purpose Irrigation and Power Project will generate a total service area of 82,020 hectares, and benefit 49,130 farmer families and contribute additional 1.2 million MT of rice to total rice production.
	PhP200 million for the rehabilitation and construction of small irrigation systems to cover 300,000 hectares of unserviceable farmlands	
	Establishment of groundwater irrigation systems	
Transportation infrastructure development to speed up and lower cost of transporting agriculture products	Construction of airport and seaports; and construction and/or rehabilitation of roads	<i>Refer to Agribusiness Chapter SPM and Chapter 6: Infrastructure for a complete list of road, airport and seaport projects.</i>

Agribusiness Mindanao

Recognizing the competitive advantage of Mindanao in agribusiness especially in high-value crops, the island has been earmarked by the national government as one of the target areas of development. The Agribusiness Mindanao Super Region covers Regions IX, X, XI, XII, CARAGA and ARMM, wherein agribusiness and aquaculture/mariculture potential of the area will be harnessed.

Table 2.18 shows the strategies to make Mindanao as the main agrofisheiy export zone of the country:

Table 2.18
Agribusiness Mindanao

Strategy	Activity	Focus area/entity
Improvement of agricultural productivity and intensification of agribusiness investments	<p>Expansion of mariculture and fishery potential</p> <p>Expansion of seaweed industry</p> <p>Hybrid rice and corn promotion</p> <p>Coconut farming systems improvement: adoption of intercropping in coconut plantations, planting, replanting and fertilization programs</p> <p>Industrial tree plantation (oil palm and rubber)</p> <p>Expansion of the oleo chemical industry</p>	<p>Multi-species hatchery in Bongao, Tawi-Tawi</p> <p>Massive seeding of Lake Lanao with fingerlings</p> <p>Maintenance of mariculture park in the Island Garden City of Samal</p>
SUCs research, development and extension activities	<p>Research and development projects on:</p> <ul style="list-style-type: none"> - mariculture development - rice, corn and fruits - rubber and corn - tissue culture of abaca and banana 	<p>Mindanao State University (MSU) Naawan, Misamis Oriental; MSU Sulu; Central Mindanao University; University of Southern Mindanao; and Northern Mindanao Institute for Science and Technology</p>
Construction and repair of postharvest facilities and equipment	<p>Encouragement of LGU investments</p>	
Generation of new and rehabilitation and restoration of irrigated areas	<p>Completion of major irrigation projects</p> <p>Implementation of small-scale irrigation projects</p> <p>Repair, rehabilitation and/or restoration of existing irrigation systems</p>	<p>Malitubog-Maridagao Irrigation Project</p>
Provision of necessary support services for the establishment of internationally accredited <i>Halal</i>-food industry, including capacity development for <i>Halal</i> food production	<p>Technical assistance on the following:</p> <ul style="list-style-type: none"> <i>Halal</i> production and standard-setting and market facilitation <i>Halal</i> certification and accreditation processes; Establishment of <i>Halal</i>-accredited slaughterhouses and improvement of central and satellite laboratory facilities 	

Strategy	Activity	Focus area/entity
Establishment of an efficient food logistics system to link Mindanao to Luzon, Visayas and Metro Manila	Construction/rehabilitation of nautical highways, airport and seaports; Construction/rehabilitation of roads	Makar Wharf improvement <i>Refer to Agribusiness Chapter SPM and Chapter 6: Infrastructure for a complete list of road, airport and seaport projects.</i>

The following major projects are expected to contribute to the success of Agribusiness Mindanao:

- Infrastructure for Rural Productivity Enhancement Sector Project (InfRES);
- Mindanao Rural Development Program (MRDP);
- Northern Mindanao Community Initiatives and Resource Management Project (NMCIREMP); and
- Support to Agrarian Reform in Central Mindanao (STARCM).

Luzon Urban Beltway

The Luzon Urban Beltway (LUB) will be developed, coordinated and unified to become a globally competitive urban, industrial and services center. LUB covers the whole NCR, Region IV-A, Provinces of Marinduque, Oriental Mindoro, Occidental Mindoro, Pampanga, Bulacan, Bataan and the southern portions of Tarlac, Aurora, Zambales and Nueva Ecija. LUB aims to provide seamless access and efficient movement of goods and people. Table 2.19 shows the specific strategies and activities for the LUB.

Table 2.19
Luzon Urban Beltway

Strategy	Activity	Focus area/entity
Speeding up of transport and lowering cost to make the super region more competitive.	Implementation of various infrastructure projects, such as construction of roads, ports and railways	<i>Refer to Chapter 6: Infrastructure for a complete list of road, airport and seaport projects.</i>
Ensure sustainability of LUB's development through implementation of projects that will ensure environmental protection, promote continuous water supply and prevent floods	<i>Refer to Chapter 3: Green Philippines</i>	
Ensure sustainability of LUB's development through implementation of projects that will ensure environmental protection, promote continuous water supply and prevent floods	<i>Refer to Chapter 3: Green Philippines</i>	

Central Philippines

Central Philippines is composed of the entire Bicol Region, Western, Central, and Eastern Visayas, the provinces of Romblon, Palawan, and Camiguin, and the Island of Siargao. With its rich coastal and marine resources as competitive advantage, the government seeks to develop the region's linkage through efficient transportation and communication facilities for improved marketing of its marine products along with improved tourism potentials. Table 2.20 shows the specific strategies and activities for Central Philippines.

Table 2.20
Central Philippines

Strategy	Activity	Focus area/entity
Harnessing the vast coastal and marine resources and addressing the small island fragile ecosystem	Construction of fish sanctuaries in every coastal municipality; Massive mangrove planting/coral reefs rehabilitation; Community-based resource management and coastal protection; Integrated approach to watershed/river basin and coastal management; Promotion of upland agriculture	
Developing agribusiness, SME and export potential	Dissemination of knowledge on markets, prices, trade and credit guarantees, farming technologies and training opportunities. Pursuit of product development and credit provision for SMEs	
Linking the Island through efficient transportation and communication facilities	Construction/rehabilitation of airports, RORO ports and roads	<i>Refer to Chapter 6: Infrastructure for a complete list of road, airport and seaport projects.</i>

Chapter 3

Green Philippines

This Chapter, formerly titled Environment and Natural Resources (ENR), is assessed along the five major thrusts which the Administration originally committed to pursue for the environment and natural resources sector from 2004-2010. These are:

- Sustainable and more productive use of natural resources to promote investments and entrepreneurship.
- Sustainable mining that adheres to the principles of sustainable development, economic growth, environmental protection and social equity;
- Protection of vulnerable and ecologically fragile areas, especially watersheds and areas where biodiversity is threatened;
- Creation of a healthier environment for the population; and
- Mitigating the occurrence of natural disasters to prevent the loss of lives and properties.

ASSESSMENT AND CHALLENGES

Of the 115 committed targets for the Plan period, only 84 (73%) are quantifiable. The rest are qualitative targets without milestones which made monitoring of implementation progress difficult. These indicators are those that have been committed by the Department of Environment and Natural Resources (DENR). Therefore, they form part only of the broader imperatives for ENR management. These should include commitments from other national government offices and regional units, local government, nongovernment organizations (NGOs), the business and private sectors, and Filipino households. Without clear commitments and indicators to account for the contributions of these stakeholders to ensure ENR sustainability, the sector's performance report will have to be taken within the context of this present limitation.

Table 3.1 at the end of this chapter presents core indicators consistently reported in previous Socioeconomic Reports (SERs). Note that the status of committed targets reported in the mid-term indicates that accomplishments have been mixed, from being modest to notable, in areas that relate to support activities of local government units (LGU) in environment management-related initiatives in coastal and forestry areas, including management of solid waste, and assessment of abandoned mines.

While many commitments are on track, some critical commitments report significant lags. In particular, forestland delineation, groundwater resources and vulnerability assessment activities were constrained due to limited funds. Furthermore, in the reforestation of critical watersheds, the implementation of a major initiative - the Bicol River Watershed Management was delayed. It was only in 2007 that the Project Management Office was institutionalized under the direct supervision of the River Basin Control Office (RBCO). Meanwhile, the policy which cancels all existing tenurial instruments in forestry areas (such as industrial forest management agreements (IFMAs), socialized IFMAs and timber license agreements (TLAs) seriously hampered private sector investments in

forestry plantations. Under the proclamation of protected areas, the tedious process of establishing protected areas under the National Integrated Protected Areas System (NIPAS), and the prioritizing of ecotourism in 2005, limited the achievement in key commitments. For mining, the focus is still on initial exploration work thus, returns in terms of income and employment have not yet been realized.

The status of accomplishments suggests that the task of ensuring environment sustainability remains daunting. In particular, activities that concern the protection of the country's critical forestry, coastal and water resources have been lagging behind. This exposes valuable resources to deterioration and inadvertent pressure which will have grave consequences to future development initiatives. Moreover, the sustainability of these resources to provide for the needs of Filipinos, such as protection from natural hazards especially in vulnerable areas, is gravely under threat.

With these concerns figuring prominently as critical areas of action, another urgent concern that needs to be addressed is climate hazards. This includes climate change, with its far-reaching adverse impacts on the country's natural resources. The consequences of climate change which is caused by increasing anthropogenic gas emissions, are a serious and growing challenge for ENR management that needs to be addressed in the Plan through adaptation and mitigation measures.

Finally, while the importance of according adequate attention to ENR has been repeatedly advocated, priority attention for ENR interventions has been hampered by, among others: (a) a limited base of accountability for ENR outcomes that result in unclear responsibility as well as under-accounting of contributions to critical actions; (b) inadequate indicators appropriate for monitoring catalytic ENR activities and outcomes; (c) outdated cost standards for identified sector activities as basis for incremental budget support; (d) slow action in the passage of important legislation; (e) disruptions in governance, i.e. frequent change in leadership; and (f) environmental laws being passed without the release of funds appropriated under the law.

STRATEGIC FRAMEWORK

The challenges confronting the country's environment and natural resources underscore the need for focused and purposive action in the remaining Plan period. ENR sustainability remains anchored on a cohesive agenda to rejuvenate the state of resources in major ecosystems (land, air and water) to preserve ecological functions and ensure the continued provision of goods and services. This agenda is to be championed by a wide range of stakeholders (national and local government, NGOs, private/business sector, people's organizations (POs), among others) guided by the principle of common responsibility but with differentiated functions in the management of these resources. Thus, starting in 2008, the Plan Chapter on Environment and Natural Resources is rearticulated along four key thematic areas which define the Green Philippines (GP) agenda for the remaining plan period, particularly supporting the priorities enunciated in the country's Super Regions. These new thematic areas are: (a) forest management; (b) pollution and hazard control; (c) energy independence; and (d) protected area (PA) and wildlife management. These new thematic areas are vital in worldwide efforts to reduce the effects of climate change and global warming as well as local efforts to adapt to current climate variability and extremes.

Along these themes, ENR management will continue to be holistic and integrative. It will also uphold participatory and community-based processes within the principle of good and shared governance and responsibility. The DENR, reinforced by a supportive legislature, remains responsible for ensuring that the enabling policy, planning and regulatory framework are in place

to ensure effective participation in implementing environmental laws. It is, likewise, important for the judiciary to become a major player in facilitating prosecution of violators of environmental laws. The role and accountability of other national government agencies are similarly and equally underscored particularly in ensuring that sectoral policies, programs and activities are in compliance or in harmony with existing ENR legislation and commitments, both in the local and global arena. The active involvement of LGUs, either in a lead, support or beneficiary role, is also important in enhancing environmental governance in localities consistent with the devolution and decentralization policy. Private sector participation is, likewise, underscored in forging strong partnerships not only on enterprise development but also in environmental management initiatives in the remediation, rehabilitation and restoration of degraded ecosystems. The academic sector, particularly the research and development (R&D) community, plays a vital role in generating science-based information that will be the basis for sound ENR planning and management for sustainable development. The NGOs are active partners for better policy development, implementation and in improving communications advocacy among stakeholders. This should focus on enabling the poor and vulnerable who depend heavily on natural resources to rise above poverty. Finally, the role of media in raising consciousness and awareness on the need for environmental protection is important to effect a change in people's behavior.

The interplay of key players in ENR management finds venue in the strategies and catalytic actions for each of the following component of the Green Philippines:

Forest Management

This component is geared towards rehabilitation and restoration of degraded forestlands, plantation maintenance and forest protection. Anchored on community-based forest management (CBFM) as a strategy to address sustainable upland development (SUD), this provides for equal emphasis on the ecological, economic and social dimensions within participatory development approaches. This will address concerns on food and water security, demand for forest products, social development, and poverty reduction and the overall conservation and management of natural resource base.

The main policy that governs forestry management and related initiatives is Presidential Decree (PD) 705¹. This is further supported by Executive Order (EO) 318², EO 263³ and EO 606⁴. Other related laws are Republic Act (RA) 8371⁵ and RA 7586⁶. These will apply to those forest areas within the ancestral domains of the indigenous peoples. This component will ensure that climate change adaptation and mitigation activities are considered. Sustainable practices to improve the health and productivity of forestlands will also be pursued.

Activities include the following:

- Rationalize and prioritize forest restoration and/or regeneration in critical watersheds to preserve rivers and other fresh water systems and provide adequate and reliable water supply for irrigation, domestic and industrial uses;
- Protect untenured areas;
- Delineate forestland boundaries and ground assessment of forestland for production purposes;

1 Revised Forestry Code of the Philippines

2 Promoting Sustainable Forest Management in the Philippines

3 Adopting CBFM as the National Strategy to Ensure the Sustainable Development of the Country's Forestland Resources and Providing Mechanisms for its implementation

4 Pursuing Sustainable Upland Development Anchoring on Food, Wood and Non-Wood Security and Economic Productivity

5 Indigenous Peoples Rights Act

6 National Integrated Protected Areas System Act

- Conduct study on the biomass and carbon sequestration of three forest tree species;
- Develop community-based production systems for the furniture and handicraft (F&H) industry and include information and education campaign (IEC) support activities for raw material-based production;
- Develop incentive systems such as water user fee and plowback mechanism for effective forest protection and management of protected areas;
- Finalize and adopt the Water Supply Sector Roadmap;
- Adopt and operationalize the National Integrated Water Resource Management (IWRM) and Water Efficiency Plan Framework
- Issue appropriate tenurial instruments: such as CBFMA, IFMA, socialized industrial forest management agreement (SIFMA), forest land and grazing management agreement (FLGMA) and/or enter into applicable management schemes for corporate and community-based economic activities; and
- Develop nursery and plantation technologies for priority natural dye-yielding plants in Aklan.

Pollution and Hazard Control

This component is geared towards the problem of pollution in land, air, and water. Land and air pollution, which is greatly influenced by urbanization and human activities, lead to health and environmental problems. Also, more evidence shows that air pollution is altering the atmosphere causing climate change. Both climate change and urban air pollution are concerns that need urgent attention in this component. Moreover, the effect of climate change on future water demand (agriculture, industry, domestic) still needs comprehensive assessment. Participation of various stakeholders will be of utmost significance.

The implementation of identified activities in this component are supported by several laws on environmental management particularly: RA 9003⁷, RA 8749⁸, RA 9275⁹, and RA 6969¹⁰.

Activities include the following:

Land

- Conduct assessment of abandoned mines and implement stop-gap measures and/or rehabilitation of abandoned mines and resolve the issue involving mining accidents in abandoned and idle mine areas (e.g. Marcopper mine tailings spill, construction of final Mabatas tailing dam) ;
- Support LGUs' urban greening in Metro Manila and other major urban centers (i.e. roadside planting, and technical assistance in the maintenance of mini-forests);
- Support waste recycling and recovery through eco-labelling of products in Metro Manila;
- Pursue the opening of cluster sanitary landfill sites with Material Recovery Facilities (MRFs) for Metro Manila and other highly urbanized center;
- Establish and/or operationalize the National and Regional Ecology Centers;
- Mainstream Ecological Solid Waste Management (ESWM) in the Philippine educational system;
- Regulate the movement and/or disposal of hazardous wastes and its entry and exit in the country through the issuance of permits and clearances;
- Monitor companies using chemicals under the chemical control orders (CCOs);

⁷ Ecological Solid Waste Management Act

⁸ Clean Air Act

⁹ Clean Water Act

¹⁰ Toxic Substances and Hazardous Waste Act

- Monitor health care waste (HCW) disposal and development of an interactive database system;
- Provide technical assistance to LGUs in the following activities: closure and rehabilitation of open/controlled dumpsites, establishment of categorized sanitary landfill and waste processing facilities, and waste recycling and recovery; and,
- Monitor and develop a system on the use of Ozone Depleting Substances (ODS) products.

Air

- Implement the National Clean Air Program;
- Establish airsheds nationwide for better management of air quality;
- Monitor identified firms with high potential sources of pollution in major urban centers; and,
- Use of alternative fuels- Liquefied Petroleum Gas (LPG) for taxis, Compressed Natural Gas (CNG) for buses and biodiesel for jeepneys in the Metro Luzon Urban Beltway (MLUB).

Water

- Provide potable water for the entire country by 2010 (provision of water supply systems to at least 212 “waterless” areas in Metro Manila and 633 “waterless” municipalities outside Metro Manila, and continued provision of water supply to areas not identified as “waterless”;
- Monitor quality of drinking water of selected poor communities through the Tap Watch Program;
- Develop a sanitation roadmap and the National Sewerage and Sanitation Management Plan (NSSMP);
- Designate and/or establish water quality management areas;
- Complete the water analysis and monitoring of 162 bathing areas nationwide through the “beach watch” program;
- Provide water to all barangays/municipalities and have the corresponding sanitation for proper disposal of wastewater/septage;
- Fully implement the Clean Water Act by undertaking sustained metro-wide clean-up of *esteros*;
- Improve water quality in 19 priority rivers nationwide and reduce the biological oxygen demand (BOD) in Pasig River and other priority rivers to provide for adequate oxygen for aquatic life survival, by close and regular monitoring of identified firms along the priority rivers which have potential sources of pollution; and
- Classify the remaining 108 water bodies nationwide based on their best and most suitable uses for better water quality management areas.

Energy Independence

The country’s energy independence agenda – to attain the energy self-sufficiency level of 60 percent by 2010 and beyond – will be pursued without impinging on the natural resources base. Energy is crucial for sustainable development and access to it must be reliable, affordable, economically viable, socially acceptable and environmentally sound. Increasing the share of renewable, alternative and fuel blends in the energy mix is important not only for energy independence but also in terms of benefiting the environment and addressing climate change concerns. In particular, the development of hydropower, wind, biomass, solar, geothermal, wave and tidal energy technologies will be vigorously pursued. Relatedly, the production of biofuel feedstocks will be promoted while its potential competition to existing resource use that currently supports life systems will be considered. (e.g., food security implications).

Meanwhile, advocacy efforts will also be pursued towards greater energy efficiency and conservation, development, dissemination and deployment of more efficient energy technologies. This would include energy auditing schemes and certification, systems optimization, and energy labeling and standards for appliances and equipment. The National Energy Efficiency and Conservation Program (NEECP) continues to remain a relevant mechanism that rationalizes the country's demand for petroleum products and aims to eventually lessen the impact of escalating prices of imported fossil fuel to the economy.

Specific strategies, programs and projects as well as activities on energy independence are discussed in detail in Chapter 10, *Energy Independence*.

Protected Area and Wildlife Management

This component is geared towards conserving wildlife and their habitats, including preservation of reefs, while promoting the country's sustainable development. Integrated coastal management (ICM) and ecotourism are key strategies for this component. The Philippines, being a signatory to several international agreements like the Convention on Biodiversity (CBD) and the Convention on International Trade in Endangered Species of Fauna and Flora (CITES) is committed to abide in the light of the instruments' significance at the country level. This component will address issues on unsustainable resource use, habitat loss and other concerns with global implications.

Implementation of identified activities in this component are supported by several laws on protected areas and wildlife management such as EO 533¹¹, RA 8550¹², RA 8435¹³, RA 7586, RA 9147¹⁴, RA 9072¹⁵, EO 111¹⁶, and RA 8371.

Activities include the following:

- Proclaim, legislate and demarcate protected areas especially those that are critical watersheds and habitat for highly endangered species;
- Prepare PA management plans (e.g. zoning of protected areas and delineation of areas suitable for development (such as buffer and multiple-use zones);
- Conduct the overall assessment of vulnerability in Mount Banahaw-Mount San Cristobal Protected Landscape to Enhance Ecotourism in Barangays Kinabuhayan and Taytay;
- Operationalize and/or maintain and train members of the Protected Area Management Boards in all protected areas;
- Facilitate the remittance of the Integrated Protected Areas Fund (IPAF) to the PAMB;
- Issue wildlife farm permits and certifications;
- Maintain the Ninoy Aquino Parks and Wildlife Center (NAPWC) grounds and its facilities, amenities and wildlife rescue center;
- Assess, classify and prepare management plans of priority caves;
- Monitor priority wetlands to prevent Avian Influenza;
- Implement species conservation projects (e.g. on tamaraws, pawikans);
- Provide technical assistance to LGUs on coastal resource management;
- Provide technical assistance on ecotourism development;

11 Integrated Coastal Resources Management of 2006

12 Philippine Fisheries Code of 1998

13 Agriculture and Fishery Modernization Act of 1997

14 Wildlife Resources Conservation and Protection Act

15 Caves and Cave Resources Management and Protection Act

16 National Ecotourism Strategy of 1999

- Initiate activities for the establishment of networks of marine reserves at the local as well as regional levels (e.g., Coral Triangle Initiative);
- Adopt an Integrated Coastal Management Program;
- Conduct capability building on Integrated Coastal Management (ICM) and Fisheries Management; and,
- Integrate adaptation to current climate risks and future climate change in the formulation of management plans for protected areas.

Furthermore, other major initiatives are critical inputs to physical planning, policy and decision-making in the management of environment and natural resources. Some of these, particularly with respect to major activities on land management are interdependent, complementary and cyclical. For example, no public land can be disposed of without an approved survey. In turn, the need for surveys depends on the demand for, and magnitude of land disposition and management. Land claims and conflicts invariably require that the disputed property be surveyed before they can be properly decided on. Land records are generated from land surveys and mapping, and land disposition and management activities. Efficient records management, on the other hand, facilitates land surveys and mapping as well as land disposition and management. Geohydrometeorological mapping is necessary to determine the areas most vulnerable to landslides and guide development plans on settlements, industries and production areas.

Activities include the following:

- Development of Geodetic Network (Philippine Reference System of 1992 or PRS'92) and the conduct of topographic mapping, land classification, land disposition, cadastral survey;
- Conduct massive information campaign on all land activities and programs;
- Strengthen the system for registration and monitoring of land titles through computerization of land records and the development/improvement of property valuation system;
- Pursue the management of foreshore areas;
- Implement a streamlined Environmental Impact Assessment (EIA) system;
- Implement Clean Development Mechanism (CDM) projects
- Facilitate technology transfer and the provision of technical assistance, best suitable practices and technologies and improved planting materials through conduct R&D activities;
- Expand the use of market-based instruments, proper pricing of natural resources and other incentives and disincentives;
- Conduct carrying capacity studies in CBFM areas, grazing lands, CEP/small islands and protected areas;
- Maintain a Mines and Geosciences Bureau (MGB) one-stop shop;
- Link community-based program and small/medium scale projects to sources of finance and market;
- Update Master Plan on Water Resources Management in selected river basins (e.g., Pampanga and Tigum-Aganan River Basin);
- Conduct river basin study for selected priority river basins identified in EO 510¹⁷;
- Conduct hydrographic survey and charting of Philippine waters for safe navigation;
- Expedite the delineation of extended continental shelf (ECS) to support sovereign rights and jurisdiction over the area;
- Pursue raw water pricing to effect efficient allocation and conservation;
- Conduct groundwater resources and vulnerability assessment, and geological assessment of potential solid waste and disposal sites;
- Conduct water assessment in terms of availability and demand for selected areas to effect efficient water allocation and conservation;

- Conduct groundwater assessment for nine critical areas identified in the 1998 Master Plan Study on Water Resources Management in the Philippines;
- Maintain and sustain data collection and database for water resources;
- 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;
- Conduct IEC on disaster risk management (DRM);
- Conduct scoping process for public awareness on natural hazards;
- Conduct geohazard assessment and mapping of priority municipalities nationwide and identify relocation sites for communities vulnerable to landslide/flood hazards;
- Conduct field survey and investigation of areas prone to disaster;
- Prepare demographic and community profiles, community disaster risk mitigation plans and hazard risk maps;
- Integrate disaster preparedness and management strategy in the development planning process at all levels of governance;
- Prepare a Coastal Hazard Management Plan;
- Mitigate disasters through Enhanced Weather and Climate Forecasts Using Numerical Prediction Products and Satellite Data and moderate-resolution imaging spectroradiometer, as well as timely and accurate flood forecasts and warnings to strengthen Weather Observational Capabilities for Natural Disaster Preparedness and Mitigation;
- Establish a community-based early warning system in collaboration with the LGUs;
- Disseminate PAG-ASA weather information thru Radio Internet (RANET) and World Space Asia star Satellite and PAG-ASA/RANET Community Report; and
- Strengthen flood forecasting and warning system (FFWS) in Pampanga and Agno River Basins.

Priority Legislation

Specific laws such as PD 705, EO 318¹⁸, EO 263, RA 7586, RA 9147, RA 7942¹⁹, RA 6969, RA 8749, RA 9003 and RA 9275 vest in DENR the authority to regulate the use of all natural resources (except where specifically given to other agencies), and to implement these laws as best as it could given the resources at its disposal. However, along this line, there is a need to put in place the following necessary policies to address gaps in managing the environment and natural resources:

Sustainable Forest Management Bill – aims to provide concrete strategies to address the sustainable management of forest and forest resources in response to continuous demand through the integration of relevant forestry legislations and related bills while ensuring an enabling environment that considers the social, economic and environmental dimensions of development.

National Land Use Bill – aims to provide a rationalized land use planning in the country and put in order the national laws on land uses (such as agrarian reform, protected areas, ancestral domain, fisheries, forestry, agricultural modernization, mining and housing) that are sector specific and do not address the cross-cutting land use issues. (*Chapter 2: Agribusiness*)

Land Administration Bill – aims to address the pervading multi-titling problems through the rationalization of the various agencies responsible in land titling and related activities and address this concern through the adoption of the one stop shop concept.

¹⁸ Promoting Sustainable Forest Management in the Philippines

¹⁹ Philippine Mining Act

Renewable Energy Bill – aims to accelerate the development of renewable energy such as, but not limited to biomass, solar, wind, hydro and ocean energy including hybrid systems to achieve energy self-reliance through the adoption of sustainable development strategies to reduce dependence on fossil fuels.

Marine Pollution Bill - aims to respond to the pressing need of reducing risks and preventing disasters caused by trade and other economic activities in the marine environment and its resources.

GREEN PHILIPPINES AND THE SUPER REGIONS

The Green Philippines agenda seeks to promote healthy ecosystems and environment as critical mechanisms for creating a robust agribusiness regime, establishing globally competitive urban, industrial and services centers, and developing premiere ecotourism hubs, among others, in the subeconomic Super Regions of the country. The catalytic impacts of these strategies lie not only in their distinct contribution but more so in the strategies' system wide implications to enhance and support the development agenda in the Super Regions. It shall also ensure the Super Regions' sustainable development course in harnessing its natural competitive advantage towards economic development.

One of the strategies in the Green Philippines is forest management. Forest management shall be aggressively undertaken in denuded and degraded areas of the country. Vulnerability assessments and the preparation of geohazard maps for all the super regions will also be fasttracked. Specifically, the forest management component of Green Philippines is vital in supporting the North Luzon Agribusiness Quadrangle and the Mindanao Agribusiness development agenda. These would involve the development of high quality planting stocks and planting of seedlings, including fruit trees and biofuel feedstocks, through community based and agroforestry approaches. Effort shall also focus on the rehabilitation and/or restoration of critical watersheds not only to better manage protected areas for biodiversity conservation but also to support river irrigation systems for agriculture, and water supply for domestic use.

Green Philippines will also address the problems on pollution and disaster. Concerted efforts shall focus on major cities and industrial zones across the regions particularly the Luzon Urban Beltway (LUB). Pursuant to key legislations on clean water, clean air and solid waste management, the government shall implement programs and projects that are environmentally sound and complement the establishment of globally competitive urban, industrial, and service centers. Foremost in these activities are air and water quality monitoring in major cities and beaches, critical habitat management and urban greening, and construction of sanitary landfills and waste processing facilities. The growing and intensified advocacy to promote initiatives on climate change efforts through, among others, the CDM of the Kyoto Protocol offers vast opportunities for financing related activities to this end.

Energy independence will, likewise, be pursued by harnessing the country's potentials on renewable energy and other alternative sources. Wind and solar energy shall be pursued in the Central Philippines major islands such as Catanduanes, Guimaras, Masbate, Northeast Coast of Negros Occidental and Palawan. The production of biofuel feedstocks for ethanol, coco methyl ester (CME) and biodiesel shall be implemented in the areas of Negros Occidental, Bicol region, Romblon, Samar, Leyte, and Bohol. The Pagadian-Zamboanga Road is also eyed as a biofuels corridor where various feedstocks like cassava, sweet sorghum and *Jatropha* can be grown.

Finally, the preservation of reefs, waterways and wildlife (protected area and wildlife management) supports the development strategy of harnessing the natural competitive advantage of the country. Alongside major infrastructure projects, forest management and integrated coastal management shall be pursued such as the marine sanctuary establishment, massive mangrove planting and/or rehabilitation, coral reefs protection protected area management, and species conservation. This strategy augurs well in promoting Central Philippines as the premiere ecotourism destination of the country as well as the development and expansion of agribusiness in the North Luzon Quadrangle and Mindanao particularly on high value crops production.

These programs and projects shall be reinforced with research and development on ways of generating science based strategies and approaches in the rehabilitation, conservation and sustainable management of various ecosystems and resources in uplifting the socioeconomic wellbeing of the Filipino people.

Table 3.1
Environment and Natural Resources Accomplishments, 2004-2008

Measurable Output And Target	Accomplishment Level							Medium-Term Accomplishment (2004-2008, %)
	2004	2005	2006	2007	2008 (1st Q)	TOTAL		
Thrust 1. Sustainable and more productive utilization of natural resources to promote investments and entrepreneurship								
540 sq km of Philippine waters surveyed and mapped	55,330	72,412	65,565	37,100	-	230,407	km² surveyed	42668
Densification of the PRS 24 provinces by PRS '92 geodetic control points (1st & 2nd order)	9	17	7	9	-	42	provinces covered	175
79,585 control points established covering 26,500 barangays (3rd and 4th order)	1,455	1,518	1,245	2,003	1,407	6,221	control points established	8
	847	213	601	NR	-	1,661	barangays covered	6
Ground validation/ verification of forestland boundaries covering a total of 76,291 kms within 74 provinces conducted and legislation of permanent forest lines of these provinces passed	2,901	2,805	3,007	4,318	2,643	15,674	km covered	21
	-	-	-	-	-	19	provinces covered	26
760,080 hectares of A&D lands through land patents prioritized	127,532	105,058	119,367	58,867	31,171	410,824	hectares of A&D lands covered	58
7.3 million hectares of production forestland assessed	NR	341,146	349,095	11,580	-	701,821	hectares assessed	10
Survey and classification of the remaining 587,238 hectares of unclassified lands completed	92,594	-	-	48,984	-	141,578	hectares classified and assessed	24
74,200 number of hectares to be inventoried and managed up to 2010	1,923	3,083	74	-	-	5,080	hectares inventoried and managed	7
15 wildlife farms established	49	16	13	32	-	110	wildlife farm permits issued	733

Table 3.1
Environment and Natural Resources Accomplishments, 2004-2008 (continued)

Measurable Output And Target	Accomplishment Level							Medium-Term Accomplishment (2004-2008, %)
	2004	2005	2006	2007	2008 (1st Q)	TOTAL		
At least 10 CDM Projects implemented by 2010	-	-	-	-	-	14	CDM projects implemented	140
Issuance of the ff: CBFMA covering 4,111 sites; IFMA covering 121,604 hectares; and SIFMA covering 79,785 hectares								
CBFMA 4,111 sites	92	36	0	0	-	128	sites covered	3
IFMA 121,604 hectares	35,218	0	93,353	82,627	39,237	250,435	hectares covered	206
SIFMA 79,785 hectares	4,929	422	0	824	-	6,175	hectares covered	8
Corporate and community-based economic activities covering 1.8 million hectares for agro forestry; establishment of plantations covering 618,000 hectares under CBFMA; 235,898 hectares for IFMA; 47,971 hectares for SIFMA; 159,516 hectares for TLA								
CBFMA 618,000 hectares	568	4,042	1,587	912	464	7,573	hectares covered	1
IFMA 235,898 hectares	2,877	5,973	723	-	-	9,573	hectares covered	4
SIFMA 47,971 hectares	203	263	110	-	-	576	hectares covered	1
TLA 159,516 hectares	2,836	341	1,667	-	-	4,844	hectares covered	3
Thrust 2. Promote responsible mining that adheres to the principles of sustainable development: economic growth, environmental protection and social equity								

Table 3.1
Environment and Natural Resources Accomplishments, 2004-2008 (continued)

Measurable Output And Target	Accomplishment Level							Medium-Term Accomplishment (2004-2008, %)
	2004	2005	2006	2007	2008 (1st Q)	TOTAL		
US \$4.0-6.0 billion investments	139.48	463.34	173.35	102.9	-	879.07	US\$ Million generated	15
239,000 in direct and indirect employment generated	12,000	21,786	24,672	11,430	-	69,888	new jobs generated	29
Investors forum conducted and investors mobilized (local and international investors)	-	2	1	-	-	3	international mining conferences conducted	100
Seven abandoned mines assessed	-	-	-	-	-	7	abandoned mines assessed	100
Thrust 3. Focus and strengthen the protection of vulnerable and ecologically fragile areas, especially watersheds and areas where biodiversity is highly threatened								
Management of 39 priority wetlands	8	28	9	1	189	235	wetlands covered	603
Technical assistance to 570 LGUs in coastal protection and management, especially in participatory planning, zoning and standard setting, provided	286	167	192	57	-	702	LGUs covered	72
Mangrove replanting, covering 10,500 hectares implemented and 128 marine sanctuaries established	256	577	904	330	-	2,067	hectares covered	20
	-	17	36	24	-	77	marine sanctuaries established	60
14 coastal law enforcement alliance with non-government sectors and communities established	-	11	3	-	-	14	coastal alliances established and sustained	100

Table 3.1
Environment and Natural Resources Accomplishments, 2004-2008 (continued)

Measurable Output And Target	Accomplishment Level							Medium-Term Accomplishment (2004-2008, %)
	2004	2005	2006	2007	2008 (1st Q)	TOTAL		
Push for the proclamation of 100 PAs and legislation of 103 PAs, especially those that are critical watersheds and habitat for highly endangered species								
<i>100 PAs for proclamation</i>	6	2	2	4	-	14	PAs proclaimed	14
<i>103 PAs for legislation</i>	-	-	-	2	-	2	PAs legislated	5
Assessment and classification of 57 caves conducted	11	19	1	10	12	53	caves assessed	93
130,000 hectares in 140 critical watersheds reforested	8,383	6,145	4,038	3,480	589	22,046	hectares covered	17
Zoning of 77 PAs conducted to delineate areas suitable for development (i.e. buffer and multiple-use zones)	-	6	23	-	-	29	PAs zoned	38
Ecotourism in 29 protected areas that are included in the National Ecotourism Master Plan promoted	4	6	6	16	-	32	PAs developed in partnership with LGUs/ NGOs/POs	110
Carrying capacity studies for 29 protected areas conducted , especially those that will host development projects	-	-	6	14	-	14	studies conducted	48
15.24 million hectares of forests protected in coordination with other sectors	9.40	8.02	8.80	4.08	-	9.40	million hectares of forests protected	62
Thrust 4. Create healthier environment for the population					-			

Table 3.1
Environment and Natural Resources Accomplishments, 2004-2008 (continued)

Measurable Output And Target	Accomplishment Level							Medium-Term Accomplishment (2004-2008, %)
	2004	2005	2006	2007	2008 (1st Q)	TOTAL		
3,900 hazardous waste generators registered and 500 companies utilizing cyanide, mercury, asbestos and other highly toxic chemicals like the Polychlorinated Biphenyls (PCBs) closely monitored	786	1,250	1,081	1,040	355	4,157	HWGs registered	116
	117	153	204	163	134	637	companies monitored	68
Water analysis and monitoring of 162 bathing areas nationwide completed	57	47	38	70	-	212	bathing areas covered	43
Reclassification of the remaining 202 unclassified principal water bodies nationwide conducted	41	41	34	-	-	116	principal water bodies covered	57
Air quality in major urban centers improved and air pollution (total suspended particulates or TSP) in Metro Manila reduced by 42 percent by 2007	10%	17%	12%	-	-	12	% reduction	29
23 airsheds nationwide established by 2010	7	1	1	-	-	9	airsheds established	39
1,370 mini forests established	54	116	55	-	-	225	mini-forests established	16
Roadside planting covering 612 kms undertaken	385	388	4411	248	24	5432	kms planted	892
Additional sanitation facilities constructed by DILG * 2005 - 28 sanitation facilities * 2006 - 34 sanitation facilities * 2007 - 12 sanitation facilities	-	6	25	-	-	31	sanitation facilities constructed	42%

Table 3.1
Environment and Natural Resources Accomplishments, 2004-2008 (continued)

Measurable Output And Target	Accomplishment Level							Medium-Term Accomplishment (2004-2008, %)
	2004	2005	2006	2007	2008 (1st Q)	TOTAL		
Groundwater resources and vulnerability assessment conducted in 310 priority LGUs	-	31	61	17	-	109	LGUs assessed	35%
Drinking water in 320 priority poor communities monitored and improved	95	87	88	69	-	339	priority communities monitored	106%
Geological assessment of potential solid waste and disposal sites for 200 LGUs conducted	120	53	62	17	-	252	sites assessed	126%
4 cluster sanitary landfill sites with MRFs opened/ established	-	-	5	5	-	5	sites with MRF opened/ established (not cumulative annually)	125%
3 major <i>esteros</i> in Metro Manila and 32 prioritized <i>esteros</i> in other urban centers cleaned and rehabilitated	1	20	23	21	-	23	esteros cleaned / rehabilitated (not cumulative annually)	66%
Thrust 5. Mitigate the occurrence of natural disasters to prevent the loss of lives and property								
Complete the geo-hazard mapping at one quadrangle per region per year	18	72	148	52	-	477	maps produced	322%

Chapter 4

Housing

In pursuit of the Millennium Development Goal (MDG) on improving the lives of 100 million slum dwellers globally, the housing construction sector is committed to provide security of housing and land tenure to every Filipino family. For the next three years, 2008-2010, the housing sector will focus on meeting the housing needs of Filipino households through innovative housing solutions and development that are market-oriented, affordable, sustainable and community-driven.

ASSESSMENT AND CHALLENGES

From 2004 to the second quarter of 2008, the housing sector, despite daunting challenges, recorded modest performance and gains. To address the housing needs, the sector provided direct housing in terms of security of tenure and affordable housing to a total of 374,170 households in 2005 to 2007 against the Medium-Term Philippine Development Plan (MTPDP) target of 518,358 housing units for an accomplishment rate of 72.18 percent. In reference to the total housing backlog of 585,399 from 2005 to 2007, the housing sector was only able to attain an accomplishment rate of 53 percent (Table 4.1).

Table 4.1
Housing Sector Accomplishment Vs. Annual Backlog, 2005-2007

Year	Annual Backlog ^{a/}	Actual Accomplishment	Accomplishment Rate
2005	195,133	112,066	57.4%
2006	195,133	107,996	55.3%
2007	195,133	89,977	46.1%
TOTAL	585,399	310,039	53.0%

a/ Annual backlog refers to the total housing backlog for the medium-term divided by six (6) years
Source: Housing and Urban Development Coordinating Council

Socialized housing programs (i.e., housing packages costing PhP300,000 and below) were delivered to a total of 333,888 households¹ vis-à-vis the target of 485,348 housing units. This resulted in a 68.79-percent accomplishment rate from 2005 to second quarter of 2008. Low-cost housing programs (i.e., housing packages costing above PhP300,000 to PhP3 million) registered a lower performance of 95,446 households served against its target of 178,515 households for a 53.47 percent accomplishment rate for the same period.

For indirect housing provision (i.e., extension of housing guaranties and issuance of licenses to sell), the sector provided retail housing guaranties to 40,887 housing units vis-à-vis the combined target of 145,757 units. This resulted in an accomplishment rate of 28.05 percent for the period 2004 to second quarter of 2008. Likewise, licenses to sell were issued to 792,866 housing units against a target of 699,853 units for a 113.29 percent accomplishment rate for the same period (Table 4.2).

¹ The term “households” refers to either house and lot, or house only, or lot only

Table 4.2 Housing Sector Targets and Accomplishments, 2004-2008

PROGRAM/ AGENCY (In No. of Households)	2 0 0 4		2 0 0 5		2 0 0 6		2 0 0 7		2 0 0 8 Q2		2005 - 2008 Q2		Accomplishment Rate 2005-2008 (%)
	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	
DIRECT HOUSING PROVISION													
Socialized Housing Program													
Resettlement	2,432	-	16,960	22,900	15,390	21,100	17,155	19,900	14,656	29,256	64,163	93,156	68.88
Slum Upgrading	1,812	-	4,136	5,800	1,338	5,500	3,707	5,200	2,364	13,500	11,545	30,000	38.48
Sites and Services	2,036	-	1,192	5,700	2,061	6,200	4,036	7,300	255	875	7,544	20,075	37.58
Core Housing	2,444	-	1,033	5,000	927	5,100	721	5,400	0	5,268	2,681	20,768	12.91
Presidential Proclamation	28,153	-	7,807	35,000	19,978	35,000	51,668	35,000	504	5,000	79,957	110,000	72.69
Community Mortgage Program	14,137	-	14,199	15,360	13,783	15,860	11,822	15,625	6,183	9,422	45,987	56,267	81.21
Community-Based Housing	-	-	18,982	7,400	20,987	8,900	16,690	10,700	237	13,500	56,896	40,500	140.48
End User Financing (HDMF)	13,564	-	11,938	18,313	8,878	20,694	14,622	23,384	29,677	52,191	65,115	114,582	56.83
Subtotal Socialized Housing	64, 578	70,000	76,247	115,473	83,342	118,354	120,421	122,509	53,876	129,012	333,888	485,348	68.79
Low-Cost Housing Program													
End-User Financing (HDMF)	42,986	-	25,237	26,403	24,061	29,835	32,745	33,713	-	-	82,043	89,951	91.21
GFIs End-User Financing	6,217	-	10,582	13,460	488	15,693	882	13,018	1,286	15,758	13,238	57,929	22.85
Medium Rise Housing	0	-	0	8,200	105	10,200	60	11,500	0	735	165	30,635	0.54
Subtotal Low-Cost Housing	49,203	80,000	35,819	48,063	24,654	55,728	33,687	58,231	1,286	16,493	95,446	178,515	53.47
Total direct Housing Provision	113,781	150,000	112,066	163,536	107,996	174,082	154,108	180,740	55,162	145,505	429,334	663,863	64.67

INDIRECT HOUSING PROVISION													
Retail Guaranty (in no. of housing units)	5,253	28,728	5,507	22,340	12,460	24,574	16,310	27,031	1,357	43,084	40,887	145,757	28.05
Developmental Guaranty (in no. of housing projects)	5	3,192	157	2,482	32	2,730	5,217	3,003	797	4,787	6,208	16,194	38.33
Issuance of License to Sell (in no. of units covered)	172,883	137,853	167,229	131,320	187,001	134,000	172,967	136,680	92,786	160,000	792,866	699,853	113.29

Notes:

- The term "households" refers to either house and lot, or house only, or lot only.
- 2004 data was culled out from 2004 SER since there was no submission from HUDCC for that particular year.
- Accomplishment rates for Direct Housing Provision are computed using 2005-2008 data only since no data is available for 2004 targets while accomplishment rates for Indirect Housing Provision are computed using 2004-2008 data.

Given the sector's high multiplier effect of 16.6 times (i.e., every PhP1 million worth of housing investment can potentially contribute a total of PhP16.6 million of economic activity for the country), employment creation was also spurred. The economic contribution of housing, which is 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. To help create six to ten million jobs in support of the 10-point agenda of the President, the housing sector was able to generate 2,098,626 jobs for the period 2005-2008 (Table 4.3). This output translates to 49.37 percent of the total target of 4,250,492 jobs from housing construction for the period. Constructing a house requires eight persons working for three weeks or a total of 124 mandays.

Table 4.3
Job Generation In Housing Construction, 2005-2008

Indicator	Target Units/ Employment	Actual Accomplishment					
		2005	2006	2007	2008	2005-2008	Accomplishment Rate (%)
Provision of jobs in housing construction	4,250,492	554,394	500,196	749,205	294,831	2,098,626	49.37

Source: HUDCC

Budgetary resources made available to the housing sector from 2005-2007 remained below one percent of the national budget. From 2005 to 2007, total allocation for the housing sector ranged from 1.2 percent to 2.5 percent as a proportion of the social sector budget and from 0.1 percent to 0.7 percent of the national budget, respectively (Table 4.4).

Table 4.4
Budgetary Allocation For The Housing Sector, 2005-2007

Year	National Budget (PhP million)	Allocation for Social Services (PhP million)	Allocation for Housing and Community Development (PhP million)	Share of Housing to the National Budget (%)	Share of Housing to the Social Sector Budget (%)
2005	1,243,504	117,654	1,725	0.1	1.5
2006	1,053,300	296,600	7,340	0.7	2.5
2007	1,257,061	145,308	1,744	0.1	1.2

Source: DBM, National Expenditure Program, General Appropriations Act

The housing sector managed to deliver these outputs in the face of resource constraints due to the fiscal crisis and institutional refocusing. However, the lower-than-expected budgetary resources released to the sector, in particular, prevented it from delivering a higher level of achievement.

The period 2005-2007 also saw the implementation of various reforms aimed at further effecting a more market-oriented housing finance and construction sector. These include the adoption of a beneficiary-led approach to resettlement, the approval of alternative compliance to the balanced housing requirement of the Urban Development and Housing Act (UDHA), the redefinition of the housing loan ceilings (Table 4.5), the reduction of interest rate for socialized housing package and extension of repayment period.

To ensure the relocation of informal settlers in a just and humane manner, the Housing and Urban Development Coordinating Council (HUDCC) and the National Housing Authority (NHA) utilized a beneficiary-led approach to guarantee that the families were given the type of assistance they need such as: (a) adoption, to the extent possible, of an in-city/in-town relocation approach to minimize dislocation; (b) provision of basic facilities, such as schools, potable water and electricity, to service the needs of the relocatees, as well as livelihood opportunities for resettled families; and (c) institutionalization of Local Inter-Agency Committees (LIACs), composed of the concerned local chief executives, nongovernment organizations (NGOs), people's organizations (POs) and community associations, to formulate the development plan including the Implementing Rules and Regulations (IRR) that will govern the relocation activities.

To ensure compliance with the balanced housing requirement under UDHA, the NHA issued Memorandum Circular No. 2098 on May 29, 2007. This calls for alternative compliance to balance housing through participation of developers in the implementation of government resettlement programs in the form of financing, design, planning, development, upgrading or improvement of the sites and/or housing units.

To respond to the need for market-responsive housing loan packages, the HUDCC issued Memorandum Circular No. 05 s. 2007 on August 15, 2007 redefining the housing loan ceilings (Table 4.5).

Table 4.5
Revised Definition Of Housing Loan Packages

Previous Definition		Redefined Loan Packages	
Socialized	Below PhP300,000	Low Cost Level 1 – A (Socialized)	PhP300,000 and below
Low Cost	PhP300,000 to P2M	Level 1 – B	Above PhP300,000 to
Level 1	PhP300,000 to PhP750,000	Level 2	PhP500,000
Level 2	PhP750,000 to PhP2M	Level 3	Above PhP500,000 to PhP1.25M
Medium Cost	PhP2M to PhP4M	Medium Cost	Above PhP1.25M to PhP3M
Open Market	Above PhP4M	Open Market	Above PhP3M to PhP4M
			Above PhP4M

Source: HUDCC

Pursuant to the instructions of the President during the Cabinet Meeting on November 14, 2006 and as recommended by the Housing Policy Working Committee (HPWC) of HUDCC, the socialized housing loan package was included in the low cost housing package. Moreover, the price ceilings were adjusted to respond to the increase in housing construction costs and to entice greater private sector participation in housing construction.

To make housing more affordable to the lowest 30 percent of the income decile, the Home Development Mutual Fund (HDMF-Pag-IBIG) further lowered its interest rate from 9 percent to 6 percent for its socialized housing package and extended its repayment period from 25 to 30 years. This measure aims to provide wider access to housing to the segment of the formal sector not catered to by the banks (Table 4.6).

Table 4.6
Pag-IBIG Fund Matrix On Housing Loan Packages

Pag-IBIG Fund Circular 189-C July 20, 2004		Pag-IBIG Fund Circular 233 September 24, 2007	
Loanable Amount	Interest Rate	Loanable Amount	Interest Rate
Up to P150,000 Over P150,000 to P225,000 Over P225,000 to P500,000 Over P500,000 to P2.0M	6% p.a. 9% p.a. 10% p.a. 12% p.a.	Up to PhP300,000 Over PhP300,000 to PhP750,000 Over PhP750,000 to PhP2.0M	6% p.a. 7% p.a. 10.5% p.a.
Loan Term: Max of 30 years		Loan Term: Up to PhP500,000 – Max of 30 years Over PhP500,000 to PhP2.0M – Max of 20 years	

Source: HDMF-Pag-IBIG Fund

To accelerate the distribution of secure tenure, the HUDCC drafted a policy paper and housing microfinance product manual allowing the use of rights-based instruments such as interim land titles as collateral in banking loan transactions.

For the period 2008-2010, to ensure shelter security for the Filipino family and provide access to affordable and decent housing for the poor and informal settlers in a sustainable environment, the housing construction sector shall intensify its efforts to address the following key challenges:

- Meeting the rapidly growing housing need which is projected to be 1,930,632 units for the period 2008-2010 (Table 4.7).
- Expanding private sector participation in socialized housing financing and construction;

Table 4.7
Housing Need Per Region, 2008-2010²

Region	Annual Backlog	Cumulative Backlog and New Households^{a/}			
		2008	2009	2010	TOTAL
NCR	58,412	82,946	83,206	83,469	249,621
CAR	1,309	6,783	6,882	6,984	20,649
I	5,556	26,310	26,757	27,212	80,279
II	4,077	18,667	18,995	19,330	56,992
III	12,569	77,821	79,909	82,064	239,794
IV	23,827	139,920	144,239	148,718	432,877
V	12,267	29,109	29,392	29,679	88,180
VI	16,816	37,898	38,227	38,565	114,690

a/ Refers to the annual housing backlog and projected annual new households

VII	10,578	48,919	49,988	51,087	149,994
VIII	7,281	19,294	19,476	19,660	58,430
IX	7,642	22,772	23,101	23,438	69,311
X	5,912	19,751	20,054	20,364	60,169
XI	11,158	44,384	45,248	46,134	135,766
XII	6,661	18,758	19,009	19,266	57,033
ARMM	5,126	24,926	25,691	26,484	77,101
CARAGA	5,942	13,131	13,248	13,367	39,746
Total	195,133	631,389	643,422	655,821	1,930,632

Source: HUDCC

- Ensuring the provision of adequate budgetary resources for government housing programs; and
- Strengthening the capacity of housing institutions both at the national and local levels.

STRATEGIC FRAMEWORK

The future direction for the housing sector would be to continue to prioritize affirmative action in the following areas:

Sustain efforts to meet the housing requirements of the formal and informal sectors particularly socialized and low-cost housing

Meeting the housing requirements of the formal housing sector entails adherence to liberalized and market-based schemes. On the other hand, the promotion and institutionalization of new and innovative approaches such as incremental housing, housing microfinance, usufruct, long-term lease, proclamation and other secure tenure modes are expected to help ensure security of tenure for the informal sector.

The NHA shall: (a) prioritize the provision of secure tenure and address urban blight through slums reduction and decongestion of urban areas; and (b) pave the way for infrastructure development in urban areas essentially by fast-tracking the clearing of the right-of-way of rail projects.

The Housing and Land Use Regulatory Board (HLURB) shall ensure the provision of more socialized housing units by tightening the monitoring of the 20 percent compliance to balanced housing provision.

The Social Housing Finance Corporation (SHFC) shall ensure the security of tenure of informal settlers. This will be pursued through the: (a) continued institutionalization of reforms aimed at strengthening and improving its Community Mortgage Program's (CMP) accreditation, appraisal and collection systems; and (b) full implementation of the Localized Community Mortgage Program (LCMP).

The HDMF shall: (a) expand access to affordable housing finance by reducing interest rates but taking into consideration market conditions as well as the viability of the Fund and streamlining of

loan requirements; and (b) sustain housing finance by improving collection efficiency, fast-tracking disposition of nonperforming and acquired assets, and diversifying investments to maximize income.

The HUDCC shall: (a) ensure the mainstreaming of housing microfinance product manual, allowing the use of rights-based instruments such as interim land titles as collateral in banking loan transactions; and (b) support the adoption and usage of a standard land valuation model to facilitate the implementation of the disposal of government land in favor of its urban poor beneficiaries.

In support of the above strategy, the Asian Development Bank (ADB)-funded Development of Poor Urban Communities Sector Project (DPUCSP), set to end in 2009, will continue to improve access of poor urban households to secure land tenure, affordable shelter and community facilities, and avail of financial services for microenterprise development, home improvement and housing.

Expand public-private sector partnerships in socialized housing finance and construction efforts

Expanding public-private sector partnerships in socialized housing finance and construction would entail the pursuit of a viable and sustainable source of housing finance essentially through the establishment of the secondary mortgage market. The housing market will be stimulated by the trading of market-based instruments such as mortgage-backed securities. Private sector participation will be maximized and expanded through innovative housing solutions such as the *Gawad Kalinga* and Habitat for Humanity housing programs.

The National Home Mortgage Finance Corporation (NHMFC) shall ensure a sustainable source of housing finance by: (a) implementing and operationalizing the secondary mortgage market; and (b) outsourcing collection of housing loan repayments.

The HLURB shall encourage private sector participation. It will create a more favorable environment for real estate investments by streamlining processes for housing permits and clearances and establishing One-Stop Shops that would assist private developers in securing permits from other agencies and local government units (LGUs). Moreover, the HLURB shall also ensure protection of buyers by enhancing public assistance and fast-tracking arbitration, mediation and resolution of cases.

Continue to strengthen the capacity of key shelter agencies in housing policy, finance, production and regulation

Capacity building for the key shelter agencies – HUDCC, HGC, NHMFC, HDMF, NHA, and SHFC – will equip the agencies to be responsive to the needs of the sector. In particular, ensuring adequate capitalization of the SHFC and budget for the Community Mortgage Program (CMP) should be given priority.

The Home Guaranty Corporation (HGC) shall clean its balance sheet and restore confidence of the market in the housing guaranty program. This will be done through the disposition of acquired assets in the most prudent and creative way and expansion of investment portfolio to enhance income.

Enhance the capacity of local government units (LGUs) and community associations in housing and urban development programs

Improving the capacity of LGUs in urban and shelter planning and implementing local housing programs will ensure ownership, sustainability and partnerships in housing. The roll-out of the cities

development strategies will redound to a more integrated approach to housing development with linkages to the environment, livelihood, production and other alternative land uses.

In line with the policy of putting local governments in the lead as far as housing programs and services are concerned, the SHFC is set to implement the LCMP that will enable LGUs to address the housing needs of their constituents.

Finally, there is a need to build the capacity of community and homeowners' associations to ensure that they become responsible recipients of housing assistance and partners and catalysts in housing and urban development.

In support of this strategy, the "Integrated Approaches to Poverty Reduction at the Neighborhood Level – A Cities Alliance" (IMPACT-Cities Alliance), a technical assistance project with funding assistance from the Cities Alliance and UN Habitat until 2008, will continue to capacitate LGUs and homeowners associations (HOAs) in livelihood and employment development, definition of systems and policies, development and implementation of small projects, and strengthening partnerships with other stakeholders. As a result of this initiative, the Development Bank of the Philippines (DBP) launched the Lending Modality for HOAs to acknowledge the HOAs' capacity as partners in achieving the vision of "Cities Without Slums".

SUPER REGIONS STRATEGY

In the Super Regions program, housing construction is a strategic development agenda that is aimed at harnessing the market potential for housing development and massive employment generation while rapidly addressing the regional disparities in terms of security of housing and land tenure.

The North Luzon Agribusiness Quadrangle, Luzon Urban Beltway, Central Philippines, and Mindanao Agribusiness Super Regions will prioritize the implementation of projects for: (a) low-cost housing for resettled families; (b) core housing; (c) medium-rise (i.e., five storey) housing; and (d) resettlement. To the extent possible, the housing sector, together with other government agencies will guarantee that the needs of families displaced by government infrastructure projects are met. It will also ensure that the costs of displacement are integrated in the project budget.

Specifically, housing-related projects per super region include the following:

- North Luzon Agribusiness Quadrangle
 - Low-Cost Housing for Resettled Families
 - Core Housing Project
 - Medium-Rise Housing Project
 - Other Resettlement Projects
- Luzon Urban Beltway
 - Low-Cost Housing for Resettled Families
 - Medium-Rise Housing Project
- Central Philippines
 - Low-Cost Housing for Resettled Families
 - Core Housing Project
 - Medium-Rise Housing Project
 - Other Resettlement Projects

- Mindanao Agribusiness
 - Low-Cost Housing Program for Resettled Families
 - Core Housing Project
 - Medium-Rise Housing Project
 - Other Resettlement Projects

In addition, the Luzon Urban Beltway shall focus on decongesting Metro Manila through the development of new centers for government, business, and housing. The Central Philippines Super Region, in support of its thrust to promote the region as a tourism hub and center, will likewise pursue the implementation of housing projects to meet the demand from tourists and tourism workers.

Chapter 5

Tourism

Tourism has contributed significantly to the growth and competitiveness of the Philippine economy during the Plan period. While challenges in the global and domestic fronts have been encountered, it can be said that the industry's performance for the past three years has set it on track to achieve its goal in becoming a powerful economic growth engine for generating jobs and creating economic activity in the country.

ASSESSMENT AND CHALLENGES

The tourism industry has exhibited continuous increases in visitor arrivals, visitor receipts and jobs generation. Visitor arrivals grew by an annual average of 12.9 percent from 2.3 million visitors in 2004 to 3.1 million in 2007. It was a breakthrough year in 2007 for Philippine tourism as tourist arrivals breached the three-million mark after staying in the two-million level from 2004-2006. For the first ten months of 2008, visitor arrivals already reached 2.6 million, representing 82.5 percent of the 3.15 million visitors targeted for the year (Table 5.1).

Table 5.1
Visitor Arrivals and Receipts, 2004-October 2008

Year	Visitor Arrivals			Visitor Receipts		
	Target (Million)	Volume (Million)	Growth Rate (%)	Target (US\$ Billion)	Amount (US\$ Billion)	Growth Rate (%)
2004	2.3	2.3	20.1	2.24	1.99	30.7
2005	2.7	2.6	14.5	2.59	2.24	12.6
2006	3.1	2.8	8.4	2.98	3.46	54.5
2007	3.5	3.1	8.8	3.43	4.88	41.0
Jan-Oct 2008	3.2 ^{a/}	2.6	4.03	3.19	2.78	n.a.

a/ Full year target

Source: Department of Tourism (DOT)

Korea overtook the United States of America (USA) and Japan as top source market with the number of tourist arrivals growing by double-digit figures beginning 2006, and accounted for 20 percent of total tourism earnings. China leapt from 12th position in 2004 to fourth position as top source market beginning 2005. Arrivals from Malaysia and Singapore doubled their 2004 levels in the first ten months of 2008, reaching 57,729 and 82,310, respectively.

Tourism receipts likewise grew by an average rate of 34.7 percent per annum, amounting to US\$4.88 billion in 2007 from US\$1.99 billion in 2004. Total visitor receipts exceeded targets in 2006 and 2007, even going beyond the 2010 target of US\$4.86 billion. Longer average length of stay compensated for the decline in the average expenditures of tourists in 2004-2007 (Table 5.2). Visitor receipts recorded from January to October 2008 reached US\$ 2.78 billion or 87.1 percent of the target for the year.

Table 5.2
Average Length of Stay and Average Daily Expenditure: 2004 – 2008

Year	Average Length of Stay (Nights)	Average Daily Expenditure (US\$)
2004	9.11	90.76
2005	8.55	83.61
2006	12.06	83.91
2007	16.70	82.96
Jan-Oct 2008	13.50	72.48

Source: DOT

The sustained growth of the tourism sector is attributed to the focused promotion undertaken jointly by the Department of Tourism (DOT) and the private sector in core tourist markets. The East Asian countries comprising Korea, Japan and China, as well as the USA accounted for 85 percent of the total DOT appropriation for international marketing while Asia Pacific and Europe had shares of nine and seven percent, respectively.

The continuous expansion of low-cost carriers (Air Asia and Jet Star in Clark) and the operation of more charter flights which totaled 3,792 as of December 2006 enhanced accessibility from source markets to key tourist destinations in the country. Air Asia, Asiana Airlines and Mandarin Airlines cornered an 85-percent share of the total charter flights with connections from Kuala Lumpur, Bangkok, Incheon and Taipei.

Philippine carriers also expanded operations to international markets. Philippine Airlines resumed its flight to Beijing to complement the very profitable daily flights to Shanghai. Cebu Pacific, on the other hand, introduced regular flights to Hong Kong, Singapore, Kuala Lumpur, Incheon and Bangkok. Asian Spirit also offered numerous charter flights to Kaoshiung, Sandakan, Riyadh, Seoul, Macau and Palau.

The use of existing airports, hotels and transportation systems was maximized as the number of tourists increased and tourists stayed longer. The utilization of main international and domestic airports reached 80 percent in 2005 with the Ninoy Aquino International Airport (NAIA) registering 135 percent, Cebu Airport, 76 percent and Davao Airport, 67 percent.

The occupancy rate in Metro Manila was highest in accommodations classified as de luxe, which averaged 73.13 percent from 2004 to 2007 compared to 60.05 percent average for economy accommodations. For the first 10 months of 2008, the average occupancy rate for Metro Manila was 70.11 percent, with accommodations classified as standard having the highest occupancy rate of 71.18 percent. Accommodation establishments in major destinations posted more than 50 percent occupancy rate in 2007 as follows: 66 percent in Cebu, 66 percent in Bohol, 53 percent in Boracay, and 65 percent in Palawan. As of April 2008, there were 33,060 existing rooms with additional 4,542 rooms under construction in key tourist destinations (Table 5.3).

Table 5.3
Room Capacity in Key Tourist Destinations (as of April 2008)

Destination	Existing Establishments			Under Construction	Grand Total
	Available	Additional	Total		
Bohol	3,296	401	3,697	272	3,969
Boracay	5,107	633	5,740	1,858	7,598
Cebu	12,426	390	12,816	1,451	14,267
Palawan	2,635	269	2,904	161	3,065
Negros Oriental	1,938	220	2,158	100	2,258
Siquijor	305	45	350	16	366
Camarines Sur	2,243	181	2,424	521	2,945
Camarines Norte	718	23	741	9	750
Albay	1,833	187	2,020	134	2,154
Catanduanes	197	13	210	20	230
Total	30,698	2,362	33,060	4,542	37,602

Source: DOT Occupancy Report and DOT Capacity Survey of Selected Destinations

Efforts were likewise undertaken to promote higher value tourism products and services such as medical and health and wellness in a bid to drive up visitor spending per capita by attracting higher value visitors who stay longer and spend more. Leading hospitals like the University of Santo Tomas were able to forge agreements with various governments and health institutions to avail of medical services in the Philippines. Tour packages were also developed and promoted, among which were the WOW Holidays and Summer Dream Vacations promotions. Furthermore, community-based projects were developed through an ecotourism program with the New Zealand Agency for International Development and the United Nations Development Programme.

As a result, tourism and/or tourism-related jobs reached 3.8 million in 2007, representing an increase of 35.0 percent from 2.8 million in 2004 (Table 5.4).

Table 5.4
Jobs Generated From 2004-October 2008

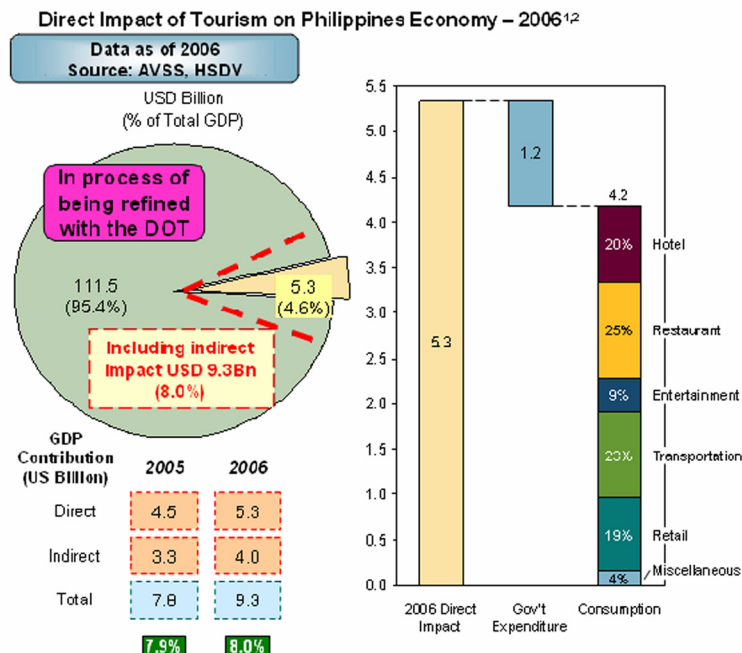
Year	Target Total Jobs (In Million)	Jobs ^{1/} (In million)		
		Incremental	Total	Growth Rate (%)
2004	2.8	0.47	2.8	20.1
2005	3.3	0.40	3.2	14.5
2006	3.7	0.27	3.5	8.4
2007	4.3	0.30	3.8	8.78
Jan-Oct 2008	3.85 ^{a/}	0.07	3.1	4.0

a/ Full-year target

Source: DOT

Meanwhile, the industry's contribution to gross domestic product (GDP) at current prices increased from US\$7.8 billion in 2005 (7.9% of GDP) to US\$9.3 billion in 2006 (8.0% of GDP) (Figure 5.1). By 2010, the industry's contribution to GDP is targeted to reach US\$17 billion or 13.6 percent of GDP.

Figure 5.1
Direct Impact of Tourism on Philippine Economy, 2006



1/ Calculations are based on average daily expenditure of visitor of major items in year 2006 for both foreign and domestic visitors. Direct government expenditure was extrapolated using the 1998 Philippine Tourism Satellite Account data.

2/ Calculations made at current prices using respective exchange rates in 2005 and 2006

Source: NSCB, NSO, DOT, AVSS 2005, Monitor Analysis, WTTC 2007 Philippines Report. Based from the study conducted by the Monitor Company Group in 2007.

The construction, repair and improvement of tourism infrastructure in identified destinations have also been carried out (*Chapter 6: Infrastructure*). The DOT has also endorsed the proposed tourism investments to the Board of Investments (BOI) and the Philippine Economic Zone Authority (PEZA) for incentives, to the Land Transportation Franchising and Regulatory Board (LTFRB) for transportation franchises, and to the Department of Environment and Natural Resources (DENR) for the Environment Compliance Certificates. The bulk of these proposed investments is in the accommodation sector (hotels, resorts, spa and restaurants) where there is a looming problem in room capacity in some tourist destinations (Table 5.5).

Table 5.5
Proposed Tourism Investment Endorsed By DOT: 2004 – 2008

Year	Project Cost (in Million Pesos)	Growth Rate (%)
2004	1,287.90	-76.47
2005	11,938.33	826.96
2006	93,765.85	685.42
2007	22,344.10	-76.17
2008	18,070.10	-19.13

Source: DOT

The establishment of tourism economic zones (TEZs) also boosted the tourism industry as TEZs were proclaimed through the joint effort of the DOT and the PEZA. These include the Fort Ilocandia Tourism Ecozone and Boracay Eco-Cultural Village Resort as well as the Pamalican Island Tourism Ecozone, Island Cove Resort and Leisure Park, which were all proclaimed in 2003; and Resorts & Tourism Village, Retirement Village and Vacation Villa & Eco-Tourism Village which were proclaimed in 2005.

Accelerating and maintaining the growth momentum of the industry remain a challenge. The current and potential volume and growth of the market and the industry's ability to maintain a competitive position offer a magnitude of opportunities to the Philippine tourism industry. To optimize this, the national tourism strategy will continue to be implemented. This entails focusing promotion in identified market portfolios, ensuring sustainable tourism development by responding to critical infrastructure and environmental concerns, and reducing barriers to tourism growth, including barriers to investments by streamlining policies and regulations, among others.

STRATEGIC FRAMEWORK

Focus Promotion in Identified Market Portfolio

Tourism promotion efforts shall focus on the following markets:

- Core markets (major Philippine tourism markets): Korea, China, Japan and USA (balikbayans)
- Tactical and momentum markets (countries that can quickly generate increased arrivals): Australia, Germany, Russia and Canada.
- Investment and turnaround markets (markets that the country may invest in with expectation of early return on investment): Hong Kong, Taiwan and Singapore.
- Maintenance markets (countries where the Philippines needs to maintain presence for probable market growth): United Kingdom, Scandinavia, Spain and Italy.

A mix of promotional activities will be implemented to increase travel to the Philippines, create awareness of the country as a tourist destination, and translate this awareness to actual travel. Niche marketing, targeting divers, ecotourists and adventure seekers, will be pursued in tactical and maintenance markets where Philippine tourist products are highly competitive against its Asian neighbors. Likewise, innovative, creative and out-of-the-box market level campaigns will be developed attuned to the interests, desires and preferences of the market segments in core and investment markets.

The core markets will receive between 60-80 percent of the promotional budget while tactical, investment and maintenance markets will receive between 10-20 percent.

The primary tourist products will focus on beaches, sightseeing, shopping and entertainment while diving, ecotourism, adventure and sports will be promoted as special-interest activities. Medical, health and wellness tourism will be marketed through collaborations with the private sector and health authorities, thereby positioning the Philippines as a Medical and Health Center in Asia. Diverse tourist products that will prolong visitor stay and increase expenditure in different tourism activities shall be developed. Continuous research for new markets shall be undertaken.

Cultural and historical tourism will be harnessed for the continuing expansion of domestic tourism. The National Statistics Office Household Survey found that in 2005, a total of 23 million

Filipinos toured the country for this purpose. This Survey also showed that each person made two trips and visited two places in the country a year. Hence, more vacation and holiday economics will be implemented to create more jobs and livelihood in local destinations. The Plan targets domestic tourism expenditure to increase from US\$0.8 billion in 2005 to US\$2.5 billion by 2010.

Promote Sustainable Tourism Development

Manila and Tagaytay, Boracay, Palawan, Cebu, Bohol, Davao, Vigan/Laoag, Clark/Subic, Baguio/Banaue, and Camiguin will be upgraded by:

- Improving infrastructure to increase accessibility and promote greater mobility of tourists to and within the destinations (*see Chapter 6: Infrastructure*);
- Introducing infrastructure, technologies and practices that will conserve, protect and restore natural assets of destinations; and
- Enhancing existing attractions, facilities and services for overall quality visitor experience

Community-based tourism will serve as a vehicle for empowering local residents to take an active role in planning, deciding and monitoring the kind of tourism development they wish to attain. Through the Grassroots Entrepreneurship in Eco-Tourism (GREET) Program, technical support will be given to community enterprises that seek to raise the level of service standards for visitor satisfaction and greater awareness to conserve and protect the natural and cultural resources of tourist destinations.

The knowledge and skills of local government units (LGUs) on planning, regulation, standard setting, research and data gathering for tourism development will be enhanced through capacity-building programs. Other agencies such as the DENR, Departments of Agriculture (DA) and Agrarian Reform (DAR) shall be consulted in planning for tourist destinations.

The Central Philippines Super Region strategy that provides for multistakeholder partnership will be replicated in other destinations in the Northern and Southern Luzon as well as in Mindanao. Through the active leadership of the LGUs, a culture of tourism will be institutionalized to allow communities, leaders and businesses to work out an action plan for sustainable tourism development.

TEZs will be designated for focused development and to address the perceived gaps in tourism capacity in identified tourist areas. Promotion and development of new and existing tourism products in these areas shall also be pursued. Easy and transparent rules and policies for investors will also facilitate and diversify investments in accommodation, recreation and other support services.

Reduce and/or Minimize Barriers to Tourism Growth

The country will continue to support progressive air liberalization by adopting periodic increases in capacity and continuously pursuing talks with source markets to hasten movement of tourists to the Philippines. Domestic airlines that are now increasing their capacities will be encouraged to service the unmet demand by expanding their operations in international routes. Charter flights will be facilitated to ease connectivity constraints in key markets. More airports will be opened for scheduled and chartered flights to allow tourists to proceed immediately and directly to

their destinations. At the same time, this will decongest the traffic at NAIA. Facilities and services in Manila, Cebu, Bohol, Palawan and Clark international airports will be upgraded and capacities will be continually assessed to determine future expansion.

Private sector participation will be mobilized by rezoning and titling land with high tourism values. The flow of foreign and local investments shall be harnessed and facilitated through the proclamation and/or establishment of TEZs. Financial programs with government financial institutions and local banks with credit windows for micro and small tourism enterprise shall be developed. Tourism will continue to be a priority activity in the Investment Priorities Plan and in government sales and investment missions.

Visa policies and regulations will be liberalized to facilitate entry of tourists to the country. Frontline services of immigration, customs and airport personnel in international airports and seaports will be upgraded through enhanced trainings that would incorporate tourism perspectives. National and local police forces will be mobilized to ensure security and safety in key tourist destinations.

Functional realignment in the DOT and its attached agencies will be continued to allow a flexible organization to implement projects based on the market portfolio. Market offices that have been created and are now functional will continue to be supported in its marketing activities.

Tourism Infrastructure (*See Chapter 6: Infrastructure*)

Leadership and Accountability (*See Chapter 21: Anti-Corruption and Good Governance*)

Expected Outcome

Table 5.6 shows the revised targets that reflect the effects of the global economic crisis.

Table 5.6
Revised Targets, 2008-2010

	Original Targets	Revised Targets
Tourism arrivals	5 million tourist arrivals in 2010	3.27 million tourist arrivals in 2010
Visitor Receipts	US\$4.86 billion in 2010	US\$3.31 billion in 2010
Jobs Generated	6.10 million in 2010	3.99 million in 2010

SUPER REGIONS STRATEGY

Central Philippines will be the premier tourist destination of the country due to its unique and pristine natural wonders, diverse cultural attractions, warm and hospitable people, and rich marine and terrestrial resources. The vision is to sustain the development of tourism in Central Philippines, which has not only encouraged inter and intra-regional travel but also investments, social enhancement and local economic growth.

The factors that will sustain tourism development in Central Philippines are:

- product experience;
- scale, design and quality of development;
- rate of growth; and
- dispersal of benefits.

The uniqueness and authenticity of natural and cultural resources in Central Philippines will be protected at all costs. This is nonnegotiable. Its product quality will be up market – attracting high-spending tourists, while at the same time allowing for broader and diverse product offerings such as golf, cruises, yachting, theme and amusement parks, wellness products, and meeting and conference venues.

The national government agencies, which include the Departments of Transportation and Communication, Public Works and Highways, Environment and Natural Resources, and Trade and Industry, as well as the LGUs will give priority attention to the implementation of the Integrated Sustainable Tourism Management Plan for Central Philippines. This plan identifies the key infrastructure (road, airports, ports, water supply and power), environmental, competitiveness, social and community-based projects in priority destinations in Central Philippines such as Boracay, Cebu, Bohol, Palawan, Iloilo, Guimaras and Bacolod (*Chapter 6: Infrastructure*).

Chapter 6

Infrastructure

This chapter assesses the performance and accomplishments of the Transportation and Digital Infrastructure sectors for the period 2004-2007. The sectors performed well during this period, but they need to sustain the momentum to meet their 2010 goals. To encourage wider private sector support in providing priority infrastructure projects, the Implementing Rules and Regulations (IRR) of the Build-Operate-Transfer (BOT) Law has been amended and is now awaiting approval from the BOT Law IRR Committee.

TRANSPORTATION

ASSESSMENT AND CHALLENGES

From 2004 to 2007, government worked to provide the needed transport infrastructure that complements the roll-on roll-off (RORO) system and opens up new economic opportunities, reduces transportation and transaction costs, and increases access to social services.

The improvement of the nautical highway system maximizes the use of the Road-RORO Terminal System (RRTS) to transport produce from Mindanao through Visayas to Luzon. It reduced travel time by 12 hours, and decreased transport cost by 37 percent to 43 percent for passengers and 24 percent to 34 percent for cargo. To support the development of the RRTS, the Maritime Equity Corporation of the Philippines under the National Development Company (later renamed the NDC-Maritime Leasing Corporation or NMLC) was established in 2005 to facilitate the acquisition of maritime RORO vessels for leasing to qualified operators under a lease purchase agreement. The government aims to complete the nautical highway by improving 837.8 kilometers (km) of national roads along the Western Nautical Highway, 413.6 km on the Central Nautical Highway and 76.4 km on the Eastern Nautical Highway.

As of the end of 2008, 72 percent or 21,270 km of national roads were paved while 95 percent or 297,044 linear meters (lm) of bridges were permanent. By end of 2010, 96 percent of the national roads would have been paved and all temporary bridges replaced by permanent ones.

Major road projects are being undertaken by the government to speed traffic in and out of Metro Manila. Secondary roads interconnecting the 17 local government units (LGUs) of Metro Manila will be improved for the exclusive use of pedestrians and bicycles. On the other hand, the development and implementation of expressways particularly in the Luzon Urban Beltway are being offered to the private sector to reduce the government's budgetary support for capital investment.

Revenues from the Motor Vehicle Users Charge (MVUC) collections have increased from Php6.65 billion in 2004 to Php8.05 billion in 2006. As of November 12, 2007, the Road Board has a total available fund of Php6.82 billion. There has also been a significant increase in the release of funds - from Php4.92 billion in 2004 to Php11.55 billion in 2006. The funds were used for maintaining national, provincial and city roads nationwide, improving drainage, and installing adequate traffic light, road safety and pollution monitoring devices.

While the Local Roads Inventory Database has already been set up since 2003, completing it remains a challenge since a significant number of LGUs, especially at the municipal level, are yet to submit their respective road inventories. Based on the reports submitted by LGUs, 31,293 km of provincial roads and 36,885 km of municipal/city roads have been paved as of September 2007. Meanwhile, farm-to-market roads (FMRs) have been constructed to cost-effectively link production areas with major roads to the market (*Chapter 2: Agribusiness*).

Major tourist destinations identified in the MTPDP for infrastructure development include Cebu-Bohol-Camiguin, Clark-Subic, Cordillera, Davao, Ilocos, Boracay, and Palawan. In the Boracay area, the New Iloilo Airport was completed in June 2007, while the New Bacolod (Silay) Airport, for Negros Island destinations, was inaugurated and opened for operations on January 18, 2008. In North Luzon, the upgrading of facilities of the San Fernando Airport in La Union is 92.06 percent completed (ahead of schedule by 3.5%) as of November 2008, while improvements in the Busuanga (Coron) Airport in Palawan are expected to be completed by April 2009. For Ilocos, the feasibility study (F/S) of the Laoag International Airport has been updated to ensure optimum development and viability of the project.

On March 10, 2005, the Civil Aeronautics Board (CAB) approved and published the IRR of Executive Order (EO) 253 providing for the expansion of air services at the Diosdado Macapagal International Airport (DMIA) and Subic Bay International Airport (SBIA). In this light, recent developments at DMIA include the expansion and rehabilitation of the existing passenger terminal and the installation of RADAR equipment that would further enhance the safety of flights, as well as ensure 24 hours of airport operation even during adverse weather conditions. Meanwhile, the F/S for the DMIA Master Plan Phase 1 was completed in October 2008.

Consistent with the principle of separation of operation and regulatory functions in the civil aviation industry, Republic Act (RA) No. 9497 was enacted into law on March 4, 2008 creating the Civil Aviation Authority of the Philippines (CAAP). The CAAP handles technical regulation functions without diminishing the role of the CAB.

To be globally competitive and address safety issues raised by tourists, the government is in the process of implementing the Communications Navigation Surveillance/Air Traffic Management (CNS/ATM) System in accordance with International Civil Aviation Organization (ICAO) standards. Furthermore, the Nationwide Air Navigation Facilities Modernization Project (Phase 3), which aims to replace ageing air navigation equipment, was completed in March 2004.

The CAB, following the RP Air Panel consensus, negotiated Air Services Agreements (ASA) with China, Japan, Nepal, India, Bahrain, Korea, and New Zealand. These resulted in increases in capacity entitlements, new routes, more access points, multiple airline designations and airline cooperative arrangements.

To pursue the development of the RORO system, which is expected to reduce transport costs from Mindanao to Visayas and Luzon, a substantial number of ports have already been rehabilitated/developed and fitted with RORO facilities (e.g., RORO ramps and berths) while several others are still being developed. Some completed port projects include Dingalan (Aurora), Bogo (Cebu), Lucena (Quezon), Cawit (Marinduque), Ubay and Jagna (Bohol), Siquijor, Maasin and Limasawa (Southern Leyte), Pantao (Albay), Benoni and Balbagon (Camiguin), Aroroy (Masbate), Sibunag (Guimaras), and Naval (Biliran) ports. Some 41 ships are operating in the identified Strong Republic Nautical Highway (SRNH) routes. Meanwhile, the F/S for the Development of RRTS for Mobility

Enhancement identifying eight RORO routes and 15 RORO terminals for development was completed in November 2007.

To enhance the country's exports and private sector participation in port expansion and operation and maintenance, the modernization of the Manila North Harbor was bid out to the private sector to finance, develop, manage, operate, and maintain the various facilities and services at the harbor. With respect to the privatization of individual ports or groups of ports, the Philippine Ports Authority (PPA) issued Administrative Order (AO) No. 03-2004 prescribing guidelines on developing, constructing, managing and operating ferry terminals under the RRTS. The AO also simplified the procedures in the processing/issuance of required Clearance to Develop/Permit to Construct, and Certificate of Registration/Permit to Operate. In addition, to coordinate port development plans and ensure an integrated and efficient port system, AO 123 was formulated, authorizing the Secretary of the Department of Transportation and Communications (DOTC) to perform all necessary powers and functions to connect the country by developing transportation networks such as the RORO system.

Uniform RORO tariff rates have been established in the SRNH and applied to other RORO operations in other routes to eliminate the cost of cargo handling through Memorandum Circulars (MC) 17-2003 (Applicable RORO Tariff Rates for the SRNH) and 29-2003 (Applicable RORO Tariff Rates for the Ferry Ports under the Expanded SRNH 2). In addition, MC 25-2004 (Prescribing Guidelines on the Use of the RORO Terminal Fee Cash Ticket at the SRNH Ferry Ports) was formulated to ease movement and documentation of purely RORO cargo. The Cost-Based Tariff Analysis and Development Project that reviewed the existing port tariff system to rationalize port charges was completed in October 2007 and is under validation and evaluation by PPA.

In line with the vision of making Subic Bay the best logistics and service hub in the region, the Subic Bay Port Development Project was completed in early 2008, aiming to significantly increase the capacity of the port from 100,000 Twenty-foot Equivalent Units (TEUs) of Containers to 600,000 TEUs. A US\$1 billion, 480-hectare Korean shipbuilding facility is currently being put up at Subic Bay by Hanjin Heavy Industries. The project is expected to generate an estimated US\$1-2 billion in annual exports and create 20,000 direct and indirect jobs.

Meanwhile, in the Southern Luzon Corridor, the Batangas Port Development Project, Phase 2 was implemented to support the growth and development of the area. With the scope of works already completed, Batangas Port is on track to become a major international cargo hub in Southern Luzon.

Maritime safety and security measures are being implemented in the domestic trade in compliance with the International Safety Management (ISM) and the National Safety Management (NSM) codes. Compliance with Rule VI of RA No. 9295, "An Act Promoting the Development of the Philippine Domestic Shipping, Shipbuilding, Ship Repair and Ship Breaking, Ordaining Reforms in Government Policies Towards Shipping in the Philippines, and for Other Purposes," is also being monitored. The Japan International Cooperation Agency (JICA)-assisted Project "Enhancement of Ship Inspection" was likewise completed in 2005. Under the project, trainings/seminars on the enhanced Ship Safety Inspection System (SSIS) were conducted with Maritime Industry Authority (MARINA) and Philippine Coast Guard (PCG) inspectors as participants. The PCG has enhanced ship inspection with an annual average of 307,780 Mandatory Pre-Departure Inspections (MPDI), 627 Emergency Readiness Evaluations (ERE), 627 Port State Control Inspections (PSCI), 1,353 Flag State Control Inspections (FSCI), and 32,485 Safety of Life at Sea (SOLAS) Compliance Inspections.

In 2005, a Study on Wooden-Hulled Ships (WHS) was completed, which recommended standards, rules, and regulations for the continued operation of existing WHS and the construction, safety, and operation of new WHS. Through RA 9295 and its IRR, a Mandatory Vessel Retirement Program (MVRP) shall be implemented to modernize domestic ships by retiring all unclassed ships and retiring or replacing ships that have already reached the maximum allowable age as stipulated under the program. The program will be facilitated by establishing a viable financing scheme to support local construction of needed vessels. Under EO 588, “Strengthening the Philippine Shipbuilding and Ship Repair (SBSR) Sector and Instituting Measures to Promote Its Growth and Development” issued on December 8, 2006, the MARINA, in coordination with the interagency Ad-Hoc Committee and Technical Working Group, completed the Comprehensive Development Plan for the Philippine Shipbuilding and Ship Repair Industry on October 16, 2007. The Draft Plan was submitted to the Office of the President on December 3, 2007 for approval.

The target to reduce maritime accidents by at least 50 percent by 2010 has been exceeded as of third quarter 2007, with only 40 recorded maritime accidents compared with the 227 accidents recorded in 2004 despite increased maritime traffic due to the development of the RORO system. With respect to compliance with international safety standards, adherence is being implemented by adopting the International Ship and Port Facility Security (ISPS) Code. A Vessel Traffic Management System (VTMS) has been installed in the Port of Manila to comply with security provisions of the Code. There are also plans to install the system in other major ports across the country.

To decongest Metro Manila and provide new opportunities for growth in other regions through transportation infrastructure, Phase I of the Northrail Project (Caloocan-Malolos) as well as the Northrail-Southern Linkage Project, Phase I (Caloocan-Alabang), are currently being pursued. Implementation of the Northrail Project, however, was delayed by right-of-way (ROW) problems, procurement of consultancy services due to unavailability of funds, design standards issues and the unilateral suspension of construction activities by the project’s contractor. The Northrail-Southern Linkage Project is also being hounded by ROW problems as well as shortage of rails. Meanwhile, the LRT Line 1 North Extension Project, which will complete the MRT-LRT Loop by 2010, is proceeding as planned. Together with the proposed LRT Line 1 South Extension, these rail projects are envisioned to enhance the mass transportation system in Metro Manila.

In the President’s State of the Nation Address (SONA) in 2006, she called for the establishment of government centers in the provinces, aligned with the strategic themes of the Super Regions. The location of the Department of Agriculture (DA) was changed from Mindanao to Isabela to facilitate the development of Northern Luzon as an agribusiness center. Moreover, the Department of Agrarian Reform’s (DAR) new site shall be Davao instead of Iloilo to support the role of Mindanao as the agribusiness center of the south and provide more focus on the remaining agrarian issues, most of which concern Mindanao, notably on the issue of ancestral lands.

The planned transfer of the Department of Tourism (DOT) to Cebu, which began in 2005, will be continued to boost the Central Philippines’ role as a major tourist destination and promote the Region for tourism investments. Thus, the Department of Public Works and Highways (DPWH) will no longer be transferred to Bicol since the region is already part of Central Philippines. DOTC, on the other hand, will proceed with its transfer to Clark to promote Subic and Clark as the transshipment and logistics hub for the Asia-Pacific region.

Among these agencies, DOT, DAR and DA have been able to establish satellite offices in 2005, 2007 and 2008, respectively. The full transfer of these agencies was constrained by concerns on employee displacement.

STRATEGIC FRAMEWORK

Given the huge investment associated with road and bridge projects, the government will continue to tap the private sector in developing and implementing priority projects under the BOT Law. The government's technical skills in project planning, financial modeling, structuring, and risk management in developing toll road projects, particularly the DPWH as the government agency in charge of administering the national road network, will be improved and strengthened through technical assistance.

Government will continue to develop a "users pay" culture where, at the very least, road users are the ones who shoulder road maintenance costs. With limited funds for maintaining the road network, potential roads and bridges will be bid out as toll facilities to cover operation and maintenance expenses. Amendment of RA 8794 (An Act Imposing a Vehicle User's Charge on Owners of All Types of Motor Vehicles and for Other Purposes) expanding the Road Fund is being proposed to include fuel levy. Given the current economic situation, there is a need to devise other alternative measures that would augment the Road Fund.

The national government will continue to pave all national roads with concrete or asphalt and replace or construct national bridges with permanent structures throughout the country. To complement the national government's effort, LGUs shall be encouraged to allocate funds for local road improvement and maintenance and to institutionalize systems for local road management.

Meanwhile, government will continue to institutionalize enhancements in travel safety and efficiency, minimize pollution, promote energy conservation and efficiency by accelerating the implementation of the road safety action plan, and harmonize motor vehicle standards and regulations. The private sector will also be tapped to provide the bulk of investments needed to modernize the land transport sector.

Consistent with the goals for rail transport, the government plans to establish a National Railway System and an integrated urban rail-based mass transport system through the Metro Manila Urban Rail Network. To further provide efficient mass transportation, the capacities of existing railway lines will be increased, new railway lines will be built, and existing rail facilities will be extended. The government will also pursue a unified ticketing system of railway lines and the development of human resource for railways through a Railway Training Center.

The government will continue to implement the following railway projects: LRT Line 1 North Extension Project (Closing the MRT/LRT Loop), LRT Line 1 South Extension, Northrail Phase I Section I (Caloocan to Malolos Section), Northrail Phase I Section II (Malolos to Clark Section), Northrail-Southrail Linkage Project Phase I (Caloocan to Alabang Section), and the Northrail-Southrail Linkage Project Phase II (Alabang to Calamba Section). The capacity of the MRT 3 will also be expanded. In addition, an F/S for the Mindanao Railway, Metro Cebu MRT, and Panay Railway will also be conducted.

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, which is expected to pave the way for private sector participation (PSP). Moreover, government through DOTC should at the outset clearly present initiatives that the LGUs and the private sector can undertake in partnership with the national government. This is in line with the administration's goal of promoting public-private partnership (PPP) in developing, implementing and operating railways.

Moreover, government will continue to pursue a prioritized program of airport development to serve as gateways to regional centers and major tourism destinations. It will also promote integration of international gateways. The DMIA is positioned to be an international service and logistic center in the Southeast Asian region.

Deregulation and progressive liberalization of civil aviation will be continued by adopting definitive (periodic) increase(s) in capacity rather than rely on a trigger mechanism, which has encountered implementation problems. The commercial viability of airports will be enhanced through full cost recovery of air services, including airport investment. Likewise, to ensure compliance with international safety standards, the CNS/ATM System will be implemented in accordance with ICAO standards.

Linking the entire country through RRTS will continue to be implemented through an expanded nautical highway consisting of West Central Nautical Highways Links 1, 2, and 3 to complement the Western, Central, and Eastern Nautical Highways. By establishing nautical highways using the RORO system, islands and sites in the Luzon Urban Beltway, Central Philippines, and Mindanao Super Regions will be interconnected, thereby reducing logistics costs by eliminating cargo handling charges.

The dual roles of water transport sector agencies as port regulators and operators will also be addressed. Port regulatory functions will be transferred to an independent regulator (or regulators), which shall have jurisdiction over all ports. The separation of the operator and regulator functions of water transport agencies will eliminate conflict of interest in the sector, in turn promoting competition and better quality services.

Establishing new government centers is consistent with the President's agenda to decongest Metro Manila and spread development to other parts of the country. Aside from performing key roles in the development of the Super Regions, these new centers shall serve as catalysts to growth by facilitating the entry of investments and other economic activities. In this light, government hopes to complete the transfer of DA to Isabela, DAR to Davao City, DOT to Cebu City, and DOTC to Clark by 2010.

In addition to these agencies, the full transfer of regional offices of government agencies to their new mandated Regional Centers shall be implemented by 2010. These are: (a) Calamba City for Region IV-A or Calabarzon pursuant to EO 246 (s. 2003); (b) Calapan City for Region IV-B or Mimaropa pursuant to EO 682 (s. 2007); (c) Pagadian City for Region IX or Zamboanga Peninsula as provided for under EO 429 (s. 1990) and MC 75 (s. 2004); and, (d) Koronadal City for Region XII or Central Mindanao as provided for under EO 429 (s. 1990) and EO 304 (s. 2004).

The transfer of the regional offices to these new centers will facilitate coordination among agencies and with LGUs, thereby accelerating the implementation of government programs and the delivery of services. Furthermore, this will enhance the growth potentials of the new regional centers and bring about new opportunities for regional development.

To achieve the above goals, the Office of the Presidential Adviser for New Government Centers (OPANGC) organized the Policy Coordinating Group chaired by the Office of the Executive Secretary (represented by OPANGC) with NEDA, DPWH, Department of Budget and Management (DBM), OP-Presidential Management Staff (PMS) and Office of the PA for the concerned regions as members. This will facilitate and oversee the transfer of the four agencies and regional centers, which would include, among others, provision of policy and program support to efficiently effect the transfer

and the provision of assistance to affected employees and budgetary and logistical support for the transfer. The support of host LGUs and the private sector shall likewise be sought, particularly in the development of housing facilities and the provision of key services and infrastructure.

The OPANGC, in coordination with concerned agencies, will also pursue efforts to promote the new government centers among local and foreign investors. It shall also closely coordinate with the PMS (Directives Monitoring Office) in monitoring the implementation of the initiative. OPANGC will also conduct dialogues and consultations among stakeholders to further strengthen their consensus on the transfer.

SUPER REGIONS STRATEGY

North Luzon Agribusiness Quadrangle

Being the food basket of Luzon and Metro Manila, with its agriculture and mariculture development, the region can further boost its investment climate. This can be done by reducing the cost of transporting goods and addressing social development concerns by mobilizing local resources and networks to facilitate the implementation of National Government's projects. The following are the priorities for the region that are consistent with these goals:

Roads

- Halsema Highway (ongoing)
 - Mt. Data-Bontoc Road - 50.5 km; PhP1 billion; 21.21 percent completed;
 - Bontoc-Banaue Road - 39 km; PhP780 million; 19 percent completed;
- Bontoc-Tabuk-Tuguegarao Road (ongoing)
 - Bontoc-Tinglayan Bdry., Section 1 – 29.31 km, PhP382 million; Section 1: Completed; Section 2: Package 1 is 90 percent completed, Package 2 is 100 percent completed; and
- Tarlac-La Union Toll Expressway, Phase 1 (Solicited BOT) – 84.5 km; Toll Concession Agreement was signed on August 12, 2008.

Airports

- Upgrading of the San Fernando Airport, Phase I – Upgrading of airport facilities ongoing with project cost of PhP565 Million; 92.06 percent completed, ahead of schedule by 3.58 percent;
- San Vicente Airstrip Upgrading Project, Cagayan – For fund allocation; airstrip widened from 15 m to 30 m, and extended from 868 m to 1,200 m; negotiations for the right of way (ROW) acquisition is ongoing;
- Bagabag Airport, Nueva Vizcaya – Construction of flight service station, 87 percent completed; apron/runway works, 29.29 percent completed; rehabilitation of terminal building, D/E completed;
- Basco Airport, Batanes – Resurfacing of existing runway completed; asphalt overlay of runway/apron 18.19 percent completed but suspended due to inclement weather condition; D/E for improving terminal building and fire station building and air navigational facilities completed;
- Itbayat Airport, Batanes – Concrete paving of runway completed; concrete paving of remaining portion of runway works and construction of perimeter fence 17.30 percent completed, ahead of schedule by 16.44 percent;
- Casiguran Airport, Aurora – Air strip construction, Phase 1 completed on October 30, 2007; concreting of runway/apron 8 percent completed; D/E ongoing for other scope of works being undertaken;
- Alaminos Airport Development Project, Pangasinan – Pre-F/S / Master Plan completed;

- Laoag Airport, Ilocos Norte – Locally-funded upgrading of airport facilities ongoing; F/S updated to establish optimum development and viability of the project; and
- Northern Cagayan/Cagayan Economic Zone Authority (CEZA) Airport Development Project – Pre-F/S / Master Plan completed.

Water

- Port of Irene, Sta. Ana, Cagayan; and
- Salomague Seaport, Cabugao, Ilocos Sur

Luzon Urban Beltway

One of the primary thrusts of the region is to decongest Metro by expanding the public transport system. The efficient movement and seamless access of goods and people will lead to a globally competitive Urban Beltway. To achieve this goal, the National Government is continuously developing the Clark-Subic Corridor, Southern Luzon Corridor, and Metro Manila, and is addressing critical infrastructure bottlenecks along national roads and bridges to speed traffic out of Metro Manila. The following projects support the above cited goals:

Road

- Tarlac-Nueva Ecija-Aurora-Dingalan Port Road (Tarlac City - Sta. Rosa, Nueva Ecija - Palayan City - Laur - Gabaldon - Dingalan Port) - 15 km; PhP460 million; Phase 1 and 2 are 100 percent completed, while Phase 3 is 94.04 percent physically completed;
- Marikina-Infanta-Real Road – 71 km; PhP1.55 billion; Rizal and Laguna sides are completed, Quezon side is still ongoing; and
- Mindoro East Coast Road.

Projects for PPP

- Subic-Clark-Tarlac Expressway Project – 93.7 km; Package 1: Inaugurated on April 18, 2008, Package 2: Issuance of the Toll Operation Permit for the remaining section of Package 2 was approved on July 21, 2008;
- Circumferential Road-5 (C-5), (NLEX-SLEX Link) - Mindanao Ave. - NLEX - 2.34 km; PhP1.336 billion; ROW acquisition already completed;
- SLEX Toll Road
 - Toll Road 1 (Alabang Viaduct) – 1.242 km; 90.83 percent completed
 - Toll Road 2 (Alabang-Calamba City) – 27.289 km; 58.87 percent completed
 - Toll Road 3 (Calamba-Sto. Tomas) - 7.6 km; 4.07 percent completed; and
- Manila-Cavite Toll Expressway Project R-1 Expressway Extension
 - Zapote to Kawit - 7 km; PhP413 million; civil works procurement ongoing; 40.77 percent completed
 - Kawit to Noveleta - 4.24 km road; PhP200 million; F/S ongoing; ROW acquisition for confirmation.

Rail

- LRT Line 1 South Extension;
- LRT Line 1 North Extension Project (Closing the MRT/LRT Loop);
- Northrail Phase I Section I (Caloocan to Malolos Section);
- Northrail Phase I Section II (Malolos to Clark Section);
- Northrail-Southern Linkage Project Phase I (Caloocan to Alabang Section);
- Northrail-Southern Linkage Project Phase II (Alabang to Calamba Section);
- Mainline South Railway Project (Southrail) Phase IA (Calamba-Lucena Section); and
- PNR Restoration of Train Services to the Bicol Region.

Airport

- **DMIA**

Korea International Cooperation Agency (KOICA) gave a \$2-million grant to Clark International Airport Corporation (CIAC) for the F/S on the Master/Development Plan of DMIA. KOICA submitted the F/S of Terminal 2 to CIAC on June 3, 2008. The complete F/S for the whole Phase 1 of the project will be submitted in October 2008.

Bidding for the DMIA Passenger Terminal 2 Project was published on July 11, 2008 and was declared a failure. CIAC is considering other options for the implementation of Terminal 2;

- **NAIA Passenger Terminal 3**

NAIA Terminal 3 is already operational. On June 20, 2008, actual simulations of arrival procedures were carried out, including testing of aerobridges and baggage conveyor, for which the Philippine Airlines (PAL) agreed to deploy one Airbus A340 aircraft from its international fleet for the simulation of a 350-passenger arrival and departure. Manila International Airport Authority (MIAA) began servicing domestic flights of Cebu Pacific, PAL Express and Air Philippines starting July 23, 2008. Cebu Pacific started its full domestic and international operations in August 1, 2008. With a capacity of 13 million passengers a year, the new terminal will relieve crowding at the domestic airport, which handles more than 5 million passengers; and

- **NAIA 3-related Projects**

- Construction of Taxiway “November” Extension- D/E design completed; Consultancy services for construction management supervision being procured;
- Geometrical Improvements being undertaken by MIAA in coordination with the Metro Manila Development Authority (MMDA) - Phase 1 completed, Phase 2 under construction; and
- Testing and Commissioning of the Aviation Fuel Hydrant System of NAIA Terminal 3.

Central Philippines

Through efficient transportation facilities like road links, RORO/boat links, feeder airports, airstrips and ports for hard-to-reach areas, the region opens and promotes itself as the country’s tourism center. The cost of doing business in the region can be reduced by improving ports and airport facilities to accommodate increasing passenger and cargo traffic. Consequently, the region will be able to develop its agribusiness, small and medium enterprises (SMEs), and export potentials. The following priorities will help the region carry out these plans:

Roads

- **El Nido-Bataraza Road, Palawan**

- Roxas-Taytay Section - 65 km; PhP957 million; 20.23 percent completed
- Puerto Princesa-Narra-Abo-abo- 105.7 km; 11.74 percent completed
- Abo-Abo-Bataraza-Rio Tuba Section - 110 km; 5.94 percent completed;

- **Panay Roads**

- Pandan-Libertad Road - 28 km; PhP423 million; 17.21 percent completed
- Iloilo-Sta. Barbara Road – 13.1 km; PhP568 million; 12.32 percent completed
- Metro Iloilo Radial Road (Zarraga-Iloilo Airport) - 14 km road; PhP713 million; 0.76 percent completed; and

- **Cebu North Coastal Road – 9.45 km; 42.27 percent completed.**

Airport

- New Iloilo Airport – completed and operational in June 2007;
- New Bacolod Airport – inaugurated and opened for operations on January 18, 2008;
- Balabac Airport, Palawan – Pre-F/S completed;
- Busuanga Airport Development Project Phase 1, Palawan (grant from KOICA US\$3 Million) – Runway works and F/S / Master Plan completed;
- Busuanga Airport Development Project Phase 2 – Civil works completed;
- Puerto Princesa Airport Development Project, Palawan – approved by the NEDA-Investment Coordination Committee – Cabinet Committee (ICC-CC) on February 8, 2008 for implementation using the National Government portion of the Malampaya Royalty Shares. Given the uncertainty in the release of funds from Malampaya Royalty Shares, implementation of the project using Korea Economic Development Cooperation Fund (EDCF) was presented to the ICC-CC through ad referendum in December 2008;
- San Vicente Airport, Northern Palawan – Construction of airstrip/apron/taxiway completed (Phases 1, 2 and 3); Phase 4 ongoing;
- San Jose Airport Romblon (Carabao Island) Project – Proposed for PPP;
- Bicol International Airport, Daraga Albay (Southern Luzon International Airport) – D/E completed;
- Bulan Airport Project, Sorsogon – Upgrading of runway completed; D/E for other runway/apron/taxiway works completed;
- Kalibo Airport Project, Aklan (Expansion of Terminal Facilities) – Installation of instrument landing system, construction of passenger terminal building, and runway/apron works ongoing;
- Kabankalan Airport Project, Negros Occidental – F/S and Master Plan completed;
- Panglao Airport Development Project, Bohol – Capsule laying ceremony held on May 20, 2008; parcellary survey by Air Transportation Office (ATO) completed; approved by the NEDA-ICC on January 8, 2008 and confirmed by NEDA Board on February 12, 2008;
- Dumaguete Airport Project, Negros Oriental – Rehabilitation of passenger terminal and asphalt overlay and widening of runway completed;
- Guian Airport Improvement Project, Samar – Construction and concreting of runway and apron completed;
- Redevelopment of Tacloban Airport (Trunkline) Development Project, Leyte – F/S and Master Plan completed;
- Siargao Airport Improvement Project, Surigao del Norte – Apron/taxiway and security fence completed; and
- Caticlan Airport, Aklan - approved by the NEDA-ICC on January 21, 2008, and confirmed by the NEDA Board on February 12, 2008.

Water

- San Antonio (Pilar) Port, Sorsogon;
- Claveria Port, Claveria Burias Island, Masbate;
- Esperanza Port, Masbate;
- Masbate Port;
- San Pascual Port, Burias Island, Masbate;
- Cataingan Port, Masbate;
- Cawayan Port, Masbate;
- Lagundi Port, Masbate;
- Dimasalang Port, Masbate;
- Matnog Port, Sorsogon;
- Milagros Port, Sorsogon;

- Maripipi Port, Biliran Island, Leyte;
- Tubigon Port, Bohol;
- Santander Port, Cebu;
- Daanbantayan Port, Cebu;
- Guinsiliban Port, Camiguin; and
- Iloilo Port.

Agribusiness Mindanao

The region aims to establish an efficient food logistics system that links Mindanao to Manila. Farm-to-market roads will link food production areas with major roads leading to the market, while regional and municipal ports with improved facilities will boost fishery development. The following projects will help the region attain these goals:

Roads

- Sibuco-Siraway-Siocon-Baliguian-Gutalac Road
 - Sibuco-Siraway - 34.84 km; PhP514 million; D/E completed, civil works ongoing
 - Siraway-Siocon - 19.19 km; PhP241 million; D/E completed, civil works ongoing
 - Siocon-Jct. Baliguian - 10.66 km; PhP143 million; civil works ongoing
 - Jct. Baliguian -Gutalac - 52.44 km; PhP428 million; civil works ongoing;
- Lebak-Maguindanao Road (Awang-Upi-Lebak Road) - 88 km; PhP2.065 billion; civil works procurement ongoing;
- Dinagat Island Road Network - 15 km; PhP100 million; D/E completed, civil works substantially completed;
- Panguil Bay Bridge (Solicited BOT) – approximately 2.36 km; opening of bids for Geotechnical Survey on January 16, 2009;
- Dakak -Dapitan City Road - 10.8 km; PhP210 million; D/E completed, civil works ongoing;
- Surigao-Davao Coastal Road, Phase II
 - Bacuag-Claver – 40 km; PhP512 million; 27.05 percent completed
 - Marihatag-Llanga-Barobo and Tagbina-Hinatuan-Bislig - 44.7 km; PhP1.353 billion; 44.20 percent completed
 - Manay-Mati - 59 km; PhP555 million; 89.10 percent completed
 - Tandag-Marihatag – 140 km; PhP1.764 billion; D/E ongoing
 - Bislig-Manay
 - Manay Boston - 82.34 km; PhP1.219 billion; D/E ongoing
 - Boston-Bislig- 33.70 km; PhP750 million; 87.75 percent completed; and
- Talaingod, Davao del Norte-Valencia, Bukidnon Road, Agusan - 72 km; PhP1.15 billion; 1.125 percent completed.

Airport

- Laguindingan Airport, Misamis Oriental – Construction of airport (main civil works) 13.33 percent completed; construction of access road, perimeter fence and relocation site ongoing;
- Dipolog Airport, Zamboanga del Norte – Runway widening and asphalt overlay completed;
- Pagadian Airport, Zamboanga del Sur – Portion of runway works completed;
- Zamboanga Airport Phase I (Rehabilitation of Existing Airport) – Portion of runway works completed;
- Ozamis Airport, Misamis Occidental – Portion on runway works and terminal building completed;
- Cotabato Airport Upgrading Project – Asphalt overlay of runway and installation of carousel conveyor completed;

- Butuan Airport Upgrading Project, Agusan del Sur – Runway extension and widening, upgrading of airfield, and installation of carousel conveyor completed;

Water

- Surigao Port;
- Sasa Port, Davao; and
- General Santos Port, South Cotabato.

DIGITAL INFRASTRUCTURE

ASSESSMENT AND CHALLENGES

In the first half of MTPDP implementation, remarkable advances in the communications sector, notably in information and communications technologies (ICTs) have significantly contributed to the country's development with the delivery of innovative applications in government, commerce, education, health services, and many other fields.

Government efforts have focused on reducing cost of interconnectivity, development of ICT human resource, and improving regulatory and legal framework. A conducive atmosphere for investment and market competition on ICTs has been established, as well as regulations to help bridge the digital divide. Through private sector participation, the government has accelerated the developments of digital infrastructure to interconnect the entire country.

Reduce Cost of Connectivity

To address the digital divide within the country and to provide universal access to ICT services, especially in unserved and underserved areas, major telecommunications/ICT systems such as the Cellular Mobile Telephone Service (CMTS), wired and wireless telephones and Internet service were enhanced.

In the past decade, mobile phones have touched the lives of many Filipinos including those in rural areas. Short messaging system (SMS) dominated the mobile market and improvements in multimedia messaging service (MMS) were introduced in 2004 with the third generation (3G) mobile communication technology. To date, the latest mobile phones are capable of supporting other ICT platforms – handheld phones or Personal Digital Assistants (PDAs) have become equivalent to minicomputers and can also be used as radios, TVs, and/or music players. To this end, growing demand for ICT is not only limited to basic penetration and access, but are now drawing towards greater speed, mobility and capacity of access.

Significant developments in CMTS have recorded an almost doubled value in CMTS density from 39.85 in 2004 to 64.76 in 2007 (Figure 6.1). On the other hand, subscribed fixed line densities or teledensities¹ stood at 4.45 in 2007 from 4.16 in 2004. The slow growth of teledensity is an indication that mobile phones serve as substitutes for fixed lines. Overall, mobile phones are more widely used and distributed in the country than fixed line telephones given that there were 14.6 mobile phones for every fixed line as of end-2007.

¹ Teledensity is the number of telephone lines per 100 people.

The cost of Internet connectivity has considerably dropped worldwide in 2004, and consequently, the cost of local Internet connections decreased from PhP24 per hour to PhP4 per hour in 2005 with the use of prepaid Internet cards. This reduction in cost was attributed to fast technological developments as well as growing competition among Internet Service Providers (ISPs). The number of registered ISPs stood at 408 in 2006, a four-fold increase from 2003.

Although internet tariffs were very low and affordable, the monthly cost of telephone subscription was comparatively high. This situation opened up new business opportunities and sped up efforts to address the gap, e.g. internet cafés and community telecenters that provide Internet access to many Filipinos. As of 2007, 956 municipalities/cities (54.6%) have internet access points.

Moreover, government established community e-centers (CeCs) that provide training and capacity building on the use of ICTs aside from providing services typically found in basic telecenters. As of 2007, government CeCs totaled 538 stations nationwide, of which 124 are established in the Telecommunications Office (TELOF) public calling offices, 370 in the municipal government offices, and 44 in public schools.

Government aims to develop the e-Commerce industry by establishing the National Public Key Infrastructure (PKI). PKI provides a secure online environment for both e-commerce and e-government, thereby enhancing the country's global competitiveness, particularly in the area of electronic trading and secured cross border transactions. A National PKI involves the establishment of a PKI Center and government Certification Authority (CA) by 2010, as well as the formulation of policy licensing of private certification authorities.

Develop ICT Human Resource

To further enhance the skills of Filipino ICT workers as well as to make ICT more available to ordinary Filipinos, the government pursued initiatives that strengthened ICT education and human resource development. Skills development and training courses are continuously being developed and the latest ICT programs and standards are being integrated to improve the quality of ICT education in the country and make Filipino ICT practitioners and students more globally competitive.

Government also facilitated several work programs geared towards developing the country's human resources. These include, among others, developing a national ICT competency standards (NICS) which consists of NICS-Basic, NICS-Advanced, NICS-Teachers, and NICS-Civil Servants or ICT Specialists in Government, conducting training courses, and professionalizing IT personnel. Specifically, the efforts focus on: (a) enriching and improving the quality of basic education; (b) enhancing ICT skills at the community level; (c) improving ICT curricula, teaching methods and instructional materials; and (d) enhancing the quality, productivity, and efficiency of the labor force (*Chapter 1: Trade and Investment and Chapter 18: Education*).

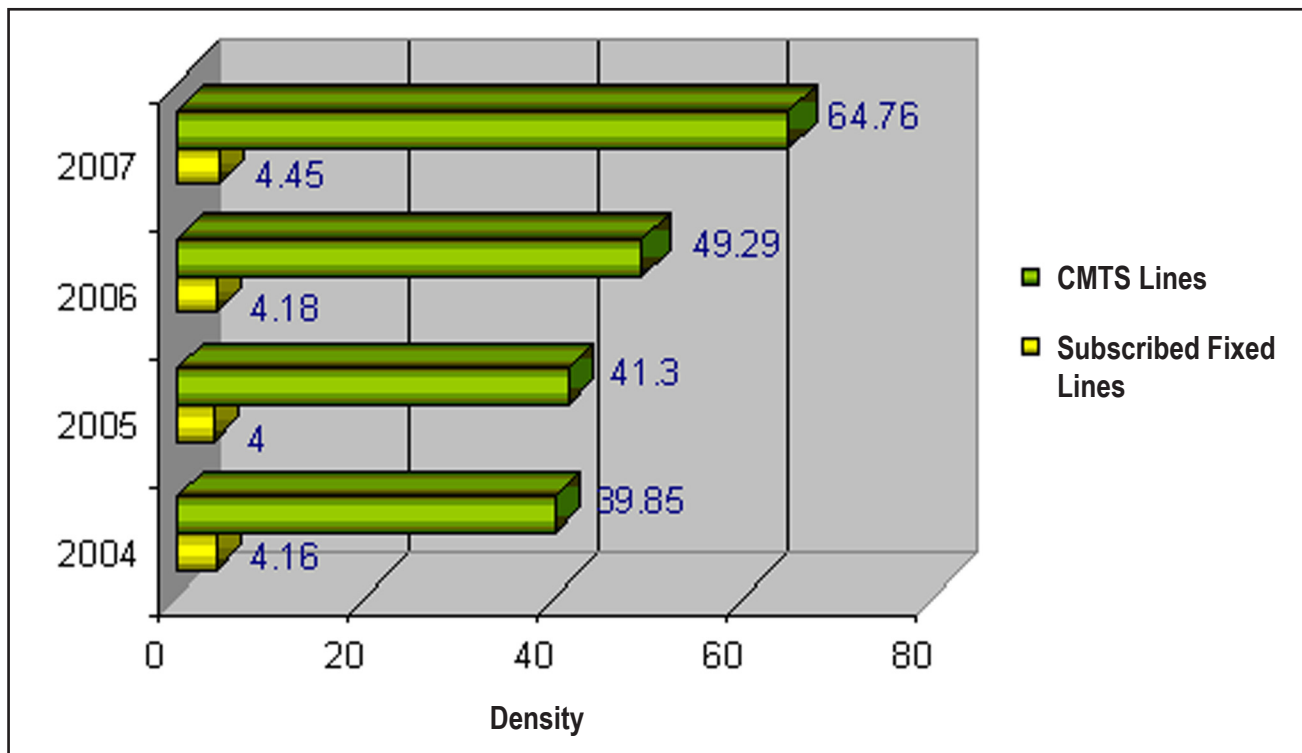
Pursue Regulatory and Legislative Reforms

Demand for ICT services, technological developments, and ICT business opportunities continue to increase at a faster rate. To cope with this challenge, sector reforms need effective coordination and regulation to foster market competition and efficiency in delivering ICT services throughout the country. In this regard, the President issued EO 269 in 2004 creating the Commission on Information and Communications Technology (CICT) as the primary policy making, planning, coordinating and

implementing entity of the Executive Branch of government that will promote, develop and regulate integrated and strategic ICT systems and reliable and cost-efficient communication facilities. CICT is a transitory measure for the eventual creation of a Department of Information and Communications Technology (DICT). However, a House Bill for the creation of DICT is still pending in the Senate. The President issued EO 603 on February 13, 2007, transferring the TELOF from CICT to the DOTC to facilitate the development of an integrated government communications network. On the other hand, the President issued EO 648, transferring the National Telecommunications Commission (NTC) from the DOTC to the CICT. EO 648 was signed on August 6, 2007, but was only released by the Malacañang Records Office on December 23, 2008. This issuance will bolster the CICT's efforts to become a department and to be more responsive to the developments in the ICT industry.

The NTC issued Memorandum Circular (MC) 05-08-2005 in mid-2005 that classified Voice-over Internet Protocol (VoIP) as a Value Added Service (VAS) to provide an alternative means of communication to traditional telephone system. Since its introduction, VoIP has continued to effectively reduce the cost of overseas and domestic calls in 2006. The NTC also issued MC 07-08-2005 to provide rules and regulations on allocating and assigning radio frequency bandwidths for the 3G Mobile Telecommunications System. Furthermore, MC No. 08-07-2007 was issued to provide a regulatory framework allocating and assigning 3G and Broadband Wireless Access (BWA) radio

Figure 6.1
Cellular Mobile Telephone Service and Subscribed Fixed Line Densities



Source: National Telecommunications Commission

frequency bands, specifically on the Frequency Relocation Bands for Existing Legacy Users Affected under MC 06-08-2005 (frequency allocations for BWA).

To facilitate a smooth transition to Digital Terrestrial Television (DTT) broadcasting, NTC created a technical working group (TWG) in 2006 to formulate guidelines and policies in digital broadcasting. The transition from analog to digital television broadcasting is currently being studied by NTC, prior to its full implementation. DTT is expected to boost the competitiveness of the broadcasting industry in terms of efficiency and long-term cost savings on terrestrial transmissions because of greater spectrum efficiency, aside from providing better sound and picture quality as well as greater number of channels.

STRATEGIC FRAMEWORK

The development of ICTs is crucial to the country's economy due to its positive contribution to government, businesses and organizations. While the country's digital infrastructure sector is developing in the right direction, the government, in partnership with the private sector, will continue to pursue the same goals, strategies and courses of action, as originally planned in the MTPDP 2004-2010, but in a more aggressive manner.

Despite significant progress in the ICT sector, the country continues to face major challenges. These include concerns on human capital requirements, establishing an enabling socioeconomic and political environment to attract potential investors, setting regulations for interoperability and security, and bridging the digital divide within the country. In response, close coordination between the executive and legislative branches of government will be pursued, particularly on the proposed sector-related bills still pending in Congress. This includes the: (a) DICT Bill as the proposed primary agency of the executive branch to ensure effective policy, planning coordination and implementation of the country's national ICT agenda; (b) Convergence Bill to optimize the use of available infrastructure and encourage more capital infusion for digital expansion and development; (c) Cybercrime Prevention Act to allow the country to effectively prevent and combat cybercrimes; and (d) NTC Institutional Strengthening Bill to make the NTC more responsive to the continuing dynamism of the sector (*Chapter 22 – Bureaucratic Reforms*).

The components of a sound strategy framework, aside from bold legislative and regulatory reforms, should include building infrastructure, developing human resources, engaging in research and development, fostering ICT utilization among citizens, and promoting good governance, among others. Similarly, coordinated action from regulators, operators and other stakeholders are required to encourage more investments in the ICT sector, foster an enabling/market-friendly environment, and simplify regulatory and legislative processes.

Formulating appropriate regulations and legislation should be balanced between amiable regulations that encourage growth and stringent laws that sustain orderliness. Through this, the country will be able to take full advantage of developments in ICTs while minimizing its potentially detrimental effects. At the same time, legal processes, enforcement of laws and regulations, and plan/program implementation must cope with the dynamic nature of ICTs.

The government will also continue to establish regional ICT centers (RIC) to facilitate job creation and skills development. RICs are envisioned as ICT development hubs in areas outside major cities and will be hosted by partner State Universities and Colleges (SUCs). These centers will serve as a venue for promoting e-commerce, e-government and other e-services to provide relevant

high-quality training and seminars for educational institutions, and to promote native products in the national and global market. It will also provide services such as business development, training and community services or digital inclusion.

Meanwhile, government is committed to further develop the Philippine Cyberservices Sector or Offshoring and Outsourcing (O&O), as it is known in the Industry, which is already one of the nation's key economic generators. In 2006 it generated 235,000 jobs for Filipinos and US\$3.6 billion in revenues. The target for 2010 is to create one million jobs and generate US\$12 billion in revenues.

SUPER REGIONS STRATEGY - CYBER CORRIDOR

Recognizing the vast potential of the Cyberservices Sector, the President through EO 561 dated August 19, 2006, created the Philippine Cyber Corridor which traverses the entire archipelago. The Chairman of CICT was designated as Cyber Corridor Development Champion to act as government's prime advocate and promoter of development for the entire Cyber Corridor as well as ensure the implementation of priority projects identified in the 2006 SONA and the updated MTPIP.

The Philippine Cyber Corridor is the country's ICT channel supported by a high bandwidth fiber optic backbone and digital network, which provides double and triple redundancy for communications-intensive businesses in the ICT realm. This ICT infrastructure provides fast, efficient and secure services from the nation's biggest telecommunications providers. The Corridor is home to numerous cyberservice providers that supply expert services in various high performance sectors like call centers, which is the fastest growing sector of the industry, BPOs, animation, medical and legal transcription, software development, engineering and design and more recently game development.

With the momentum gained by the O&O industry, the Cyber Corridor's vision of being the premier O&O destination for ICT services in the global space is gaining ground. The industry has encouraged economic growth in the regions, establishing regional ICT hubs that can host O&O locators and thus generate more jobs and bigger revenues for the host regions. Currently, Metro Manila, Metro Cebu and Davao are the leading locations within the Corridor. By 2008, the CICT will identify 10 other cities that will join the list of viable destinations for the O&O industry.

To ensure the sustainability of the Philippine Cyber Corridor, government is pursuing measures that will address the challenges that continue to face O&O investors. One of these is the imminent shortfall of qualified or skilled ICT workers, e.g., those in the engineering services, accounting services, software/website development, animators, call center agents and medical transcriptionists and editors. In this light, upgrading and enhancing the ICT curriculum in high school and college must be pursued with urgency.

Government must also pursue the development of e-government services. The use of ICT is imperative to government's vision of promoting efficiency and transparency. An ICT-competent government can offer innovative and efficient online services that respond to the needs of Filipinos worldwide. Effective e-governance is an important strategy in sustaining the rapid growth and increasing competitiveness of the Philippine Cyber Corridor. To further promote and strengthen the Cyber Corridor, government and its partners should continue to enhance the high-bandwidth networks. In addition, a new network paradigm should be adopted to facilitate the delivery of high-capacity information and communication services, especially to unserved and underserved areas.

Chapter 7

Fiscal Strength

In the past four years, remarkable improvements were attained in the fiscal sector vis-a-vis the objectives of the MTPDP 2004-2010. The Medium-Term Fiscal Program aims to: (a) balance the national budget in six years; (b) reduce the ratio of the Consolidated Public Sector Financial Position (CPSFP)-to-GDP from 6.7 percent in 2004 to 1.0 percent of GDP in 2010; and (c) reduce the ratio of public sector debt-to-GDP from 136 percent in 2004 to 90 percent by 2010.

ASSESSMENT AND CHALLENGES

Balance the National Budget in Six Years

The implementation of administrative revenue measures and the passage of priority tax legislations contributed to achieving a better fiscal position. By the end of 2004, the government exceeded its prospect in containing the budget deficit. This trend continued until 2007, where actual national government (NG) deficit was 90.2 percent lower than the target.¹ In terms of levels, NG deficit went down from PhP187.1 billion in 2004 to PhP12.4 billion in 2007.

Table 7.1
MTPDP Fiscal Program versus Actual: 2004-2007 (ratio to GDP, in percent)

	MTPDP 2004	Actual 2004	MTPDP 2005	Actual 2005	MTPDP 2006	Actual 2006	MTPDP 2007	Actual 2007
Revenues	14.6	14.5	16.2	15.0	16.6	16.2	16.7	17.1
Tax Revenues	12.8	12.4	14.6	13.0	15.2	14.3	15.5	14.0
Bureau of Internal Revenue	10.2	9.7	11.7	10.0	12.3	10.8	12.6	10.7
Bureau of Customs	2.4	2.6	2.8	2.8	2.8	3.3	2.8	3.2
Other Offices	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.2
Non-Tax Revenues	1.7	2.1	1.6	2.0	1.4	2.0	1.2	3.1
Disbursements	18.8	18.3	19.8	17.7	19.5	17.3	18.7	17.3
Current Operating Expenditures	16.2	15.5	15.9	15.3	15.5	15.0	15.4	14.2
Personal Services	6.2	5.8	5.6	5.4	5.5	5.4	5.2	5.3
MOOE	1.8	1.7	1.8	1.6	1.9	1.7	1.9	1.9
Subsidy	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.3
Allocation to LGUs	2.5	2.3	2.4	2.2	2.3	2.3	2.3	2.2
Interest Payments	5.7	5.4	5.9	5.5	5.8	5.1	5.9	4.0
Capital Outlay	2.4	2.7	3.2	2.4	3.1	2.3	3.1	2.9
Net Lending	0.2	0.1	0.1	0.0	0.2	0.0	0.2	0.2
National Government Balance	-4.2	-3.8	-3.6	-2.7	-2.9	-1.1	-2.0	-0.2

¹ Target refers to the medium-term fiscal program in the MTPDP, 2004-2010. In this chapter, accomplishments were assessed in relation to either the MTPDP, 2004-2010 fiscal program or the Emerging Fiscal Program, which is the updated version. The former is generally referred to as *Plan program* or *target* while the latter is termed *Program*.

As of November 2008, the NG deficit stood at PhP66.7 billion, which is 89 percent of the programmed ceiling for the year. This is a turnaround from the PhP12.6 billion surplus registered during the same period in 2007.

To achieve sustainable fiscal gains, the government aims to implement the right mix of revenue effort and expenditure program. On the revenue side, new legislative and administrative measures resulted in substantial increases in tax collection between 2004 and 2006. Notwithstanding these, revenue targets in the Plan were not met due to shortfalls in internal revenue collection. In 2007, high proceeds from privatization efforts helped reduce the deficit. This kind of income, however, is non-recurrent and unsustainable.

With lesser revenues, the government had lesser resources to spend on projects needed to spur investment and further growth. Finances were further constrained when the budget was reenacted for 2004 and 2006, resulting in low disbursement in capital outlay.

Some expenditure items declined in terms of ratio to GDP, mainly Personal Services partly due to the Rationalization Program in the public sector. This has left more room for other expenditure items. By having a more favorable interest rate environment and better fiscal position, the government also improved spending for interest payments. Moreover, better management of public sector debt resulted in a decline in net lending to GDP, which indicates reduced debt servicing of NG-guaranteed corporate debts.

Reduce the Ratio of CPSFP-to-GDP from 6.7 percent in 2004 to 1.0 percent in 2010

The Consolidated Public Sector Financial Position (CPSFP) improved drastically to reach 0.55 percent of GDP in 2007. By the end of 2007, CPSFP was recorded at a surplus of PhP36.35 billion compared to the programmed deficit of PhP50.51 billion in the Plan.

Table 7.2
CPSFP Program vs Actual: 2004-2007 (ratio to GDP, in percent)

	MTPDP 2004	Actual 2004	MTPDP 2005	Actual 2005	MTPDP 2006	Actual 2006	MTPDP 2007	Actual 2007
CPSFP	-6.7	-4.9	-6.0	-1.8	-5.3	0.1	-1.0	0.6
o.w. National Government	-4.3	-3.8	-3.6	-2.7	-2.9	-1.1	0.8	-0.2
MNFGCs	-2.7	-1.9	-2.6	-0.5	-2.6	-0.2	-0.5	0.9
SSIs	0.3	0.5	0.2	0.9	0.1	0.8	0.5	0.6
LGUs	0.03	0.3	0.02	0.4	0.02	0.4	0.0	0.4

The improvement is largely due to the positive performance of the 14 monitored nonfinancial government corporations (MNFGCs), social security institutions (SSIs), government financial institutions (GFIs), and LGUs that completely offset the poor performance of the NG. The huge surplus of the government owned- and controlled-corporations (GOCCs) is attributed to greater financial discipline, better resource management, and lesser dependence on government subsidy. The GFIs, on their part, earned from the huge operating income from investment. As of September 2008, CPSFP recorded a surplus of PhP23.52 billion.

Reduce the Ratio of Public Sector Debt-to-GDP from 136 percent in 2004 to 90 percent by 2010

Based on the new accounting method², Outstanding Public Sector Debt (OPSD) to GDP ratio declined from 108.7 percent in 2004 to 75.9 percent in 2007. The ratio stood at 65.5 percent as of the first quarter of 2008. This was partly due to lower requirement by nonfinancial-NG agencies and MNFGCs. The portion of public sector debt coming from domestic sources is 46.4 percent as of the first quarter of 2008, while foreign sources make up the remaining 53.6 percent. Comparing this to 2004, there had been an increase in favor of domestic financing as the government took advantage of the lower interest rates regime.

Table 7.3
Debt Program vs Actual: 2004-2007 (ratio to GDP, in percent)

	MTPDP 2004	Actual 2004	MTPDP 2005	Actual 2005	MTPDP 2006	Actual 2006	MTPDP 2007	Actual 2007
Public Sector Debt ^{a/}	136	108.7	123	92.6	116	81.9	108	75.9
NG Debt ^{b/}	79.4	78.2	77.3	71.5	73.2	63.8	68.0	55.8

a/ Up to September 2007

b/ Without National Power Corporation debt absorption

Meanwhile, the NG's regular debt as percent of GDP also decreased, reaching 55.8 percent in 2007 from 78.2 percent in 2004. The NG's foreign debt declined as a result of the stronger peso, as total foreign debt accounted for 46.0 percent in 2007 compared to 56.2 percent in 2004. Short-term debt accounted for 16.5 percent while medium- to long-term debt was 83.5 percent. More than half of the country's debt was sourced domestically. In an effort to manage the country's debt at a minimal cost, the NG entered into a domestic debt consolidation program that strengthened the government securities' market and reduced the country's dependence on foreign borrowings. The NG was also able to prepay the Brady bonds and entered into a dollar denominated swap that stretched the average maturity of the country's debt and allowed the government to better manage its obligations. As of September 2008, the NG's regular debt reached 54.0 percent of GDP.

The improved fiscal position benefited from focused strategies, each with a mix of administrative and legislative measures, as follows: (a) revenue program; (b) discipline and efficient public spending; and (c) debt management.

Revenue Program

During the period 2004-2007, the following tax laws were passed: (a) the increase in excise tax for alcohol, cigarettes and tobacco products; (b) the Lateral Attrition Act; and (c) the Reformed Value-added Tax (RVAT) Law.

In June 2008, the income tax relief law was enacted and became effective on July 6, 2008. This law exempted minimum wage earners from income tax. Furthermore, it increased the personal exemption levels for all individuals and the additional deduction for qualified dependent children.

² Following international standards, the Government adopted changes in the consolidation of debt data mainly to remove double counting as recommended by the IMF's Government Finance Statistics Manual 2001. The Department of Finance was able to work back until 1998.

The government also implemented administrative regulations alongside the new tax laws. The revenue agencies, namely the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC), implemented computerization projects that minimized face-to-face transaction in order to curb corruption, speed up transactions, and promote transparency.

The above measures helped push the total revenue to GDP ratio from 14.5 percent in 2004 to 17.1 percent in 2007. Tax effort also improved, albeit, at a slower pace from 12.4 percent to 14.0 percent during the same period. The positive net revenue impact benefited from the widening of the value-added tax (VAT) base and from the increase in VAT rate from 10 to 12 percent. The RVAT alone generated PhP76.9 billion (equivalent to 1.3% of GDP) in net revenues in 2006, exceeding the targeted collection of PhP75.8 billion. In 2007, the new measure added PhP85.4 billion in revenues. Privatization initiatives were also accelerated with receipts amounting to PhP2.4 billion in 2005 to a high of PhP90.6 billion in 2007. The bulk of the privatization proceeds in 2007 came from the sale of remaining government shares in the Philippine National Bank and in the capital stock of PNOC-EDC, International School and Iloilo Airport, and lease of Philippine properties in Kobe, Japan.

Notwithstanding the combined tax laws and administrative measures, the government did not meet the tax revenue targets under the Plan in 2007. Despite increasing tax effort, tax collection remained below expectation. The huge proceeds from privatization, however, narrowed the revenue shortfall in 2007.

As of November 2008, total revenue collections reached PhP1,081.6 billion, 88.3 percent of the program for the year. BIR and BOC collections reached 89.0 and 88.1 percent of their program, respectively. Of the total NG revenues, privatization accounted for only 0.7 percent or PhP7.9 billion between January and November 2008.

Of the proposed legislations identified in 2004, five remain to be enacted. Coupled with administrative measures, there is still much room for improving revenue collection efficiency.

Administrative Measures

Improved administrative machinery shall be achieved through:

- Improved enforcement mechanisms to increase efficiency

Various computerization and compliance projects are continuously being implemented at the BIR in its constant effort to improve collection performance. These include enhanced tax information campaigns, strengthened audit, and updated information technology.

Meanwhile, the BOC implemented measures to control smuggling in the areas of its audit service, cargo inspection, online tracking of cargoes, tracking filing movement and actual arrival of transshipped cargoes to prevent diversion of goods without payment of duties and taxes. Other measures include maintaining advance data on port shipments, expanded valuation, review of customs policies on bonded warehouses, and the installation of 30 container x-rays in the ports of Manila in 2006. Likewise, BOC's computerization project revolutionized the system by minimizing face-to-face interaction and simplifying customs procedures.

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

DOF-DBM Joint Circular No. 2-04 issued on December 16, 2004 reiterated to all departments, bureaus, commissions, agencies, and offices to implement the provisions of Executive Order (EO) No. 197 dated January 13, 2000 to adjust administrative fees and charges. In 2007, Cabinet Resolution No. 1 required these same government institutions to seek clearance from NEDA before imposing new fees or increasing existing fees.

- Tariff rate adjustments

In 2004, EO 336 increased duty on petroleum products from 3.0 percent to 5.0 percent. With the RVAT law, tariff was set to 3.0 percent in November 2005.

- Innovative sources of wealth creation

- a. Privatization of the National Power Corporation
(Part 2, Chapter 2 - Power Sector Reform)
- b. Mobilization of investors for Mt. Diwalwal gold mine
(Part 1, Chapter 3 - Environment and Natural Resources)
- c. Exploration and development of more oil and gas wells
(Part 2, Chapter 1- Energy Independence)
- d. Relaunching of massive reclamation projects
(Part 1, Chapter 3 - (Environment and Natural Resources)
- e. Major nationwide reforestation program
(Part 1, Chapter 3 - Environment and Natural Resources).

Legislative Revenue Measures

The legislative revenue agenda in the Plan can be characterized as equitable and progressive since those who could afford will pay more.

- Indexation of the excise tax on ‘sin’ products

When Congress amended the excise tax regime via RA 9334 in July 2004, the proposed indexation of excise tax on Alcohol, Cigarette and Tobacco (ACT) products was considered. Instead, Congress approved an increase in the tax rates every two years for these products starting January 2005 until 2011. Additional revenues from this measure was way below expectations since ACT companies frontload their production during the preceding year to save on taxes. A temporary restraining order on the imposition of excise tax under this law for ACT products imported through the Subic Freeport also affected collection. Hence, actual collection reached PhP2.95 billion in 2005, PhP6.64 billion in 2006, and PhP6.52 billion in 2007. Reforms in excise tax collection were also continually pursued. As of November 2008, the House of Representatives is reviewing four bills on the restructuring of the excise tax on sin products. For its part, the Department of Finance (DOF) proposed the adoption of a unitary rate structure for specific product category.

- Institutionalization of an attrition system.

This measure institutionalizes a system of lateral attrition and a special reward-incentive system for exemplary performance among revenue-generating agencies of the government. It allocates an appropriate amount as incentive for exceeding performance standards. RA 9335, or the Attrition Act of 2005 was enacted towards this and the implementing guidelines were issued in May 2006.

- Review of the VAT system

The RVAT, as provided for by RA 9337, expanded the tax base and increased the VAT rate from 10 to 12 percent.

The expansion in the base was implemented starting in November 2005, from which the government generated an additional PhP4.2 billion in revenues in 2005. In February 2006, upon meeting conditions set under the law, the provision to increase the VAT rate took effect. The total incremental revenues collected from the full implementation of the RVAT was PhP76.9 billion in 2006 and PhP85.4 billion in 2007. Collection is expected to increase to PhP128.6 billion in 2008.

- General amnesty

The Amnesty Law, or RA 9480, was signed on May 24, 2007 and was effective from June 16, 2007 until May 5, 2008. The law authorized the grant of tax amnesty covering all national internal revenue taxes for taxable year 2005 and prior years that remained unpaid as of December 31, 2005. It generated PhP5.04 billion in revenues, exceeding the estimated take of PhP4 billion.

- Rationalization of fiscal incentives

The proposed fiscal incentives reform aims to provide a strategic approach in the grant of tax incentives that promotes competitiveness and, at the same time, ensures cost-efficiency and fiscal sustainability. The fiscal incentives system will be streamlined to: (a) make it an efficient and effective tool for investment promotion; (b) repeal numerous special incentives laws that are deemed obsolete, ineffective and inefficient; and (c) save government resources from unnecessary incentives. Three related bills are being deliberated in both chambers of Congress. Simulations show that the government will earn PhP10 billion in revenues due to improved efficiency.

- Simplified Net Income Taxation (SNITS)

The SNITS proposal aims to address the tax avoidance practices of self-employed taxpayers through overstatement of deductions for business expenses. It proposes to limit the allowable deductions to direct costs, thus, broaden the tax base and improve tax revenue collections. It also provides the self-employed an option of choosing the SNITS or an optional standard deduction equivalent to 40 percent of gross income. The DOF is pushing for the approval of the law in the 14th Congress. The estimated revenue gain from the measure amounts to PhP11.8 billion.

- Amendments to the Anti-Smuggling Provision of PD 1464 (Tariff and Customs Code)

The proposed bill prescribes a set of stringent requirement for surety companies and bonded warehouses interacting with the BOC. It also provides for the rationalization of the forfeiture and disposition of seized property by the BOC, and sets higher fines and penalties for illegal importation and other similar unlawful acts. Moreover, it aims to create the Anti-Smuggling body in aid of investigation and prosecution of violations of the Tariff and Customs Code of the Philippines.

- Excise tax on petroleum products

The provision on the increase in the specific tax rates of petroleum products was proposed as part of the bill on RVAT. However, in order to mitigate the impact of the VAT on the prices of petroleum products, the excise tax on diesel, kerosene, and fuel oil was abolished under RVAT Law RA 9337. This measure remains part of the legislative revenue agenda.

- Increase in the Road User's Tax

No increase was introduced either via legislation or executive issuance regarding this measure. However, the rates will be reviewed in 2010.

- Tax on telecommunications

This measure aims to re-impose the franchise tax on telecommunications companies. An additional Php9.1 billion in revenues will be generated from this measure. This, however, has been deprioritized.

Disciplined, Efficient Public Spending

The MTPDP 2004-2010 has identified two major problems in public spending. The first is the increasing requirement for nondiscretionary portions of the budget like personal services, interest payments, and block grants to LGUs, which altogether put indiscriminate pressure on expenditures. As a result, capital spending and other productive expenditures contracted. The second is that the Philippines' spending for capital outlay vis-à-vis other Asian countries was lowest for the period 1998-2003, with a capital outlay to GDP ratio of only 3.0 percent.

The share of personal services in the total expenditure decreased from 31.7 percent in 2004 to 30.5 percent in 2007 as government implemented its rationalization efforts. Similarly, the share of interest payments which peaked in 2005 at 31.1 percent, declined to 23.3 percent in 2007. This downward trend is attributed to the better fiscal position of the government which allowed prepayment of principal debt. The share of infrastructure and other capital outlays increased slightly from 10.5 percent in 2004 to 12.6 percent in 2007. The distribution of public spending was also affected by the delays in the passage and, at times, the reenactment of the government budget. From January to October 2008, the key expenditure items had the following structure: personal services (28.1%), interest payments (24.4%), allotment to LGUs (13.8%) and infrastructure and other capital outlays (12.2%).

Table 7.4
Distribution of Total Expenditures by Expenditure Item: 2004-2007 (in percent)

	2004	2005	2006	2007
Expenditures (level in billion pesos)	100.00 (893.78)	100.00 (962.94)	100.00 (1,044.43)	100.0 (1,149.00)
<i>Current Operating Expenditures</i>	<i>84.56</i>	<i>86.37</i>	<i>86.57</i>	<i>82.52</i>
Personal Services	31.67	30.78	31.09	30.54
MOOE	9.38	8.80	9.57	11.02
Allotment to LGUs	12.76	12.69	13.10	13.12
Interest Payments	29.19	31.13	29.69	23.32
Subsidies	0.77	0.85	1.14	1.90
Tax Expenditures	0.78	2.12	1.98	2.63
<i>Capital Outlays</i>	<i>14.81</i>	<i>13.45</i>	<i>13.42</i>	<i>16.62</i>
Infrastructure & Other CO	10.49	9.39	9.50	11.5
Corporate Equity	0.00	0.02	0.34	1.96
Capital Transfers to LGUs	3.49	3.61	3.39	3.5
CARP Land Acquisition & Credit	0.82	0.42	0.18	0.4
<i>Net Lending</i>	<i>0.64</i>	<i>0.18</i>	<i>0.01</i>	<i>0.8</i>

To effect disciplined and efficient public spending, the government aims to: (a) improve expenditure management to help the government accumulate savings that can be reallocated for priority expenditure items; (b) reverse the decline in public capital formation; and (c) rationalize national government spending for devolved services and have full implementation of devolved functions pursuant to the Local Government Code and related laws. Along these goals, the following have been achieved:

Improvement of Expenditure Management

Administrative Measures

- The government's Administrative Rationalization Program effectively reduces the share of Personal Services in the budget while putting in place a strategic review of the operations and organizations of departments/agencies of the executive branch. By eliminating redundant and duplicative functions, resources will be channeled to priority functions, programs, and projects. As of December 31, 2008, a total of 31 rationalization plans were approved by the DBM, which translated to personal services savings of PhP767 million. A total of PhP280 million worth of incentives and terminal leave benefits have been paid to those who opted to retire/be separated from the service.

DBM, the Civil Service Commission and agencies concerned conducted activities to mitigate the impact of the rationalization program. The activities include: (a) the orientation of stakeholders on the objectives and features of the program; (b) matching the skills of affected personnel with the requirements of beneficiary agencies; and (c) implementing the Skills/Livelihood and Investment Program. Capability-building programs for retained personnel will continue to be developed and implemented, while impact mitigation measures will still be carried out. The review of operations of government organizations was expected to be completed in 2008.

- The alignment of budgetary appropriations and the Priority Development Assistance Fund to the 10- point program has been realized by specifying the use and release of funds in the General Appropriations Act.
- Improving budget allocation entailed the institutionalization of a three-year rolling budget process and the preparation of a performance-based annual budget.

Three-year rolling budget process. To further manage spending over the medium term, the institutionalization of a three-year rolling budget process, or the Medium-Term Expenditure Framework (MTEF), was initiated. Together with the Medium-Term Public Investment Program (MTPIP), the process will ensure that the budget is consistent with the MTPDP. Forward estimates (FEs) were generated for 2007-2009 to start off the institutionalization of a three year budget framework. Workshops and seminars involving the different departments were conducted in early 2007 to operationalize this framework. For the 2008 budget preparation process, the budget ceilings issued to all departments were equivalent to the FEs. At the same time, the departments were also informed of their respective 2009-2010 FEs to assist them in their multiyear planning and programming exercise. Although three-year forward estimates are prepared, only the budget level for the single year under review is submitted to Congress.

Performance-based budget. The government introduced an Organizational Performance Indicator Framework (OPIF)-based budget in 2004. In October 2007, the OPIF concepts and performance indicators were rolled out to all executive departments including 171 agencies and other executive offices for adoption and mainstreaming in the 2008 budget. To fully implement this initiative, the government intends to submit to Congress an output-based 2010 budget. So far, the major final outputs and the performance indicators for each of the agencies as required by the OPIF were submitted to Congress in support of the 2007 and 2008 proposed budgets. To acquaint members of the Congress with the concept, a massive information dissemination was conducted in 2008.

- The government also moved to strengthen the processing of projects in the Investment Coordination Committee (ICC) of the NEDA Board. With the institutionalization of the MTPIP, the government now has a basis for drawing up the agenda in the ICC. The original Plan aimed for the processing of projects in the NEDA Board's ICC to make it more responsive, timely, and transparent. Towards this, the 8-10 weeks processing time provision in the revised ICC Guidelines and Procedures had been outperformed by the current 4-6 weeks evaluation period that is strictly being observed and maintained in the ICC evaluation. To address transparency, an Electronic Library was set up in October 2005 that remains operational to this date. However, the policy of charging commitment fees against the budget ceiling of agencies that are implementing projects is yet to be formulated and implemented.

To improve the selection, preparation, and design of projects to be implemented under public private partnership (PPP) arrangement, NEDA is undertaking a series of studies that aim to improve the capabilities of implementing and oversight agencies in reviewing the financial implications of PPPs risk analysis, and contract negotiations, monitoring and enforcement.

- To rationalize and harmonize the different retirement schemes in government, the Plan suggested a reform of GSIS/SSS and other pension institutions. In response, a review of the legal and regulatory framework of existing regulatory laws has been completed.
- To improve the monitoring of disbursements and cash utilization of government, an electronic budget system was proposed in the Plan. Upon completion of its pilot testing, the system called e-Budget was rolled out in the DBM central office covering all departments in the national government. Roll out of the e-Budget to all other regions was completed in August 2008.

Other related activities include data gathering and operations analysis under the Electronic Linkage Project, which will allow the Development Budget Coordination Committee of the NEDA Board access to timely and accurate information on the cash budget position. The BOC conducted workshops to enhance interagency linkages, with particular focus on the National Single Window of the new e-Customs system. The DBM is also developing the Government Disbursement Reporting System, an online tool to improve the monitoring of the utilization and disbursements of cash authorization by all operating units of the national government. Its main features include daily collection and consolidation of disbursements data from government servicing banks, Bureau of the Treasury and DBM.

- To allow the government to utilize all its resources to more productive use, EO 431 issued in May 2005 mandated the transfer of all dormant accounts and unnecessary Special and Trust Funds to the General Fund.

Legislative Expenditure Measures

- Omnibus Reengineering Bill - The passage of the Reengineering Bill, which will give the President authority to approve and implement broader reforms within and across departments or sectors, is also being pursued. Pending this government-wide reengineering, the government's rationalization program addresses sector or department-wide institutional reforms. The bill has been filed with the Senate's Committee on Civil Service and Government Reorganization and Committee on Finance for deliberation.
- Fiscal Responsibility Bill- The government pushes for the enactment of the Fiscal Responsibility Bill to strengthen policy that no new appropriations will be made without corresponding new revenues. This was filed during the 13th Congress and has not yet been given consideration in the 14th Congress.

Reversing the Decline in Public Capital Formation

The government originally targeted to reverse the declining public capital formation by 2010. In 2004, capital outlay to GDP ratio stood at 2.72 percent, higher than the targeted 2.4 percent for that year. Further improvement was constrained in 2005 and 2006 given the delay in the approval of the budget in 2005 and the nonpassage of the country's budget for 2006. In 2007, capital outlay to GDP ratio increased to 2.89 percent. However, this was lower than the 3.1 percent full year target. Two administrative measures were exposited in the Plan in order to address the contractions in capital spending.

These are:

Improving overseas development assistance (ODA) portfolio performance - The government aims to improve ODA portfolio performance through: (a) periodic cleaning up of ODA loan portfolio; (b) strengthening of post project evaluation; and (c) undertaking of problem-solving sessions with concerned entities to resolve implementation bottlenecks. Regular meetings of the Project Implementation Office (PIO) and Project Implementation Reviews (PIRs) with Japan Bank for International Cooperation (JBIC), Country Portfolio Performance Review (CPPR) with the Worldbank (WB), and Country Portfolio Performance Mission (CPRM) with the Asian Development Bank (ADB) are conducted to clean up the ODA loan portfolio. MOU with JBIC to conduct post evaluation for selected completed JBIC projects, joint evaluations between NEDA and FIs are also being done to strengthen post project evaluation. Aside from meetings with FIs, and other countries, regional and sub-regional quarterly meetings are also being conducted for problem solving sessions.

Securitization of PhP100 billion in project-based non-recourse financing for public infrastructure - This is an activity committed by the National Development Corporation (NDC) and the Department of Trade and Industry (DTI) but will not be pursued in the Updated Plan because NDC stated that Philippine Investment Corporation's (PIC) role in the screening of viable projects was not exercised as line agencies would rather have projects implemented at their own time and with their own financing strategies. Concrete contributions of the PIC is the tender and implementation of the CALA and Daang Hari SLEX Link Road projects with the use of BOT Law as legal framework.

Rationalizing NG spending for devolved services and fully implementing devolved functions pursuant to the Local Government Code and Related Laws

The national government agencies and LGUs conducted a strategic review from which a sectoral package reform evolved. The expenditures of LGUs were aligned with that of the national government agenda through the issuance of a joint DBM and DILG memorandum in 2005 that provided the "Guidelines on the Appropriation and Utilization of the 20 percent Annual Internal Revenue Allotment (IRA) for Development Projects". Under this memorandum, 20 percent of the IRA of LGUs shall: (a) be utilized for development projects that are primarily in the nature of capital investment; (b) take into consideration cost recovery and entrepreneurship; and (c) contribute to the attainment of socioeconomic development and environmental management outcomes. Other reforms include the synchronization of local planning, investment programming, revenue administration, budgeting and expenditure management between NG and LGUs and complementation between and among LGUs for strengthened harmonization efforts at the local level.

Examination and rationalization in treating off-budget expenditures like the Special Education Fund (SEF) were also undertaken as specified in the original Plan. In particular, department orders for the Community-Based Resource Management Project (CBRMP) and Local Government Finance and Development (LOGOFIND) were amended to rationalize the use of such off-budget expenditures, and requiring a quarterly report on the utilization of the funds.

Challenges for Expenditure Management

The challenge of reducing the share of the nondiscretionary portions of the budget remains. Existing bottlenecks like delays in the approval of the annual budget allocation and nonpassage of the budget constrain full attainment of the Plan outputs. The issue of a declining capital outlay to GDP ratio continues to be a concern. Ensuring that capital outlays will gain sustainable increase in the budget allocation is partly addressed by generating forward estimates (FEs) and specifying these as had been done in the 2007 and 2008 budgets. Also, preparing sector expenditure plans will guarantee and facilitate budgetary provisions for capital outlays. The challenge in financing LGU-related services remains, and the need for mobilizing resources for LGU financing through the MFC has yet to be pursued given legal constraints. Establishment of a bond pooling system to enhance the financing option of LGUs is also pending. Lastly, there is more room for strengthening the processing of projects in the ICC such as ensuring the consistency of programs or projects that are pending for approval with that of the MTPDP/MTPIP and in the annual budget.

Debt Management

The DOF initiated the setting up of a Debt Risk and Management Office (DRMO) to establish an effective and comprehensive debt and risk management institutional process consistent with international best practice. For this endeavor, the Asian Development Bank provided technical assistance to DOF which ended in March 2007. The TA had two components: (a) analytical work on the DRM issues, including contingent liabilities, and (b) support for strengthened DRM functions. As recommended by the TA in its medium-term action plan, the DRMO will be a unit in the rationalized DOF.

Table 7.5
Republic of the Philippines (RP) Issuance of Global Bonds since 2005

Transaction	Amount	Date	Yield (Upon Launch)	Issue Premium	Yield (Over Benchmark)
Total Issuance for 2005	\$3.25 billion				
RP 9.5% Global Bonds due 2030	\$1.5B	Feb 2005	9.700%	17 bps	503.0 bps
RP 8.875% Global Bonds due 2015	\$250M	May 2005	8.661%	5.6 bps	438.5 bps
RP 9.5% Global Bonds due 2030	\$500M	May 2005	9.726%	5.4 bps	510.5 bps
RP 8.0% Global bonds due 2016	\$1.0B	Sept 2005	8.250%	15 bps	410.0 bps
Total Issuance for 2006 (in US\$ Equivalent)	\$2.85 billion				
RP 7.75% Global Bonds due 2031	\$1.5B	Jan 2006	7.875%	Flat	333.5 bps
RP 6.25% Global Bonds due 2016	€500M	Jan 2006	6.375%	37 bps (over ROP US\$ curve)	309.6 bps

RP 8.0% Global bonds due 2016	\$300M	Aug 2006	7.531%	7 bps	246.4 bps
RP 7.75% Global bonds due 2031	\$450M	Aug 2006		4 bps	262.4 bps
Total Issuance for 2007	\$1.0 billion				
RP 6.375% Global Bonds due 2032	\$1.0B	Jan 2007	6.550%	5 bps	180.3 bps
Total Issuance for 2008	\$500 million				
RP 6.375% Global Bonds due 2032	\$500M	Jan 2008	6.541%	4 bps	220.5 bps

Source: DOF-International Finance Group (IFG)

The government continued to enhance its borrowing credentials given the consistent success of its bond issuances and commercial funding transactions. It approached the market with a clear and transparent funding program while delivering commitments on reforms and fiscal discipline. It also timed and executed its issuance program with a precise and strategic approach. These led to strong investor confidence and allowed the government to successfully tap the market even during challenging or volatile environments. These strategies, coupled with significant gains in the government's fiscal consolidation efforts, fostered positive outlook, which translated to lower borrowing costs. Based on the last bond transaction executed in January 2008, the government was able to tap the RP Global Bonds maturing in 2032 at a yield of 6.54 percent, about 3.2 percent higher than the yield of bonds issued with a comparable maturity in 2005.

Table 7.6
Republic of the Philippines (RP) Liability Management Transactions Since 2004

Transaction	Date	Remarks
RP Global Bond Exchange	Feb 2004	Retired around \$311M and \$1.2B of existing RP Brady Bonds and Global Bonds, respectively, in exchange for new RP due 2011. This led to the creation of a new liquid benchmark and generated savings for the Republic.
RP Global Bond Exchange	Sept 2006	Retirement of around \$1.016B of existing RP Bonds in exchange for new RP Bonds due 2031 and RP amortizing Bonds due 2024. This led to a more efficient RP dollar yield curve.

Domestic Debt Exchange Program (Phase I & II in 2006, and Phase III in 2007)	Phase I: Feb/Mar 2006 Phase II: Sept 2006 Phase III: Feb 2007	Geared to develop the government securities market and domestic capital market, and reduce government funding cost in the long run. The exchange created efficient and liquid peso benchmark bonds.
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Source: DOF-IFG

In keeping with these gains, the government completed several liability management transactions, including two global bond exchanges, one in February 2004 and another in September 2006. The government offered holders of RP bonds to exchange eligible/selected existing bonds for new or large and liquid reopened dollar bonds. The exchange transactions sought to: (a) consolidate the government's US dollar yield curve into a few large and efficient benchmarks; (b) eliminate or clean up trading inefficiencies in its existing bonds; and (c) extend the average duration of its foreign bond debt portfolio. The transactions also smoothened the maturity profile of the government's bond portfolio by extending short-dated bonds into bonds with longer maturity, which reduced the government's risk of refinancing its debt.

In 2006, the government launched the Domestic Debt Consolidation Program meant to manage its domestic debt and develop its bond and capital markets. The Program also intends to foster confidence in the domestic bond market and promote a stable and increasingly sophisticated domestic bond and capital markets. A domestic bond market with improved liquidity and trading makes it easier for international investors to purchase Philippine peso debt papers that may be issued by the government and Philippine corporations. Establishing benchmark bonds and a robust peso yield curve assist the corporate sector in its bond issuances and provide Philippine corporations with better access to long-term financing. These benchmark bonds will allow the government to issue large, liquid and longer-dated Treasury Bonds domestically in the future, reducing the country's reliance on the international bond markets for funding requirements.

Under the Program, domestic bond exchanges (DEX) were executed in three phases. DEX I and II were executed in February/March and September of 2006. These led to the creation of domestic benchmark bonds with maturities of 3-, 5-, 7- and 10-years. As a follow through, DEX III was executed in February 2007 that led to the creation of 3- and 5-years domestic benchmark bonds. These domestic benchmark bonds are expected to enhance secondary market trading, enable reliable pricing of domestic benchmarks and become attractive investment vehicles for domestic and international investors.

Table 7.7
Summary of Prepayment Since 2006

Prepayments	Date	Amount (in US\$)
Asian Development Bank		70,129,740.03
Third Davao Del Norte Irrigation	November-06	11,561,808.29
Forestry Development	November-06	16,124,431.76

	Allah River Irrigation	November-06	5,132,783.65
	Allah River Irrigation Supplementary	November-06	4,210,970.11
	Palawan Integrated Area Development	November-06	13,205,738.50
	Special Assistance to Selected Projects	November-06	5,477,423.98
	Bicol River Irrigation	November-06	14,416,583.74
Brady Bonds			576,261,916.12
	Principal Collateralized Interest Reduction Bonds Series B	June-06	410,964,000.00
	1992 Philippine Debt Conversion Bonds due 2010 Series A	December-06	1,430,423.15
	1992 Philippine Debt Conversion Bonds due 2009 Series B	December-06	117,850,080.00
	Interest Reduction Bonds due 2007 Series A	December-06	5,095,747.10
	Interest Reduction Bonds due 2008 Series B	December-06	40,921,665.87
Subtotal: Prepayment for 2006			646,391,656.15
Brady Bonds			
	Principal Collateralized Interest Reduction Bonds Series A	May-07	126,023,000.00
Subtotal: Prepayment for 2006			126,023,000.00
Total Prepayment			772,414,656.15

Source: DOF-IFG

The government debt strategy also intends to reduce dependence on foreign borrowing and the cost of external debt service. Towards these, the government prepaid several costly loans with Asian Development Bank (ADB) and completely retired all of its outstanding Brady Bonds.

The prepayment of the ADB loans in November 2006 reduced government's external indebtedness by about US\$70.0 million and yielded an estimated savings in debt service of around US\$5.4 million.

The government also called off all its outstanding Brady Bonds. The Brady Bonds were originally issued in 1992 as part of its restructuring process. These bonds, which are guaranteed with principal and interest collaterals, contain call provisions that give the government the right to retire before maturity dates. The cancellations of the redeemed Brady Bonds amounting to US\$702.285 million freed up principal and interest collaterals, reduced external indebtedness and significantly provided savings in debt service amounting to an estimated US\$46.0 million.

The government continues to maximize funds from official development assistance (ODA) from multilateral institutions and bilateral donors to finance social and economic expenditure and public investment requirements. ODAs provide soft and concessional loans with lower interest rates and longer maturity period. The government has been selective of the projects/programs funded by ODAs, limiting these to projects that directly contribute to the achievement of the country's development agenda as contained in the medium-term development plan.

To further reduce the borrowing cost of ODA, the DOF has been negotiating with various lenders in order to lengthen the maturity profile of these loans. Moreover, the government has been harmonizing operational policies and procedures with its development partners in order to reduce transaction costs of development assistance (such as commitment fees) and achieve better aid delivery. It also continues to streamline project management offices and simplify/improve processes in the approval of projects and their implementation.

STRATEGIC FRAMEWORK

The NG accelerated its fiscal consolidation program by containing the deficit from 3.9 percent of GDP in 2004 to 1.1 percent in 2006. For 2007, the deficit reached only 0.1 percent of GDP compared to the program of 0.9 to 1.0 percent of GDP. The better-than-expected performance previously prompted the DBCC to adjust the targets two years ahead of schedule instead of 2010.

With recent developments in the macroeconomic environment, however, primarily the ongoing global financial crisis, the government decided to postpone budget consolidation to accommodate demands for higher public spending particularly infrastructure and social programs. Table 7-8 presents the emerging fiscal program as of end-2008.

Table 7.8
Revised Fiscal Program, 2008-2009 with Legislative and Administrative Measures*
(in billion pesos)

	Actual 2007	2008	2009
Revenues	1,136.6	1,225.2	1,365.9
Tax Revenues	932.9	1,093.4	1,238.2
Bureau of Internal Revenue	713.6	810.0	910.8
Bureau of Customs	2090.4	274.1	317.0
Non-Tax Revenues	203.6	131.7	10.4
Disbursements	1,149.0	1,300.2	1,468.0
Current Operating Expenditures	947.4	1,067.7	1,180.9
Personal Services	350.3	387.2	431.6
MOOE	128.3	149.9	173.8
Subsidy	21.7	14.1	11.3
Allocation to LGUs	149.2	170.6	203.4
Interest Payments	267.8	290.1	315.8
Capital Outlay	191.9	217.4	275.0
Net Lending	9.8	15.2	12.2
NPC Requirement			
National Government Balance	(12.4)	(75.0)	(102.2)
Consolidated Public Sector Financial Position (% of GDP)	0.6	-0.3	0.5
NG Outstanding Debt (% of GDP)		50.1	44.9

* DBCC-approved Fiscal Program as of November 11, 2008. 2010 estimates are not yet available. 2008-2009 CPSFP and OPSD are DOF estimates as of September 2008

Revenue Program

Bureau of Internal Revenue

To further improve revenue collection efficiency, the BIR formulated new administrative measures to minimize tax evasion. BIR included in its computerization and automation program the outsourcing of IT services, Mobile Payment, e-Lounge, and e-Complaint, on top of its existing administrative reforms and activities. IT outsourcing aims to update the Integrated Tax System (ITS) Infrastructure and Application System of the bureau.

Mobile Payment, on the other hand, involves the coordination with private telecommunication companies to put up a mobile Business Registration System where taxes can be paid through SMS. From January to December 2006, G-cash tax payments brought in Php92,500.

Another state of the art improvement in the BIR is the e-Lounge. The e-Lounge allows taxpayers to easily avail BIR services like e-FPS, e-Payee, e-Relief, e-TIN, and e-Sales online. Similarly, the e-Complaint project is a system rolled out in April 2006 where taxpayers can file complaints online.

To improve and simplify the procedures and registration process for business establishments, BIR also added business process reforms via Cash Register Machines (CRM), Point of Sales Machines (POS), and Manual Invoicing. To improve voluntary compliance of taxpayers through information campaigns and verification drives, BIR also conducted EVAT roadshows from 2005 to March 2006 and continues to roll out VAT forms in ITS. In addition, BIR extended the deadline for the availment of the Improved Voluntary Assessment Program so that taxpayers will be encouraged to voluntarily settle their tax obligations.

Bureau of Customs

To further control smuggling, BOC committed to strengthen its Internal Audit Service and Post Entry Audit Group. It also now targets to collect additional duties and taxes, plus an additional five percent of the target every year. In 2004, BOC purchased container x-rays for the Port of Manila, Manila International Container Port (MICP), and Cebu Port and these have been operational. With these machines in place, the BOC now targets to reduce incidence of undervaluation, underquantity, misdeclaration, and collect additional duties and taxes, plus a 10 percent increase with respect to the target every year thereafter.

In order to improve the Bureau's knowledge-based system that supports revenue projection, concerned BOC personnel participated in the Decision Support component aimed to enhance the Data Warehouse System.

Privatization

The government also strengthened its privatization efforts to augment its tax revenue collection and entice private sector investment and participation in business.

In this light, the NG made an inventory of assets included in the privatization program and determined the status of these assets in 2008. Also, it prepared a shortlist of high-valued assets and assets with a high probability of being privatized in the near term. The action plan and timetable prepared for the disposal of these assets is being reviewed prior to implementation.

The disposition entities would also have a part in the entire privatization process. They have already submitted to DOF their privatization plans and programs for 2006 to 2008 which will then be subject for review and monitoring of the DOF Privatization Office. Major assets privatized in 2008 were Petron Corporation and Manila Electric Company (MERALCO).

Expenditure Management

The DBM will further strengthen the implementation of the OPIF and the Effectiveness and Efficiency Review (EER) in prioritizing Priority Action Programs (PAPs), particularly in the formulation of Major Final Outputs (MFO) and Performance Indicators (PIs) for the departments and agencies of the government. The DBM formulated new activities to complete this thrust. The DBM now targets to finalize the department logical framework and the MFOs. As of October 2007, Logical Frameworks and MFOs were finalized for 20 departments. The corresponding PIs are being formulated through the conduct of seminars and workshops.

Production of the 2008 OPIF book is also in progress, which will then be submitted to Congress. Before the implementation of a comprehensive development of a performance monitoring system and the OPIF-complaint budget accountability system, a scorecard to monitor agency performance would be developed.

The Plan also recognizes the importance of establishing Key Performance Indicators (KPIs) and Measures for the different government agencies. The selection and review of KPIs should be completed by 2009 to 2010.

The budget preparation, budget execution, and budget accountability must also be consistent with the OPIF. To do so, the DBM would adjust the budget structure, firm up performance indicators, develop standard costs, develop an OPIF compliant budget execution and budget accountability process by 2009 to 2010. Given this system, it must be ensured that compliance to OPIF is monitored, evaluated, and there must be a results-based monitoring and evaluation stage. Performance monitoring and evaluation must be completed within 2008 to 2010. NEDA and other oversight agencies would spearhead the results-based monitoring and evaluation.

Another concern for the formulation of MFOs and PIs for the entire bureaucracy is to have a standard unit of cost by 2008 to 2009. Equally important is to have a unified reporting system among agencies when submitting to OPIF-attached oversight entities. The review of this system will take place from 2009 to 2010. To disseminate OPIF information effectively, capacity-building activities have been conducted since 2007 and are continually held with other advocacy activities until 2010.

The DBM also introduced a new strategy crucial to the monitoring of the Modified Disbursement Scheme (MDS), which aims to stabilize the e-Customs before discussing the DBCC requirements. Meetings on the new strategy were held in 2007 which discussed the setting up of an inter-agency linkage, with great focus on the establishment of a National Single Window. The Government Disbursement Reporting System (GDRS) is currently being developed by DBM that would monitor the MDS, taking advantage of data from government servicing banks. The GDRS is expected to be adopted by the first quarter of 2008. The disposition entities would also have a part in the entire privatization process. They have already submitted to DOF their privatization plans and programs for 2006 to 2008 which will then be subject for review and monitoring of the DOF Privatization Office. Major assets privatized in 2008 were Petron Corporation and Manila Electric Company (MERALCO).

Chapter 8

Financial Sector

The financial system performs an essential role in mobilizing national saving and financing investments that are necessary to sustain economic growth. In the original Medium-Term Philippine Development Plan (MTPDP) 2004-2010, the goal was to mobilize savings in order to achieve a savings-to-GDP ratio of 30 percent by 2010 which, in turn will support an increase in investment to 28 percent of GDP.

ASSESSMENT AND CHALLENGES

Savings-to-GDP ratio posted marginal annual improvements registering a high of 30.4 percent in 2007 (Table 8.1). However, investments dropped from 16.8 percent of GDP in 2003 to 14.7 percent in 2007 caused mainly by the slowdown in private construction, which accounted for 29.7 percent of investments. Nevertheless, substantial gains in a number of areas were achieved in the first three years of implementation of the Plan.

Financial depth improved slightly. The money supply (M2) to GDP ratio, which has been shrinking since 2003, rebounded to 46.9 percent of GDP in 2006, partly fueled by the global liquidity build-up, before marginally declining to 46.5 percent in 2007.

Table 8.1
Philippines: Gross National Saving and Broad Money (% of GDP)

	2003	2004	2005	2006	2007
Saving-to-GDP ratio	28.1	29.7	30.1	29.1	30.4
Broad Money (M2) -to-GDP ratio	44.4	43.3	42.6	46.9	46.5

Source: NSCB, BSP

Table 8.2
Selected Asian Economies: Gross National Saving and Broad Money (% of GDP)

	SAVING-TO-GDP		BROAD MONEY (M2)-TO-GDP	
	2007	2003	2007	2003
Philippines	30.4	28.1	46.5	44.3
Malaysia	37.5	34.9	124.2	102.5
Singapore	46.8	39.2	122.4	120.1
Thailand	32.4	28.6	98.0	116.4
Indonesia	25.4	20.7	41.5	47.5
Korea	30.6	32.6	141.3	123.9
Hong Kong	34.8	32.3	377.8	308.8
China	50.5	43.6	161.7	162.9

Sources: NSCB, BSP, ADB Key Indicators 2008

Inflation over the period 2004-2007 was kept at single-digit levels—accelerating in the first two years, reversing its trend in 2006 before eventually stabilizing at low levels in 2007. However, rising oil and food prices in the world market brought by increased global demand caused significant inflation pressures domestically. Inflation accelerated and peaked at double-digit rates before easing slightly to post an average of 9.3 percent in 2008. Other inflation pressures in 2004 to 2008 included the implementation of RVAT, the surge in liquidity and foreign exchange volatility, amid generally modest growth in domestic demand.

The upward adjustments in the BSP policy rates in 2005 were responses to potential second-round effects of the supply shocks. These contributed to the inflation slowdown in 2006 and the stability of prices in 2007. These policy adjustments also helped anchor inflation expectations. Monetary measures implemented in 2007 were aimed at tempering the impact of the sustained strong foreign exchange inflows on domestic liquidity and inflation. A stronger peso in 2007 helped cushion the effect of higher import prices on oil and food items on prices. The significant increase in inflation in 2008 prompted three upward adjustments in the BSP policy rates before events related to the global economic downturn prompted a downward adjustment of 50 basis points to 7.5 percent for the overnight lending or repurchase (RP) facility and 5.5 percent for the overnight borrowing or reverse repurchase (RRP) facility.

Substantial progress has been achieved in asset clean-up, significantly improving the asset quality of the banking system. Through various Special Purpose Vehicle (SPV)-related transactions, banks unloaded a total of PhP130.2 billion worth of nonperforming assets (NPAs), of which PhP96.7 billion were recorded during the first phase of implementation of the SPV Law and another PhP33.5 billion in the second phase. The total asset clean-up represents about 25 percent of the PhP 520 billion stock of nonperforming assets inventoried as of end-June 2002. Apart from this, banks entered into joint venture agreements with private developers, thus, converting foreclosed real estate properties with a total book value of PhP5.5 billion into income-generating assets. They also undertook public auctions and debt writeoffs to dispose the remaining NPAs.

As a result, the level of NPAs fell to PhP236.07 billion as of end-October 2008, 45.4 percent lower than the level in end-June 2002 when the SPV was implemented. Accordingly, asset quality indicators moved closer to their pre-Asian crisis levels of around 4 percent as NPA and nonperforming loans (NPL) ratios settled at 4.8 percent and 4.0 percent, respectively. While considerable steps have been made, the remaining stock of bad assets was still high taking into account the ASEAN standard and is considered one of the impediments to strong credit growth.

At the stock market, liquidity improved remarkably in 2006 as investor confidence picked up after the announcement of better fiscal performance. With a more stable macroeconomic environment, credit rating agencies upgraded their outlook on the Philippines. Foreign investments flowed in and overseas Filipino remittances increased, driving the peso to appreciate against the US dollar. The year 2007 recorded the highest capital raised through public offerings since 1994, including stock rights offerings and private placements. However in 2008, domestic market capitalization settled at PhP4.069 billion, down by 48.9 percent from year ago levels due to pessimism brought about by the financial turmoil in the United States.

The capital market received a boost with the approval in 2006 of the Capital Market Development Plan 2005-2010. Other notable improvements include implementing the straight-through processing (STP) of government securities traded at the Fixed Income Exchange (FIE), which eliminated the need for manual encoding of settlement transactions; issuing rules to govern banks' investments in securities overlaying securitization structures and the capital treatment of banks' exposures to structured products;

allowing third party custodians to open an account in the Registry of Scripless Securities (RoSS); and converting Common Trust Funds to Unit Investment Trust Funds.

To prevent and minimize systemic risks, efforts were aimed at strengthening regulations in accordance with international standards. However, the much needed reforms required legislation. To date, only one of the bills, the Credit Information System Act, has been passed. Most bills identified in the Plan such as the amendments to the BSP Charter, the Corporate Recovery and Insolvency Act, the Collective Investment Schemes Law (formerly known as the Revised Investment Company Act), the Pre-Need Code, amendments to the Cooperative Code and the CDA Charter, and amendments to the Corporation Code, have been refiled in the 14th Congress and are in various stages of the legislative process. In addition, two of the bills identified: amendments to the Insurance Code; and amendments to the Securities Regulation Code; are yet to be submitted in Congress.

At the same time, regulatory and supervisory measures were implemented. The BSP, the Insurance Commission (IC) and the Securities and Exchange Commission (SEC) shifted to a consolidated and risk-based supervision approach. On the part of the SEC, Risk-Based Capital Adequacy was fully implemented for security brokers and dealers, while the Philippine Development Insurance Corporation (PDIC) enhanced and applied an offsite risk-rating framework for banking reports. For the banking system, the BSP accelerated full implementation of its risk-based and consolidated supervision framework with the adoption of risk-based supervision technologies, implementation of a prompt corrective action (PCA) framework for early problem bank resolution and enhancement of onsite/offsite surveillance tools.

The Financial Sector Forum (FSF) was established through a Memorandum of Agreement (MoA) among the BSP, SEC, PDIC and IC on July 5, 2004 to harmonize regulations, enhance information exchange and dissemination among member agencies, and promote greater consumer protection and education.

Parallel to this, bank practices and prudential regulations have been progressively aligned with international standards (International Accounting Standards/International Financial Reporting Standards [IAS/IFRS] and Basel II). The BSP issued guidelines for the implementation of the new Financial Reporting Package (FRP), which aims to provide a higher degree of transparency in financial reporting. Guidelines were also issued on the new capital adequacy framework, including additional guidelines on the issuance of unsecured subordinated debt (USD) qualifying as either Tier 2 (supplementary) capital or hybrid Tier 1 capital to strengthen the capital position of banks.

The IC also established prudential regulations on corporate governance that required entities to: (a) submit their respective corporate governance manual; (b) have at least one independent director; (c) observe the criteria on “Know Your Customer”; and (d) submit an annual self-assessment form on corporate governance. Likewise, the Commission partnered with the Association of Insurance Accountants of the Philippines in conducting dialogues and seminars in 2006 and 2007 regarding information and compliance with these accounting and reporting standards.

To address concerns on the health of the pension system, the Social Security System (SSS) increased its members’ contribution rate by one percentage-point in 2003 and by another one percentage-point in January 2007. SSS also actively supported the passage of the Personal Equity Retirement Account (PERA) – a voluntary savings mechanism that supplements the mandatory savings for SSS and GSIS members – to help raise the country’s savings rate through the conduct of information campaigns to encourage overseas Filipinos to invest in private pension investment schemes.

Meanwhile, the GSIS, through its computerized online system that links all units into one central database, was able to purge 1.3 million members from the active membership file for being fictitious or duplicitous, or for having become inactive due to death, separation or retirement from service. In addition, databases between individual members and member agencies are being reconciled, and systems and processes involving transactions continue to be improved. Policies were also redirected towards sustaining the pension fund through the contributions of its members. GSIS pushed for policies that would help maintain the actuarial solvency of its funds such as premium-based policy, the Claims and Loans Interdependency Policy and a restructuring of benefits.

As a result, the net income of the GSIS in the last three years improved and the actuarial deficit of PhP25 billion in 2001 turned into a surplus of PhP16 billion as of end-2006. Consequently, the actuarial life of the fund was increased from 2,028 in 2002 to 2,046 as of the latest actuarial study made in the second half of 2007.

STRATEGIC FRAMEWORK

To achieve the 2004 sectoral vision of mobilizing savings supportive of an investment-to-GDP ratio of 28 percent by 2010, the following activities shall be actively pursued:

Ensure stable macroeconomic environment by, among other things, managing inflation

Manage inflation expectations by announcing the inflation target and strengthening the communication of the assessment of the inflation outlook and overall economic conditions. The BSP will also continue to enhance policy transparency and implement improvements in the inflation-targeting framework.

Mitigate impact of cost-push pressures on the economy

- Ensure ample supply of commodities in the domestic market by improving agri-industry productivity; reducing post-production costs through improvement in logistics and transport system; importing basic food items and agricultural inputs timely and adequately; and having more efficient commodity flow structure (*Chapters 2 and 6*);
- Strengthen coordination among public and private stakeholders under the umbrella of the National Price Coordinating Council (NPCC); and
- 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 (*Chapter 10*).

Promote a stronger, stable, and deeper financial system

Accelerate the reduction of NPAs

The BSP will continue to encourage banks to remain committed to expeditious and innovative modes of asset clean-up to resolve the overhang of bad assets in their books. This is seen to further improve the asset quality of the banking system and align local asset quality indicators (NPA/NPL ratios and the distressed asset ratio) with those of comparable economies within the ASEAN region.

Prevent and minimize systemic risks by strengthening regulations in accordance with international standards

- Amend the BSP charter to: (a) strengthen the supervisory capacity of the BSP through better legal protection of its personnel who are involved in official actions; and (b) enhance the effectiveness of the BSP as a monetary authority and as a regulatory institution. More specifically, the BSP will push for: (a) the removal of the monetary ceilings; (b) the establishment of the BSP's authority to issue its own instrument; (c) the enhancement of BSP's power to obtain data from the nonbanking sector; (d) the grant of authority to the BSP to be more flexible in the conduct of bank examinations based on risk assessment considerations; (e) the implementation of prompt resolution actions involving problem/distressed banks; and (f) allowing the BSP to have more flexibility to impose appropriate and proportionate criminal and administrative penalties for violation of banking laws and regulations;
- Continuously implement the risk-based capital adequacy framework in line with the provisions of the Basel II Accord starting 2007 for the standardized approach;
- Continuously implement the time-bound prompt corrective action (PCA) framework as an early problem bank resolution strategy;
- Strengthen supervisory framework by : (a) enhancing the existing framework to fully implement the consolidated-risk based approach to supervision; (b) implementing the necessary infrastructure for the flow and exchange of information among domestic regulators; (c) strengthening coordination with domestic and foreign regulators; and (d) building up internal capacity and set up performance standards;
- Further strengthen prudential regulations on corporate governance to align local banking practices with OECD recommendations¹ by : (a) harmonizing corporate government standards with other financial regulators; and

¹ The OECD through its Steering Group on Corporate Governance and the Regional Corporate Governance Roundtables, serves as the international nexus for policy discussions on corporate governance.

(b) fully implementing the new accounting and reporting standards in line with IAS/IFRS.

- Strengthen the framework for quick resolution of financially distressed enterprises through the passage of the Corporate Recovery Act;
- Amend the Insurance Code to empower the IC to preempt financial distress or intervene to help resolve financial problems of an insurance company;
- Reinforce powers of regulatory agencies such as SEC, the Anti-Money Laundering Council (AMLC), the BSP and others in the following areas: (a) legal protection; (b) access to bank records in an investigation; (c) ability to obtain freeze orders; and (d) examination/field investigation/visitorial powers over regulated companies and their auditors;
- In the case of the SEC, the amendments of the Securities Regulation Code (SRC) will strengthen the enforcement powers of the SEC, i.e., provide it 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, the SEC's enforcement actions shall be strengthened through effective coordination with the Department of Justice (DOJ), the Supreme Court (SC), the National Bureau of Investigation (NBI), the Philippine Judicial Academy (PJA), and the AMLC through enhancing its law enforcement partners' capability to investigate and prosecute securities fraud cases;
- Enhance and rationalize the regulatory framework on investment companies and the sale of pre-need plans through the Government's support for the passage of the Collective Investment Schemes Law and the Pre-need Code;
- Amend the Cooperative Development Authority (CDA) charter to provide the regulatory framework for the development of cooperatives nationwide and restructuring of the CDA into a capable regulatory body. In addition, capacity building for CDA and other stakeholders shall be pushed in order to implement effective regulation and supervision of credit cooperatives;
- Introduce the risk-based capital adequacy framework for providers of financial services and products under SEC regulation and supervision;
- Strengthen consolidated supervision mechanisms through closer cooperation and coordination among financial services regulatory agencies such as the SEC, the BSP and the IC. This is to rationalize the incentive structure for the financial sector and achieve a level playing field across the banking and nonbanking sectors. In line with this, the Government shall ensure that rules and regulations are consistent and that overlaps/gaps in supervision are minimized;

- 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;
- Implement a coordinated disaster recovery plan to ensure uninterrupted operations or timely reopening of financial sector institutions in the aftermath of a catastrophic event;
- Implement the Capital Market Development Plan 2005-2010 to promote capital market growth and expand its contributions to the economy; and
- Support amendments to the Securities Regulation Code to strengthen the commodities futures market.

Improve market liquidity

- Support the further development of the Fixed Income Exchange through regulatory approval of its Repurchase Agreement Program and Securities Borrowing and Lending Program;
- Support the initiative of the Bureau of the Treasury (BTr) to consolidate the issuances (i.e., limited variation in instruments) by exchanging bonds with low outstanding volume with new series of benchmark bonds;
- Support measures to promote the launching of a domestic repurchase market and Securities Borrowing and Lending Program;
- Encourage new listings of equities in the Philippine Stock Exchange (PSE). This includes listing of Board of Investments (BOI)/Department of Energy (DOE)-mandated companies, selected government agencies, small and medium enterprises (SMEs), and bonds issued to retail investors and overseas Filipino workers (OFWs). To promote listings, information campaigns and related investment-promotion activities shall be conducted in 2005-2010. Likewise, PSE's competitiveness shall be enhanced by improving liquidity for secondary market transactions and developing inhouse "think tank" for new products that can be introduced in the exchange;
- Establish a real estate investment trust (REIT) which will enable both small and large investors to have the opportunity to participate directly in the ownership and financing of large-scale real estate projects at affordable rates of investment without the disadvantage of incurring illiquidity, high transaction and management costs compared to traditional private real estate ownership; and
- 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 towards nondistortionary housing support programs, standards and systems in lending, underwriting and servicing, and fast and effective collateral foreclosure regime for mortgage lending.

Protect investor credit rights

- Minimize investor risks by improving the settlement, clearing, and delivery/custodianship of instruments. A national financial market infrastructure shall be established to seamlessly link market activities from trading, clearing and settlement to post settlement disposition of equity and debt securities. This includes migration of large value payments 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;
- Support amendments to the Corporation Code to enhance minority shareholder rights and provide remedies for corporate malfeasance;
- 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 of public companies and adopting IAS and International Standards for Auditing in the 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 pre-need plan companies certified by examination as compliance officers; and
- Pursue amendments to the Consumers Act to include protection against fraudulent consumer financial products and services.

Tap new financial products

Facilitate the access of overseas Filipinos to small denominated financial bonds and shares in privatization of government assets.

Enhance citizens' participation in capital formation

Strengthen education and information campaigns to enlighten and instill among the citizens the benefits of investments in enterprises and various instruments such as commercial papers, bonds, shares of stocks, and government securities.

Harmonize tax treatment of financial instruments and institutions

Review the tax treatment of financial instruments and institutions, and where administratively possible, implement adjustments in existing tax rules to support the development of the capital market.

Rationalize government pension and retirement schemes

Allow the increase in members' contribution to pension funds to narrow the funding gap. This will require the updating of actuarial studies that shall be the basis for determining the increase in members' contribution to ensure that the financial condition of pension funds is actuarially sound.

Introduce a clear set of credentials or qualifications that will become the basis for the appointment to the boards of main pension providers, namely SSS and GSIS.

Designate an appropriate agency as the regulator to supervise the activities of pension funds and ensure their viability.

Increase Micro, Small and Medium Enterprises' (MSMEs) access to financing (Chapter 1: Trade and Investment)

Emphasize the need for the timely passage of legislative initiatives on financial sector reforms to achieve financial sector targets by prioritizing the following:

(a) BSP Charter Amendments; (b) Amendment to the Insurance Code; (c) Pre-Need Code; (d) Securities Regulation Code Amendments; (e) Amendments to the Cooperative Code and the CDA Charter; (f) Collective Investment Schemes Law (formerly, the Revised Investment Company Act); and (g) Real Estate Investment Trusts. Furthermore, government agencies will support the passage of other bills such as (a) Corporate Recovery Act; (b) Amendments to the Bank Deposits Secrecy Law; (c) AMLA Amendments; (d) Amendment to the Savings and Credit Cooperative Bill; (e) Amendment to the Corporation Code; and (f) Amendment to the SSS Law.

Chapter 9

Labor

Improvements in labor market conditions were noted in 2004-2007 despite pressure from increasing global integration, sociopolitical conflict, and environmental changes. Workplace relations remained relatively peaceful, with strike levels at record lows. Likewise, the trend towards globalization coupled with higher economic growth rates have created domestic and foreign opportunities for the Filipino workforce. However, the country's unemployment and underemployment rates remain high by international standards. The global economic crisis also threatens the country's labor market prospects. Thus, the government needs to intensify its efforts to ensure that job creation targets will still be achieved and that the labor situation of the Filipino workforce will continue to improve.

ASSESSMENT AND CHALLENGES

From 2004 to 2007, the trend in employment generally mirrored the performance of the real economy, with bulk of employment growth coming from the services sector. However, employment growth lagged behind economic growth, and it remains a major concern. From 2005 to 2008, the country's gross domestic product (GDP) grew at an annual average rate of 5.5 percent, much higher than the average employment growth rate of only 2.2 percent.

Table 9.1
GDP and Employment Growth Rate (%), 2004-2008

Indicator	Average (2005-2008)	2004	2005	2006	2007	2008
GDP	5.5	6.4	5.0	5.4	7.2	4.6
Employment	2.2	a/	2.3	2.1	2.8	1.6

a/ Cannot be computed due to the break in data series. Labor and employment statistics starting 2004 were generated using the 2000 Census-based population projections. Data series previous to 2004 is no longer comparable.

Broad sectoral growth patterns were so highly uneven that in 2008, employment grew by only 1.6 percent. The employment growth in services and agriculture, on the other hand, managed to hit 2.2 percent and 2.1 percent respectively. Industry bore the brunt of the bleak external environment with a 1.5 contraction in employment.

In 2008, growing concerns over the effects of the global economic slowdown and the rapidly increasing oil prices and inflation posed risks to the labor sector, both in terms of wages and employment. Despite net employment creation of 530,000 in 2008, the unemployment rate increased to 7.4 percent in 2008 from 7.3 percent in 2007, or a total of 2.7 million unemployed (Table 9.2). It is worth noting, however, that the country's unemployment rate is better than the MTPDP targets.

Unemployment rate in 2008 remained high in urbanized areas and among young workers, with double-digit unemployment rates recorded in NCR (13.0%) and Region IV-A (10.0%), coupled with

the large proportion of unemployed youth aged 15-24 years old (51.2%). In addition, the number of “educated unemployed” remained high; 45.6 percent of the unemployed have at least high school education while another 40 percent have college education. Aside from lack of job opportunities, skills mismatch is also a major concern considering that labor supply could not adequately fill demand in key employment generating industries like aviation, cyber services, hotel and restaurants, agribusiness, health services, medical tourism and mining, among others.

The proportion of underemployed, or those who are already working but still want to work more went down to 19.3 percent in 2008 or approximately 6.6 million employed persons from 20.1 percent in 2007, the lowest since 2005. Most of the visibly underemployed (working less than 40 hours) were working in the agriculture sector (59.5%), followed by services (29.8%) and industry (10.7%). The decline in underemployment was registered mainly in the services sector, particularly wholesale and retail trade, and agriculture, hunting and forestry.

Greater efforts to address underemployment, a problem as serious as unemployment, should be pursued. Policy interventions must focus not only on creating more jobs, but also in generating more productive employment. More productive employment affords adequate income to keep workers and their families out of poverty, provides good working conditions and security in times of adversity, and allows workers to have a voice in decisions that affect their livelihood.

Overseas employment, on the other hand, remained a vital source of jobs for many Filipinos as deployment figures continued to rise, particularly for highly skilled workers. There were more high-end/high value jobs for Filipino workers abroad in 2007 as the number of professionals and skilled workers (led by professionals nurses, production and related engineering technicians, electrical and mechanical engineers) deployed increased by 6.7 percent to 199,267 from 186,780 in 2006. This accounted for 75 percent of the total number of deployed new hires belonging to high-end jobs for the period, from 63 percent in 2006. To date, overseas employment continues to fuel the domestic economy with overseas Filipino remittances amounting to US\$62.9 billion from 2004 to 2008. Remittances in 2008 posted a significant increase of 13.7 percent from 2007 buoying the economy amidst the global economic turmoil.

Notwithstanding the positive effects of overseas employment, there is also a need to address its pitfalls such as the problem on brain drain (caused by the exodus of Filipino professionals) and the need to introduce interventions that would translate the overseas Filipino workers’ remittances into productive investments.

Table 9.2
Summary of Labor and Employment Indicators

	2003	2004	2005	2006	2007	2008
Labor Force Level ('000)	34,571	35,480	a/	35,464	36,213	36,806
Labor Force Participation Rate	66.7	67.4	a/	64.2	64.0	63.6
Employment Level ('000)	30,635	31,248	31,961	32,635	33,560	34,090
Employment Growth Rate (%)	1.9	b/	2.3	2.1	2.8	1.6
Employment Rate. (in %)	88.6	88.1	a/	92.0	92.7	92.6
Unemployment Level ('000)	3,936	4,232	a/	2,829	2,653	2,716
Unemployment Rate (%)	11.4	11.9	a/	8.0	7.3	7.4
MTPDP Target (%)		12.1	11.9	11.6	11.1	10.4
Underemployment Level ('000)	5,221	5,476	7,244	7,371	6,757	6,574
Underemployment Rate (%)	17.0	17.5	22.7	22.6	20.1	19.3
Employment Generated ^{1/} ('000)	574	b/	713	675	925	530
Agriculture	98	b/	252	201	104	242
Industry	145	b/	32	-14	124	(75)
Manufacturing	72	b/	20	-16	6	(134)
Services	331	b/	429	488	697	362
Employment by Sector ('000)						
Agriculture	11,219	11,229	11,481	11,682	11,785	12,028
Growth rate (%)	0.9	b/	2.2	1.7	0.9	2.1
Industry	4,840	4,980	5,012	4,997	5,121	5,047
Growth rate (%)	3.1	b/	0.6	-0.3	2.5	(1.5)
Manufacturing	2,941	3,050	3,069	3,053	3,059	2,926
Growth rate (%)	2.5	b/	0.6	-0.5	0.2	(4.4)
Services	14,577	15,039	15,468	15,957	16,654	17,016
Growth rate (%)	2.3	b/	2.9	3.2	4.4	2.2
Employment by No. of Hours Worked ('000)						
Less than 40 hrs. a week	11,311	11,427	11,467	12,211	12,254	11,937
40 hrs. and above	18,845	19,203	20,020	19,905	20,844	21,657
Employment by Class of Workers ('000)						
Wage & Salary Workers	15,354	16,490	16,193	16,673	17,508	17,834
Own-account Workers	11,517	11,423	11,912	11,950	12,000	12,073
Unpaid family Workers	3,765	3,490	3,856	4,012	4,052	4,183

1/ The figures reflected in Table 9. 1 refer to employment creation derived from the Labor Force Survey (LFS) of the National Statistics Office. It should be noted that these figures are different from the number of jobs generated, which are being estimated by national government agencies based on sets of assumptions. The employment generated figures should not be compared with jobs generated data since these measure two different indicators. The term "employment generated" pertains to the number of "individuals" that were granted with work while the data on "jobs generated" refer to the number of "tasks, duties, or activities" that were created. Since the targets indicated in the MTPDP 2004-2010 were on net job creation, the figures in the table above should not be used in assessing the actual performance vis-à-vis the targets. Meanwhile, based on the 2008 SONA of the President, a total of 9.78 million jobs were generated from 2004 to June 2008. This is 163 percent of the 6 million low-end target and 97.8 percent of the 10 million high-end target. However, it is worth noting that this figure pertains only to jobs created through government intervention in different programs. This does not make any reference to jobs that were lost or people who were terminated during the period covered. For details on job generation figures in SME lending, agribusiness, housing, tourism, and microfinance, please see Chapters 1, 2, 4, 5 and 12, respectively.

a/ Cannot be computed due to the adoption of new unemployment definition in April 2005.

b/ Cannot be computed due to the break in data series as indicated below in Note #2.

Note: 1. Starting April 2005, LFS adopted the new definition of unemployment.

2. Labor and employment statistics starting 2004 were generated using the 2000 Census-based population projections. Data series previous to 2004 is no longer comparable.

3. Details may not add up to totals due to rounding.

Source: Labor Force Surveys-National Statistics Office

The trend towards globalization of production processes and the growing flexibility of capital and labor will continue to accelerate in the future. As a result, the increasing flexibility of work arrangements will have a tremendous impact on the dynamics of the Philippine labor market, particularly in achieving the goals of decent work. To be able to respond effectively to the challenges posed by the current and emerging work arrangements, it is important that medium-term strategies are complemented by the necessary policy and program shifts that would enable enterprises to achieve their desired business outcomes without sacrificing the rights of workers to decent work.

Support for employment generation

To provide alternative employment and additional income in poor communities, 100 percent of targeted Poverty Free Zones (PFZ) equivalent to 59 PFZ sites were established in 2003-2007, generating employment for 813 self-employed workers with an average increase of PhP2,883.23 in monthly income. To help augment the income of OFWs and their families, the Department of Labor and Employment (DOLE), promoted entrepreneurship among OFWs through the Enhanced Reintegration Program and the OFW Groceria project which granted interest-free loans to qualified OFW Family Circles in the form of PhP50,000 worth of grocery items and goods as start-up entrepreneurial capital. Accomplishments on this, however, were below measurable targets.

To facilitate the promotion of decent work and respect for core labor standards, the Labor Code is currently under review to come up with new administrative guidelines and proposed legislative amendments that recognizes flexible work arrangements.

Employment Preservation

Employment preservation was enhanced by the relatively more harmonious labor-management relations in 2004-2007. The average strike prevention rate was 97.4 percent, which is 3.4 percentage points higher than target. The incidence of actual strikes was notably reduced from 25 in 2004 to 6 in 2007, the lowest annual record of labor cases resulting in strikes in 54 years. This resulted in a significant reduction of lost man-days to 12,112 in 2007 from 150,000 in 2003. Moreover, labor dispute resolution also improved as the disposition rate of actual strikes, the rate of affirmation of appealed compulsory arbitration (CA) cases and the percentage of CA cases disposed through settlement were within target.

Essential to maintaining industrial peace is the need to create a working environment characterized by lesser disputes between workers and employers through conciliation and mediation, voluntary arbitration, institutionalizing/advancing/strengthening of grievance machineries and labor-management councils (LMCs), and the promotion of alternative dispute resolution mechanisms such as Administrative Intervention for Dispute Avoidance (AIDA). To improve case disposition at the National Labor Relations Commission (NLRC), the Case Management System's Modernization Program was set up and became operational in 2007.

To minimize friction between management and labor, the government intensified the conduct of labor education and management seminars nationwide and enhanced the Labor Education Program by adopting a new framework that integrated essential areas such as Labor Relations, Human Relations and Productivity (LHP).

In December 2004, labor, management and government representatives signed a Social Accord on Industrial Peace and Stability that contained agreements on maintaining industrial peace,

minimizing job losses, and setting up a fund for quick response interventions for displaced workers as a result of company closure or retrenchment. From 2004 to 2007, 136,248 displaced workers were provided with a package of interventions through the Quick Response Teams (QRTs) in all regions. Interventions included job facilitation, organization formation to strengthen their chances of obtaining alternative livelihood, business and credit assistance, and assistance in providing training, retraining and upgrading courses, among others.

Social dialogue and tripartism were also strengthened. The tripartite bodies of the Tripartite Industrial Peace Councils (TIPCs) and Industry Tripartite Councils (ITCs), which have served as venues for resolving employment and labor issues peculiar to the industries, evolved to cover broader issues and concerns and expanded representation to include the informal sector, rural workers and civil society.

Employment Enhancement

To equip the vulnerable workforce for enhanced employment, the government continued to provide technical-vocational and maritime trainings, scholarships in partnership with the private sector, expanded apprenticeship and learnership programs, and special and emergency employment (for poor but deserving students and out-of-school-youth, respectively). The implementation of the Ladderized Education System was continued to allow an individual to progress from technical-vocational courses to college degree programs, and eventually gainful employment. As of 2007, 671 institutions already adopted ladderized programs in eight disciplines: Agriculture, Health, Maritime, Tourism, Information Technology, Engineering, Criminology, and Education. Productivity assistance interventions were extended to company owners, workers and supervisors, and small and medium enterprises through trainings and consulting services that showcased productivity improvement programs in micro, small and medium enterprises (MSMEs) as well as in barangay micro business enterprises (BMBEs), exceeding Plan targets. In 2004-2007, the skills of almost 700,000 workers were likewise assessed and certified, resulting in an improved certification rate of 74 percent in 2007 from 35 percent in 2003.

In terms of social protection, the target of increasing the coverage of informal sector workers in the Social Protection Program was surpassed. For 2004-2007, the government facilitated the enrollment of 255,293 informal workers in SSS, PhilHealth, Pag-IBIG and Philippine National Red Cross.

Meanwhile, a culture of safety and health, self-regulation, and voluntary compliance with labor standards and productivity was promoted by fully implementing the new labor standards framework in 2004. Compliance rate on inspection, albeit missing the target of 75-85 percent, improved to 63.3 percent in 2007 from 57.2 and 58.3 percent in 2004 and 2005, respectively.

To strengthen the monitoring of compliance with labor standards and further enhance the implementation of the Labor Standards Enforcement Framework, DOLE launched the “Project Inspection Blitz” in July 2007. The project seeks to inspect more establishments, determine violations on core labor standards (minimum wage, COLA, payment of holiday pay, service incentive leave) and enforce compliance.

In 2004 to 2007, DOLE through the National Wages and Productivity Commission (NWPC) and the Regional Tripartite Wages and Productivity Boards (RTWPBs)¹, held consultations and

¹ The NPWC supervises the 17 independent RTWPBs

dialogues with tripartite sectors on important socioeconomic issues to map out strategic responses to relevant issues. In 2004-2007, the DOLE issued an average of 17 wage orders. In 2007, wage orders were issued in all regions of the country, granting increases in wages/cost-of-living allowances (COLA) for some 2.8 million minimum wage earners (or 22% of 12.5 million wage and salary workers in private establishments), ranging from a low of P3.00 a day to a high of P41.00 a day depending on the economic conditions in the regions.

Employment Facilitation

Job search assistance services were enhanced to help jobseekers find immediate employment and for employers to immediately fill up their manpower requirements. From 2004 to 2007, 3,467,770 jobseekers underwent job placement through the network of almost 1,500 Public Employment Service Offices (PESOs) nationwide, the Private Recruitment and Placement Agencies (PRPAs) and the conduct of job fairs resulting in the hiring of 285,844 jobseekers. The increase in local placement can be attributed to the expansion of PESO services to include information on where the jobs are via text messaging (*Trabaho...I-Text Mo*).

The government continued to simplify and shorten documentation procedures and other services required for departing OFWs through the e-Link for OFWs project. A National Reintegration Center for OFWs was set up in March 2007 to further serve the OFWs and to respond to various issues related to migration and development. The center serves as a gateway for reintegration services that guides and connects OFWs to reintegration service providers. It aims to deliver complete reintegration services to OFWs covering predeployment, while they are overseas, and upon their return to the Philippines.

Various initiatives to address the job-skills mismatch that causes structural unemployment were pursued. Consultation-workshops were held with industry partners of the nine Key Employment Generators (KEGs) identified in the National Manpower Summit in 2006. An action plan was formulated to ensure that jobs with specific competencies and that are in-demand in the short and medium-term are identified; linkages between schools, training institutions and industry are working; and that the types of workers needed by emerging industries in the country and the rest of the world are produced.

In 2007, a National Human Resource Conference was conducted as a follow-up activity to the 2006 National Manpower Summit where target occupations in priority sectors were identified. The conference came up with a Policy and Action agenda towards productivity and competitiveness that addresses constraints in areas of education and training, labor relations and human relations at the workplace. The completion of the National and Regional Action Plan on Improving Workforce Productivity and Competitiveness is still ongoing. It aims to produce workers equipped with the right skills and productivity tools, that would address the jobs and skills mismatch.

STRATEGIC FRAMEWORK

The Philippines needs to create and sustain an environment where business can expand, create new jobs and improve existing ones for Filipino workers. Given the labor market situation and structural unemployment, the government shall focus on job opportunities for seven sectors namely: cyber services, hotel and restaurant, aviation, agribusiness, health services, mining, and medical tourism.

For 2008-2010, the government, in partnership with labor and management and civil society shall intensify its efforts towards achieving its vision of “full, decent and productive employment for every Filipino worker” in the formal, informal and overseas labor markets. These shall be done through the delivery of services that will contribute to achieving its four strategic goals: (a) a gainfully employed workforce; (b) a globally competitive workforce; (c) a secure workforce; and (d) a safe and healthy workforce. The attainment of these shall contribute to the national goal of reducing poverty.

To achieve the four strategic goals, efforts will be directed towards the following priority strategies for the next three years:

- Intensifying job search assistance services for wage employment;
- Providing capacity-building services for livelihood;
- Promoting social partnership and providing alternative dispute resolution mechanisms to preserve employment;
- Providing professional regulatory services, technical-vocational education, skills competency and productivity trainings;
- Enhancing the services to safeguard fair and just terms and condition of employment;
- Strengthening the social protection and welfare services; and
- Improving the work accident/illnesses prevention, work compensation and rehabilitation services.

GOALS, STRATEGIES AND STRATEGIC ACTIONS

To provide gainful employment, the administration shall support the attainment of the following employment goals until 2010: (a) increased placement of workers particularly the disadvantaged women and youth in suitable occupations; (b) increased assistance to workers threatened and/or affected by structural adjustments and labor disputes for formal labor market; (c) increased self-employed workers with viable and sustainable livelihood undertakings; (d) increased unpaid family workers with access to formal employment/income-generating activities in the informal labor market; (e) increased deployment of new hires in high-end jobs; and (f) increased returning OFWs engaged in productive employment.

To attain these employment goals, the following major strategies will be pursued: intensifying job search assistance services for wage employment; providing capacity-building services for livelihood; and promoting social partnership and providing alternative dispute resolution mechanisms to preserve employment. These goals will be achieved by: (a) facilitating the connectivity of workers to wage employment through improved labor market information (LMI) system, increased accessibility to job exchange facilities, and heightened career advocacy; (b) sustaining harmonious labor and management relations through continuous education, (c) mainstreaming of alternative dispute resolution (ADR) mechanisms, and implementation of innovative approaches toward workers’ empowerment; (d) strengthening safety nets for workers threatened and/or affected by structural adjustments and labor disputes; (e) connecting the poor and marginalized self-employed workers to converged livelihood resources to support the viability and sustainability of their businesses and augment their income; (f) connecting unpaid family workers to formal employment opportunities; (g) facilitating the placement of OFWs to high-end jobs through deployment of marketing missions overseas and forging of bilateral/multilateral arrangements and other undertakings; and (h) enhancing reintegration services for returning OFWs and their families.

To this end, the government with its partner stakeholders shall strengthen the capability of employment exchange facilities on job matching, livelihood and other forms of services. These facilities include the Public Employment Service Offices (PESOs), PHIL-JOBNET, employment kiosks, *Trabaho...I-text Mo*, Jobs Fairs and Private Recruitment Agencies. The government shall strengthen career/employment advocacy services, intensify skills registry, and facilitate the deployment of one million OFWs.

The promotion of migration and development for productive investments from remittances shall also be pursued. This means that migrant workers shall channel their resources to productive pursuits where the country would continue to gain from labor migration while at the same time minimizing its downsides.

For the marginalized, vulnerable, disadvantaged (e.g. informal sector workers, women, youth workers) and other workers from specific sectors (i.e. OFWs) having difficulty in accessing formal employment, the government shall provide the appropriate interventions. For workers in the informal and other marginalized sectors, the government shall provide capacity-building program for livelihood enhancement, livelihood restoration and livelihood formation. For OFWs and their families, reintegration services (e.g. employment, entrepreneurship, financial literacy) shall be made available. And for the youth sector (including out of school and out of work youths), government shall implement the Youth Employment Framework and the Strategic Plan for Child Workers.

To prevent job losses due to disputes, the government with the support of labor and management shall: (a) provide quick response assistance to 100 percent of reported displaced workers seeking intervention during work-to-work transition; (b) keep the incidence of strikes at manageable level of not more than 6 percent of the total notices handled; (c) promote alternative dispute resolution mechanisms such as Administrative Intervention for Dispute Avoidance (AIDA), conciliation and mediation, voluntary arbitration, grievance machineries and negotiations; (d) strengthen coordinated team approach in resolving labor disputes; (e) broaden the scope and reach of Labor and Management Education Program focusing on Human Relations, Labor Relations and Productivity; and (f) intensify networking and strategic alliances on labor disputes settlement by adopting a tripartite-plus (3+) approach.

To develop a globally competitive workforce, the government shall support the attainment of the following employment and human resource goals until 2010: (a) developed competent workers to meet the skills required by the key employment generators; (b) improved workers' productivity; (c) enhanced entrepreneurial competence of poor and marginalized self-employed workers in the informal economy (WIE); (d) enhanced employability of unpaid family workers; and (e) enhanced employability of OFWs in high-end jobs.

To attain these employment and human resource goals, the provision of technical-vocational education, skills competency and productivity trainings and services shall be the major strategy. The following shall also be pursued: (a) equipping workers with skills, knowledge, attitude and productivity tools required by industry, KEGs and global market demand; (b) improving the efficiency and accessibility of LMI system; (c) expanding the coverage of SMEs provided with productivity technologies and trainings; (d) Implementing the Continuing Professional Education (CPE) Program; (e) equipping unpaid family workers with technical-vocational skills; (f) upgrading the business management skills of poor and marginalized self-employed workers in informal economy; (g) equipping the OFWs onsite with upgrading/retooling training courses to meet global

labor market demands; and h) providing upgrading/retooling trainings for OFWs while they are in the country.

To equip workers with demand-driven skills, technical education and productivity improvement technology, the government shall prepare workers for future labor markets through a comprehensive human resource development strategy by: (a) addressing jobs-skills mismatch and exploring the opportunities in the local/global market; (b) training at least 1.5 million persons in Technical Vocational Education and Training (TVET), with improved absorption rate of graduates to 60 percent; (c) continuing the provision of free assessment services to allow Filipinos to earn skills certificates at no cost; (d) continuing the Ladderized Education System allowing the hours spent in vocational training to be credited towards a college degree; continue the development of eTESDA, an Electronic Portal that offers free online training to Filipinos using interactive software; and (e) providing scholarships and other student assistance/support programs such as PGMA-Training for Work Scholarship Project, Private Education Student Assistant Fund (PESFA), TESDA-ADB Scholarship Program, and scholarship programs for seafarers.

For the maritime sector, the government shall develop and conduct Management Level courses and other maritime training courses for merchant marine officers, maritime faculty and trainers in accordance with the latest national and international standards in Maritime Education and Training (MET). It shall further improve the use of fast lanes for the issuance of IDs, State Board verifications, certification and authentication and introduce improvements in the licensure system and regulatory functions for 43 various professions and pursue PRC's modernization program through the development of information systems.

In equipping the workforce with trainings and information on productivity technologies, the government shall expand the implementation of the Industrious Systematic Time-Conscious Innovative Strong Value for Work (ISTIV) Productivity Awareness Program (PAP) among small and medium enterprises and to cover micro and barangay micro business enterprises, and develop productivity strategies for the key employment generators and support industries.

To guarantee a secure workforce and provide the Filipino workforce with fair and just terms and conditions of work and social protection benefits, the government shall support the following workers' protection goals until 2010: (a) increased the compliance rate of establishments with general labor standards; (b) increased access to social protection benefits; (c) increased representation on policy-making bodies; (d) increased compliance with job orders/contracts; and (e) heightened awareness on anti-illegal recruitment (AIR).

To attain these workers' protection goals, the major strategies involve enhancing the services to safeguard fair and just terms and condition of employment and strengthening social protection and welfare service. Related activities include: (a) intensifying labor-management education on labor standards; (b) enhancing the provision of compliance assistance to establishments by setting up compliance assistance desks (CADs) in all provincial/field offices; (c) intensifying the advocacy activities on the enrollment of WIE to government's social protection schemes and representation of WIE in policy-making bodies/development councils; (d) strengthening the WIE protection through the development and implementation of alternative social protection schemes; (e) strengthening contract verification system; (f) enhancing the provision of Pre-Departure Orientation Seminars (PDOS), and Pre-Employment Seminars (PEOS), and Post-Arrival Orientation Seminars (PAOS) to OFWs; (g) strengthening the negotiations with host countries towards forging more bilateral/multilateral arrangements and other undertakings on the protection of rights and welfare of

OFWs; and (h) intensifying the AIR campaign through stronger networking and linkages with law enforcement authorities, LGUs, PESOs, and educational institutions.

To ensure fair and just terms and condition of employment, both for local and overseas workers, the government shall: (a) increase compliance with labor standards through inspection, self-assessment and technical assistance visits and assistance to microenterprises and BMBEs; (b) continue minimum wage-fixing along the “safety net” approach, but provide flexibility for wages above the minimum through issuance of wage guidelines and advisory for selected industries based on productivity or performance-based pay system, improve wages and productivity databases including the implementation of Wages Determination Process Implementation System (WageIS); (c) review existing policies/standards to address new and emerging working conditions/environment/arrangements; implement/promote Recruitment Agency Education and Performance Evaluation Program; (d) continue efforts against illegal recruitment and strengthen Pre-Employment Orientation (PEO) Management Program activities; and (e) strengthen protective mechanisms for workers in the informal and other vulnerable/specific sectors.

To promote access of workers in specific sectors to health care, social security and housing as well as on-site aftercare protection for OFWs, the government shall: (a) implement interventions with partners to reduce the incidence of child labor particularly in its worst forms; (b) continue to address vulnerabilities of working women by providing them livelihood opportunities, social protection and increased representation in decision-making; (c) strengthen protective mechanisms for workers in the informal and other vulnerable/specific sectors; (d) intensify advocacy on social security schemes for workers in the IS; (e) continue provision of on-site and aftercare social protection and welfare services to OFWs; and (f) provide benefits and welfare assistance to sugar workers and their dependents.

To provide the Filipino workforce with safe and healthy working environment, the government shall support the following safe and healthy workforce goals until 2010: (a) zero accident in all workplaces; (b) heightened awareness of WIE on occupational safety and health (OSH); and (c) 100 percent of deployed OFWs reached by OSH advocacy.

To attain these safe and healthy workforce goals, the major strategy to pursue is improving prevention of work accident/illnesses, work compensation and rehabilitation services. This will be done through: (a) converging and strengthening OSH policies, programs and services; (b) strengthening of compensation and rehabilitation programs and services for occupationally-disabled workers (ODWs); (c) improving and fasttracking OSH accreditation processes; (d) intensifying the advocacy activities on OSH, (e) expanding the delivery of OSH information dissemination services for WIE; (f) facilitating the access of WIE to OSH programs and services; (g) enhancing the OSH curriculum in PDOS, and PAOS; and (h) intensifying the stakeholders’ OSH advocacy for the OFWs on-site.

To these ends, the government shall provide education, training and technical assistance to workers and employers to develop their capability in ensuring health and safety at the workplace; increase compliance to occupational safety and health standards through inspection, self-assessment and TAVs; intensify the accreditation of safety and health practitioners for active OSH intervention at the workplace; and provide compensation and rehabilitation services through prompt delivery of benefits to the families or beneficiaries.

Chapter 10

Energy Independence

To alleviate the impact of volatile world oil prices on the economy, the energy independence agenda envisions the country attaining an energy self-sufficiency level of 60 percent by 2010. Significant accomplishments have been achieved in the development of indigenous and renewable energy sources towards achieving energy self-sufficiency.

ASSESSMENT AND CHALLENGES

The government, in cooperation with the private sector, had undertaken measures to accelerate the development of indigenous fossil fuel resources and renewable energy potentials, increase the use of alternative fuels, and strengthen and enhance energy efficiency and conservation programs that will generate savings in terms of imported fuel oil displacement.

Energy Independence Strategy

The period 2004-2007 saw the increase in the utilization of indigenous as well as renewable energy which raised the country's energy self-sufficiency level¹ from 53.51 percent in 2004 to 55.69 percent in 2007 (Table 10.1). As such, the MTPDP target of 60 percent by 2010 can be achieved due to the increased use of these resources.

Table 10.1
Primary Energy Mix for 2004 to 2007
(In million barrels of fuel oil equivalent, MMBFOE)

	2004		2005		2006		2007	
	MMBFOE (%)		MMBFOE (%)		MMBFOE (%)		MMBFOE (%)	
Indigenous Energy	20.77	53.51	21.20	54.57	21.46	55.40	21.97	55.69
Oil	0.48	1.23	0.61	1.57	0.56	1.44	0.63	1.59
Natural Gas	2.04	5.25	2.70	6.95	2.53	6.53	3.03	7.69
Coal	1.31	3.37	1.52	3.91	1.24	3.21	1.80	4.55
Hydro	2.14	5.51	2.09	5.37	2.47	6.39	2.13	5.41
Geothermal	8.84	22.78	8.52	21.92	9.00	23.23	8.78	22.27
Biomass	5.96	15.36	5.77	14.84	5.65	14.59	5.56	14.10
Solar and Wind		0.00	0.00	0.00	0.01	0.01	0.01	
CME			0.00	0.00	0.00	0.00	0.03	0.08
Net Imported Energy	18.04	46.49	17.65	45.43	17.28	44.60	17.48	44.31
Oil	14.36	37.00	13.94	35.87	13.20	34.08	13.40	33.96
Coal	3.68	9.48	3.71	9.55	4.07	10.51	4.08	10.34
Ethanol			0.00	0.00	0.00	0.00	0.00	0.01
TOTAL ENERGY	38.81	100	38.85	100	38.74	100	39.44	100
Self Sufficiency (%)	53.51		54.57		55.4		55.69	

Source: DOE

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

The country's total power generation increased from 55,927 gigawatt hours (GWh) in 2004 to 59,612 GWh in 2007 (Table 10.2). Changes in the energy mix throughout 2004 to 2007 were primarily due to more use of indigenous and renewable energy, mainly from hydropower, geothermal and other renewable sources. However, of the targeted eight plants for commissioning, only the wind-diesel hybrid plant in Basco, Batanes, the Northwind's 25 MW Wind Power Project, and the Northern Negros Geothermal Power Plant started operation in 2004, 2005, and 2007, respectively. The commissioning of these power plants together with the retirement of about 400 megawatts (MW) of oil-based capacity during the period, gave impetus to the increased self-sufficiency level.

Table 10.2
Change In Energy Sources From 2004 to 2007 (In GWh)

ENERGY SOURCES (in GWh)	2004	2005	2006	2007
Oil-based	8,504	6,141	4,665	5,148
Oil-thermal	1,431	309	274	324
Diesel	6,253	5,717	4,152	4,162
Gas Turbine	821	116	239	662
Combined Cycle (Natural Gas)	12,384	16,861	16,366	18,789
Hydro	8,593	8,387	9,939	8,563
Geothermal	10,282	9,902	10,465	10,215
Coal	16,164	15,257	15,294	16,837
Nonconventional	-	19	55	59
TOTAL	55,927	56,568	56,784	59,612

Source: DOE

Total foreign exchange savings from indigenous energy resources from 2006 to the first semester of 2007 alone reached US\$5.7 billion. The gas and oil sector (mainly from the Malampaya) contributed the biggest share with US\$2.8 billion followed by geothermal resources with US\$1.6 billion. The hydropower sector contributed US\$324.8 million while wind and solar provided US\$5.2 million and US\$0.3 million, respectively.

Increase Oil and Gas Exploration

In the pursuit of energy independence through intensified domestic oil exploration, nine petroleum areas located in potential basins of Cagayan, Central Luzon, Visayas, and Agusan-Davao were offered to investors through the Philippine Energy Contracting Round (PECR) in December 2006. In 2007, 10 companies bid for the petroleum areas offered, seven of whom emerged as winning bidders. Six Service Contracts (SCs) were awarded to five companies, namely: Miocene Mining and Energy Corp. (SC65-Cagayan Block), Helios Petroleum and Gas Corp. (SC66-Agusan Davao Basin), Burgundy Global Exploration Corp. (SC67 and SC68 – East Palawan), and NorAsian Energy Philippines Inc. (SC69-Visayan Basin) in May 2008 while SC70-Central Luzon Basin was awarded to Polyard Petroleum International Co., Ltd. in August 2008.

From January 2004 to November 2007, SC 38 between the Philippine Government, represented by the Department of Energy (DOE), and a consortium of service contractors composed of Shell Philippines Exploration (45%), Chevron Texaco (45%) and the Philippine National Oil Company-Exploration Corporation (PNOC-EC, 10%) produced 432.2 billion standard cubic feet (BSCF) of gas and 20.5 million barrels (MMB) of condensate from the development of the Malampaya gas field. This represents about 75 percent of the MTPDP-target of 573.45 BSCF of natural gas and about 67 percent of the 30.4 MMB of

condensate by 2010 from said contract. This in turn sufficiently met the current gas fuel requirements of the Sta. Rita, San Lorenzo, and the Ilijan power plants in Batangas.

Meanwhile, the San Antonio Gas Power Project's (located in Bgy. San Antonio, Echague, Isabela) total gas production between 2004 to 2007 is 1,031.2 MMSCF, which equates to about 71.3 percent of the 1,447 MMSCF target as stipulated in the MTPDP 2004-2010 Strategy Planning Matrix. As of June 2007, a total of 43.64 GWh of electricity was generated from the project, which represents 53 percent of the target of 82 GWh of electricity by 2010.

Ensuring Oil Supply Security

Infrastructure development in the downstream oil sector is a continuing activity aimed at ensuring the security of the country's oil supply. The downstream oil industry experienced steady growth since the liberalization and deregulation of the oil industry due to the passage of Republic Act (RA) 8479, or the Downstream Oil Industry Deregulation Act of 1998. The independent players increased by 43 percent, from 604 in 2005 to 863 in the first half of 2008, bringing in a total accumulated investment of PHP33.62 billion.

Similarly, the industry reported a 3-percent increase, or an additional 103 in established gasoline stations, for a total of 3,737 gasoline stations nationwide.

Strengthening of PNOC to Lead the Development of Indigenous Resources

The Philippine National Oil Corporation (PNOC) drafted a Rationalization Plan which was submitted to the Department of Budget and Management (DBM) in November 2006. PNOC continues to transform itself into a world-class petroleum company, increasing its competitive edge in discovering new indigenous energy resources and building global partnership and collaborative undertakings.

Meanwhile, the PNOC-Petrochemical Development Corporation (PNOC-PDC) is now PNOC Alternative Fuels Corporation (PNOC-AFC). As a wholly-owned subsidiary of PNOC, it is now tasked primarily to explore, develop and accelerate the utilization and commercialization of existing and emerging alternative sources of energy and technologies, plus maintenance of the company's petrochemical industrial park.

In July 2007, the PNOC-Energy Development Corp. (EDC) became a private company with majority of its ownership in the hands of the investing public. The government's total outstanding share ownership in the company is now reduced from 60 percent to 47 percent. The gross proceeds from the sale of the government share in the company amounted to PHP17.1 billion.

As a private company, it is expected to continue its leadership in geothermal development and to explore new opportunities in the emerging renewable energy market, with its greater flexibility in fasttracking geothermal projects to meet the increasing energy demand in the country. Its privatization is part of the national government's efforts to encourage private participation in the energy sector.

However, due to recent market uncertainties, the planned privatization of PNOC-Exploration Corp. (PNOC-EC) has been deferred. Besides selling the government's 40 percent of its 99.79 percent stake in

the company, the PNOC-EC Board is also contemplating on disposing more shares in the stock market through additional listings or in a block sale. The government expects to generate about PhP16 billion from the sale.

Pursuing the Development of Renewable Energy

Geothermal Energy

Under the 2006 PECR, bids for three prospective geothermal areas offered to investors have been evaluated, presented and recommended for negotiation. These are located in Batangas, Biliran and Compostela Valley.

The 49.375-MW Northern Negros Geothermal Power Plant (in Sitio Pataan, Bgy. Mailum, Bago City, Negros Occidental) was commissioned in February 2007 as scheduled.

After being privatized, PNOC-EDC has now lined up a 330 to 380 MW program consisting of the expansion of its existing steamfields and the development of new fields in the coming years namely; the 20 MW Nasulo (Negros Oriental) and the 50 MW Mindanao 3 (North Cotabato) by 2010, the 40 MW Dauin (Negros Oriental) by 2011, the 40 MW Tanawon (Sorsogon) by 2012, 40 MW Rangas (Sorsogon) by 2013, 40 MW Kayabon (Albay) by 2014, and 100 -150 MW Cabalian (South Leyte) by 2015.

Wind Energy

Currently, the country is the leading wind energy producer in Southeast Asia. Wind power projects in Northern Luzon continue to be of unique importance for the Southeast Asian region, as these are the first commercial wind power development ever undertaken in this part of the world.

The PNOC-EDC, the country's leading geothermal energy developer, has now ventured into wind development. It has filed its application for a Production-Sharing Contract (PSC) with DOE for wind power development in Nagsurot, Burgos (Ilocos Norte). UPC Asia, another private firm formed by principals of UPC Group, one of Europe's largest and most successful wind farm developers, also applied for a PSC that covers areas located at Burgos and Pagudpud.

The Northwind's 25 MW wind power project has supplied electricity to the province of Ilocos Norte since 2005. Its power generation for 2005 was recorded at 14,740 MWh, 51,679 MWh for 2006 and 25,048 MWh for January to June 2007. On the other hand, the installation of additional five wind towers and turbine generators with a rated capacity of 8.25 MW each (in Bangui Wind Power Project, Phase 2) was completed and commissioned in August 2008. Northwind Power Development Corp. is also set to start another 30 MW Wind Power Projects in Pamplona, Cagayan Valley.

On the other hand, the wind-diesel hybrid plant in Basco, Batanes commenced operations in August 2004. Total power generation of the wind component from August 2004 to September 2007 was posted at 247,046 kWh.

Solar Energy

The PNOC Solar Home Systems Distribution Project, which aims to install 15,100 solar home systems (SHS) has been completed in December 2007.

The SunPower Solar Wafer Fabrication Plant in Laguna has started its commercial operation in January 2004 with a solar cell manufacturing capacity of 25 MW. It has later increased its capacity to 50 MW in 2005, 108 MW in 2006 and 174 MW by end-2007. Their products will be exported to the company's biggest markets, which include Germany, Japan and California in the United States, with emerging demand from Southern Europe and Korea.

The country's first ongrid solar photovoltaic (PV) plant is the 1 MW plant in Cagayan de Oro, which uses 6,500 polycrystalline silicon solar panels within a 2-hectare area. This is operated in conjunction with a 7 MW run-of-the-river hydropower plant and is connected to the distribution network of Cagayan Electric Power & Light Co. Inc. (CEPALCO). The plant is now on its fifth year of commercial operation and has generated an average production of 1,389.70 MWh per year. CEPALCO plans to invest in a larger solar park within its service territory, a 10 MW plant on a 30-hectare lot expected to be commissioned by 2012.

Hydropower Energy

No additional large hydropower plants went online within the period. However, additional mini to small hydropower capacities installed between 2004 and 2006 generated about 1,346 GWh of electricity, a 16 percent increase from the 8,593 GWh hydropower supply reported in 2004. Towards meeting the target of doubling the hydropower capacity in the next ten years, DOE is currently monitoring the development of 14 potential sites in Aklan, Antique, Mindoro, Negros Oriental, Ifugao, Cotabato, Davao del Norte, Davao City, Kalinga, Misamis Oriental, Catanduanes, Camarines Norte and Surigao del Sur with a total capacity of 255.20 MW, all of which are small to micro in capacity (Table 10. 3). PNOC, on the other hand, conducted feasibility and prefeasibility studies on various proposed hydropower projects (Bulanog-Batang, Babuyan, Langogan, Villasiga, Timbaban, Paracelis and Catuiran).

Construction of five minihydro plants (MHP), namely 0.96 MW-Catingas MHP, 0.5 MW-Hinubasan MHP, 0.75 MW San-Luis MHP, 1.0 MW-Sipangpang MHP, and 2.5 MW-Sevilla MHP with a total capacity of 5.71 MW were completed and were commissioned in 2008

Table 10.3
Hydropower Potential Sites

Name of Project	MW	Location	Developer
1. Timbaban	23.5	Aklan	PNOC-West JEC
2. Villasiga	32.0	Antique	FUSION
3. Catuiran	18.0	Mindoro	PNOC-West JEC
4. Sicopong	18.0	Negros Oriental	PNOC-West JEC
5. Talubin	7.7	Ifugao	PNOC-West JEC
6. Magpet	10.0	Cotabato	COTELCO
7. Talaingod	9.0	Davao del Norte	DMI
8. Suwawan	40.0	Davao City	HEDCOR
9. Tamugan	60.0	Davao City	HEDCOR
10. Pasil	22.0	Kalinga	PNOC-West JEC
11. Cabulig	10.0	Misamis Oriental	CEPALCO
12. Dugui	3.0	Catanduanes	IED
13. Colasi	1.0	Camarines Norte	LGU Mercedes
14. Sipangpang	1.0	Surigao del Sur	LGU Cantilan
TOTAL	255.2		

Source: DOE

Biomass

In 2004, PNOC entered into an agreement with Talisay BioEnergy, Inc. (TBI) and Bronzeoak Philippines to develop a 30 MW bagasse cogeneration facility in Talisay City, Negros Occidental. The project will supply energy to the host sugar mill, First Farmers Holdings Corporation and sell the excess to the local cooperative, CENECO. However, in June 2007, TBI informed PNOC that they are terminating the project as CENECO cancelled the Power Supply Agreement.

Projects located in Luzon will utilize ricehull while those located in the Visayas will use mostly bagasse, which are abundant in these areas. In 2008, three cogeneration projects were commissioned, namely: the 1 MW ricehull cogeneration project of the La Suerte Rice Mill in San Manuel, Isabela; the 12 MW bagasse-cogeneration plant of First Farmers Holding Inc. in Talisay, Negros Occidental and the 5 MW bagasse-cogeneration plant in Central Azucarera de San Antonio in Passi, Iloilo. Both bagasse-cogeneration plants will serve the Luzon grid.

Clean Development Mechanism (CDM) and the Emerging Carbon Market

A previous phase of Integrated Capacity Strengthening for the CDM program conducted in 2004-2006 focused on providing training workshops for both the government and private sector on CDM project formulation. Another output of the program was the publication of the CDM country guide for the Philippines.

Funded by the New Energy and Industrial Technology Development Organization (NEDO) of Japan, the CDM Support Program for the Philippines conducted a Technology Transfer Research and Needs Assessment and supported the implementation of five CDM project feasibility studies in the country. Renewable energy projects for small-to large-scale ongrid applications with a CDM or carbon market component, include the North Luzon Wind Power Project 1 and the 25 MW Northwind Bangui Bay Power Plant.

Expanding Use of Natural Gas

Major gas pipeline projects continue to undergo economic reevaluation with PNOC continuing its discussion with Synergy (China) and PTT (Thailand). Synergy is negotiating for a joint venture with PNOC while PTT is reviewing with PNOC the feasibility studies for a liquefied natural gas (LNG) terminal in Bataan, Batangas-Manila (BatMan 1) pipeline project and Bataan-Manila (BatMan 2) natural gas transmission pipeline. Discussion is ongoing with parties interested to participate in the LNG terminal project, but the project is contingent on the conversion of Limay power plant. The BatMan 1 and the Rosario-Biñan (RoBin) pipelines were targeted for 2008 and BatMan2 before 2010. However, plans were deferred because the development of BatMan 1 and BatMan 2 is being proposed along with the conversion of Sucat and Limay power plants into gas-fired plants, which are scheduled by 2010. These pipelines form part of the identified network of natural gas delivery infrastructure for Metro Manila and surrounding areas, which include compressed natural gas (CNG) refilling stations, their respective ancillary facilities, and other gas supply related facilities that have yet to be established.

The DOE issued Department Circular (DC) No. 2005-07-006, or Directing the Enhanced Implementation of the Natural Gas Vehicle Program for Public Transport and the Development of Compressed Natural Gas Supply and Infrastructure. The directive aims to provide the public transport sector with meaningful access to CNG supply and to encourage private sector participation in the establishment of supply infrastructure (e.g., CNG refilling stations).

The Natural Gas Vehicle Program for Public Transport (NGVPPT) Pilot Project was inaugurated on October 24, 2007 at the CNG Daughter Refueling Station in Binan, Laguna. This will pave the way for the commercial operation of the adjusted target of 200 CNG buses (previous target was 140 buses) and CNG Mother-Daughter stations by 2010. The NGVPPT is now being pilot-tested in the Batangas-Laguna-Manila route using Malampaya natural gas.

To date, a total of 22 buses are running on CNG in the country, which is below the previous target of 140 buses to ply major routes of Manila to Batangas and Laguna due to the delayed commercial operation (October 2007 vis-à-vis the 2005 target) of the refilling station because of some prerequisite technical safety requirements with the Daughter Station.

Developing Fuel Blends

The DOE is mandated to prepare the National Biofuels Program consistent with the Philippine Energy Plan. It takes into consideration the agency's existing biofuels programs (Biodiesel and Bioethanol Programs) and the programs of other government agencies, such as the feedstock supply program of the Department of Agriculture (DA), the Philippine Coconut Authority and Sugar Regulatory Administration, technology research and development program of the Department of Science and Technology (DOST), and the vehicle development program of the Department of Trade and Industry (DTI).

The Coco-Biodiesel Program was launched as targeted in 2004. Coconut methyl ester (CME) or coco-biodiesel is now commercially available. As of end-2006, a total of 127 government agencies with 1,542 diesel vehicles compared to only 59 agencies in 2005 complied with Memorandum Circular (MC) No. 55, issued by the Office of the President on February 9, 2004. The MC mandated government vehicles to use 1 percent CME blend in their diesel requirements. For supply stability of CME, four manufacturing companies were approved by DOE – Senbel Fine Chemicals, Inc., Chemrez, Inc., Romtron Inc. and Mt. Holly, Inc.

DOE DC No. 2006-08-0011 was issued on August 30, 2006, prescribing interim guidelines for the accreditation of oil industry participants in the Fuel Bioethanol Program. The first 10 percent ethanol-blended gasoline by SeaOil known as E10 is now available in all SeaOil stations and Flying V outlets in Metro Manila. Commercialization of E10 was heightened through the launching of the Shell Super Unleaded E10 Gasoline at its Nagtahan Station in May 2006. In addition, Ford's Flexi-fuel Vehicle model was launched and made available commercially in April 2006. It can run either in conventional gasoline or an 85 percent-15 percent ethanol-gasoline blend.

Initiatives and development of other possible biodiesel feedstocks (e.g., *Jatropha*) are being pursued. The *Jatropha* Plantation Project kicked off in 2006 with 13 hectares of land devoted to various provenances of the *Jatropha curcas* species. To date, the PNOC-AFC and its partner implementers have established a total of 867 hectares of *Jatropha* nurseries-cum-plantations.

The enactment of RA 9367 or the Biofuels Law on January 12, 2007, was a landmark accomplishment for the local biofuels industry as it required the blending of biodiesel and bioethanol in diesel and gasoline, respectively, in all fueling stations nationwide as well as institutionalized incentives and other benefits for investments in the biofuels industry.

Forging Strategic Alliances

Japan's Ministry of Economy, Trade and Industry conducted a study for Thailand and the Philippines, and the preliminary results were presented during the 2nd Association of Southeast Asian Nations (ASEAN) + 3 Market Forum and 3rd ASEAN + 3 Oil Stockpiling Forum in Hanoi in March 2005. Member countries under the ASEAN + 3 are also committed to enhance energy exploration and wider utilization of indigenous energy sources.

The Joint Marine Seismic Undertaking among PNOC, China Offshore Oil Company and Petro Vietnam was signed to study the possibility of exploring areas in the South China Sea.

The Subic Bay Terminal is being eyed as a possible option for the regional storage facility considering its existing capacity of 2,240 million barrels for finished products. However, of its total existing capacity, 2,154 million barrels are already being leased by PTT Phils. Corp, TriSolid Movers, Pilipinas Shell and Itochu Philippines. Nonetheless, there is still room for expansion in the area for additional storage capacity which could be used for regional stockpiling.

Undertaking Research Programs

Research and development activities for renewable energy systems were identified as crucial to help achieve the energy independence agenda. In line with this, the initial collaboration spearheaded by DOE and the DOST for a web-based geodata information system (GIS) on renewable energy resources database continued. The Capacity Building to Remove Barriers to Renewable Energy Development (CBRED) Project, a United Nations Development Programme- Global Environment Facility (UNDP-GEF) scheduled to be completed by 2009, has a subcomponent on Renewable Energy Information and Promotion Services. The subcomponent aims to establish a national renewable information and promotion services facility in forms that are useful, innovative, readily accessible and known to target clients such as potential private investors, manufacturers, engineering service providers and policy makers. The database is now online but only on a trial basis while building its content.

Energy Efficiency and Conservation

In 2005, DOE implemented the Philippine Efficient Lighting Market Transformation Project (PELMATP) with funding from the UNDP-GEF to address the barriers to widespread utilization of energy efficient lighting systems.

As part of the national energy efficiency and conservation program, the following activities were undertaken:

- *Fuel Efficiency Guide Label in Motor Vehicle Dealer Showroom.* Six Fuel Economy Run for various type of transport vehicles were conducted and co-sponsored by major petroleum companies;
- *Energy Labeling and Standards for Appliances and Equipment.* Fifteen energy labeling and efficiency standards for appliances and equipment were initiated as scheduled. The Implementing Rules and Guidelines for compact fluorescent lighting (CFL) and airconditioning units were also reviewed;

- *Government Enercon Program.* A total of 226 government energy audit spot checks were conducted in various government establishments.

Monitoring of compliance to Administrative Order (AO) 126 (Strengthening Measures to Address the Extraordinary Increase in World Oil Prices, Directing the Enhanced Implementation of the Government's Energy Conservation Program); AO 117 (Providing for Adjusted Official Hours in Departments, Bureaus, Offices and Other Agencies in the Executive Branch, including Government-Owned and Controlled-Corporations, for the Months of April and May 2005); AO 110 (Directing the Institutionalization of a Government Energy Management Program); and AO 103 (Directing the Continued Adoption of Austerity Measures in the Government) has been continued;

- *Energy Management Programs.* Three system loss reduction seminars for distribution utilities were conducted within 2004-2008. No demand-side management activities was done for the period since the DOE is focusing on Government Energy Management Program (GEMP) and voluntary agreement projects. Based on monthly consumption reports submitted by 120 government agencies in the National Capital Region and 200 agencies from different regions, the government was able to save about PhP1 billion (PhP853 million in electricity and PhP156 million in fuel) from September 2005 to May 2008 under the GEMP;
- *Energy Audit.* A total of 180 government energy audit spot checks were conducted in various government establishments;
- *Voluntary Agreements Program* (formerly Partnership for Energy Responsive Companies or PERCs and Partnership for Energy Responsive Ecozones or PEREZ programs). A total of 170 partners are currently involved. Twenty-one voluntary agreements were initiated and conducted with the support of various organizations. Three seminars were also conducted.
- *Heat Rate Improvement of Power Plants.* A Heat Rate Improvement seminar was conducted for technical and administrative personnel to educate them on the proper operation and maintenance of power plants with the end result of achieving plant heat rate efficiency.

For information dissemination, various seminars on Power Patrol Program, Road Transport Patrol Program, Government Energy Management Program, and Fuel Economy Run, attended by different stakeholders (e.g., students, government and private sector employees, tricycle and jeepney drivers and operators) were conducted in 2006.

Legislative Agenda

The President signed RA 9513 or the Renewable Energy Act of 2008 into law on December 16, 2008. The law provides fiscal incentives to companies that would invest in renewable energy projects and directs the DOE and the National Power Corporation (NPC) to connect renewable energy sources to the national power grid. Under the legislation, renewable energy developers will get a seven-year income tax holiday and will only be levied a 10 percent corporate income tax, once their income tax holiday expires. Power from renewable energy sources will likewise be exempted from value-added taxes, including an accelerated depreciation and tax exemption of carbon credits. The DOE is mandated to implement the provisions of the Act and to create the National Renewable Energy Board (NREB) which grants incentives to renewable energy projects and activities.

Meanwhile, RA 9367 or the Biofuels Act of 2006 was signed into law on January 12, 2007 and became effective in February 2007. The law aims to reduce dependence on imported fuels with due regard to the protection of public health, the environment, and natural ecosystems consistent with the country's sustainable economic growth agenda that would expand opportunities for livelihood. It mandates the use of five percent blend of bioethanol fuel within two years after effectivity of the Act and 10 percent blend within four years. This law initially mandates a minimum content of one percent biodiesel in all diesel fuels sold in the country within three months from its effectivity, then to increase to at least two percent biodiesel content within two years.

The Natural Gas Bill has also been passed on third reading by the House of Representatives. It 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. In July 2007, the Senate filed an Act Ordaining the Development of the Downstream Natural Gas Industry and Consolidating for the purpose all Laws Relating to the Transmission, Distribution and Supply of Natural Gas, reintroduced as Senate Bill No. 733 and is now pending in the Committee(s) on Public Service; Energy; and Ways and Means.

House Bill No. 551 or the Liquefied Petroleum Gas (LPG) Industry Act of 2007, aims to establish a regulatory framework for the LPG industry and provide stringent safety standards as well as penalties/sanctions to violators. The bill was passed by the Congressional Committee on Energy and Appropriations. Also, the LPG Industry Act has also been filed as Senate Bill No. 1187 or An Act to Establish the Monitoring and Supervisory Framework for the LPG Industry, Provide Additional Powers to the Department of Energy, Define and Penalize Certain Acts on July 5, 2007 by Sen. Mar Roxas. It is currently pending in the Senate Committees on Trade and Commerce, and Energy.

To further supplement the energy independence agenda is the proposed bill on Industrial Energy Efficiency Research and Development which was filed on August 4, 2008 by Sen. Miriam Defensor Santiago with the Senate Committees on Energy; Science and Technology; and Finance. This bill supports the research and development of new industrial processes and technologies that optimizes energy efficiency and environment-friendly performances, utilizing diverse energy sources to increase economic competitiveness.

STRATEGIC FRAMEWORK

Accelerate Development of Indigenous Fossil Fuels

In support of the government's energy independence agenda, a 20-percent increase in indigenous oil and gas resources and an equal decrease in coal imports are targeted in 10 years. These shall be pursued through the continued aggressive promotion of indigenous oil and gas resources and coal prospect areas via competitive contracting scheme under the PECR.

Service contractors and prospective investors shall be encouraged to adopt new and improved technologies to enhance the development of marginal fields such as those found in Mindoro and offshore Palawan as well as the rehabilitation of previously-producing fields such as the West Linapacan, Cadlao and Galoc oil fields. The increase in service contracts is anticipated to result in the exploration drilling of 61 wells, the discovery of new oil fields and the production of about 120.8 MMB of oil and 43.6 MMB of condensates.

As for coal, the information campaign on Clean Coal Technologies and pursuit of environmental programs and new technologies to address social acceptability issues on the use of coal will be continued. Small-scale coal mining projects shall be pursued to provide livelihood in identified coal mining areas in the countryside.

Accelerate Development of Renewable Energy Sources

To boost the country's bid for energy independence, renewable energy development shall be aggressively pursued in consonance with the Renewable Energy Act of 2008. The government will strive to be the geothermal energy world leader, largest producer of wind power and solar manufacturing hub in Southeast Asia. In addition, the country's hydropower and biomass energy potential shall continue to be harnessed.

Geothermal

The country has potential geothermal reserves of about 4,406 MW, 1,966.56 MW of which is already in production. Contracts for the exploration and development of highly prospective geothermal blocks will be auctioned through the PECR. This includes new fields in Daklan (Benguet), Natib (Bataan), and Montelago (Oriental Mindoro). To further accelerate the utilization of geothermal and increase its share in the energy mix, DOE envisions around 236 more wells to be drilled until 2014 by the private sector, especially those that are outside the PNOC-EDC contracted areas.

Hydropower

Hydropower will be continuously developed through integrated and intensive exploration, development and management of these resources. The aim is to double the generating capacity from hydropower resources, translating to a target cumulative installed capacity of 3,999.10 MW or power generation of about 14,741 GWh by 2014. Achievement of these targets is anchored on the establishment of a Market Service Center that will assist renewable energy producers in obtaining requisite legal papers and documents as well as in tapping various financing assistance. Microhydro site development shall be continued.

Wind

With 1,038 wind sites having a potential capacity of 7,404 MW, the country will endeavor to retain its position as the leading producer of wind energy in Southeast Asia through accelerated development of its wind energy resources with the participation of the private sector.

Solar

Located just above the equator, the country has vast potential for solar energy. It will continue to be developed as a viable alternative to fossil fuel for the electrification of offgrid barangays to counter the prohibitive cost of extending power transmission and distribution lines and difficulty of transporting generators to remote areas.

Biomass

Based on studies, the country has a potential resource capacity of 235.7 MW from bagasse resources. Hence, the government will endeavor to utilize this potential through the implementation of bagasse cogeneration and bioenergy projects.

Also, the government shall aggressively promote the utilization of the CDM for renewable energy development, and enhance capabilities and collaboration in the processing of application under the CDM.

Expand the Use of Natural Gas

The promotion of natural gas use in industrial, commercial, residential and agricultural sectors is a priority until 2010. Conversion of existing and decommissioned power plants to natural gas shall be pursued whenever feasible. Active interaction with the downstream energy sector shall be prioritized through gas-to-market projects. This notwithstanding, the development of BatMan 1 project and the Rosario-Biñan (RoBin) spur line has been moved to 2008-2011 while implementation of the BatMan² natural gas pipeline, including the LNG terminal in Bataan, is targeted in 2008-2012.

An additional 16 CNG buses are targeted to operate within 2009. Under the NGVPPT, 100 percent of public utility buses plying the major routes of Metro Manila are targeted to be CNG-fueled by 2010.

With natural gas fast becoming the major fuel of the country, provision of support in the passage of the Natural Gas Bill in both Houses of Congress will be continued.

Increase Use of Alternative Fuels

Implementation of the Biofuels Act of 2006 shall be closely monitored and evaluated by the National Biofuels Board (NBB), as created by the Law, to achieve the mandated fuel blends.

Development of other feedstock oils for biodiesel and bioethanol shall be encouraged through research. The DA in coordination with DOST shall identify and develop viable and quality feedstock for biofuels and shall institute a program that would guarantee a sufficient and reliable supply of feedstocks for biofuel production. Compliance with MC 55 shall be continuously monitored. Recently, jatropha seeds from PNOC-AFC nursery-cum-plantation extracted into crude oil by the Technological University of the Philippines (TUP) and transesterified² by Chemrez passed some of the chemical properties (e.g., viscosity, iodine value, percent free fatty acids, flash point and total glycerine) of both American and European standards.

Twenty to 70 refilling stations shall be installed under the country's Autogas Program to meet the growth in market demand of an estimated 1,500 converted autogas vehicles between 2008 to 2012. Moreover, stakeholder consultations are to be held in metropolitan areas across the country to gather issues and additional information necessary for the formulation of a policy framework in implementing the use of LPG in the transport sector.

² This refers to the process used to convert vegetable oil, animal oil/fats, tallow and waste cooking oil to biodiesel.

Enhance Implementation of the Energy Efficiency and Conservation Program

The government shall continue to implement its energy efficiency and conservation program to generate an annual average savings of 17.7 MMBFOE. To enhance the implementation of the program, government agencies will take the lead in energy efficiency and conservation. Policies and guidelines on energy-efficient lighting will be reviewed and formulated in coordination with concerned agencies.

The Energy Conservation Bill will be refiled in Congress. The bill aims to institutionalize energy conservation and enhance the efficient use of energy in the country.

Address the Threats of High Oil Prices to the Philippine Economy

To supplement the above strategies on achieving energy independence, the government will also advocate for the implementation of the following measures to minimize the impacts of any world oil price hike on the Philippine economy:

- Enhance enforcement and monitoring of energy rules and regulations through the operationalization of the Presidential Task Force on Energy Security;
- Proactively modify tariff duties for crude and refined petroleum products based on set trigger price levels;
- Ensure the high operating/thermal efficiency of oil-based power plants;
- Institutionalize demand-side management based on acceptable international standards;
- Increase the number of gasoline stations offering diesel price discounts for jeepneys; and
- Explore the feasibility of oil stockpiling

SUPER REGIONS STRATEGY

North Luzon Agribusiness Quadrangle (NLAQ)

The NLAQ has a rich alternative energy resource of wind power. Wind power projects (Saoit and Nagsurot Wind Power, Pagudpud 1 and 8.25 MW Northwind) are lined up to address the projected power demand by 2012.

The PhP780million, 33 MW Bangui Bay Wind Project Phase II in Ilocos Norte is expected to provide an estimated annual power production of 24.60 GWh. The additional 5 x 1.65 MW wind turbine units comprising Phase II were opened for commercial operation in June 2008.

The Cagayan Economic Zone Authority (CEZA) is currently soliciting private sector investment in the proposed back-up power system (as a new coal-fired power plant) in the area. The installation of the plant will provide a continuous power supply in the Cagayan Freeport.

Luzon Urban Beltway

The current dependable power capacity in Luzon will not be able to meet the projected power demand and required reserve starting 2012 due to growth coupled by the retirement of Hopewell and Malaya plants by 2010 and 2011, respectively. An additional capacity of about 150 MW is required.

Private sector parties have indicated their intentions to increase the capacities of existing plants. Tokyo Electric and Marubeni through Team Energy Corporation announced a US\$350-million expansion of the Pagbilao Coal-Fired Power Plant by 350 MW in 2010-2011, while Sumitomo and J. Powers are currently undertaking a feasibility study for a 360 MW expansion of the Caliraya Botocan Kalayaan Power Plant in 2010-2011.

Central Philippines

By 2009, the projected power demand in the Visayas Grid is expected to exceed the existing dependable capacity by about 200 MW. Two power projects are seen to temporarily address this problem; the 20 MW Nasulo Geothermal Power in Negros (being implemented by PNOC-EDC); and the 200 MW KepCo CoalFired Power Plant in Cebu. Both projects will be commissioned in 2009-2010.

Several geothermal power projects are being studied and proposed in the light of the abundant geothermal resource in the region. In addition, privatization of the geothermal power plants in Negros Oriental, Southern Leyte, Albay, and Sorsogon on an “as is where is” basis is perceived as a solution to expand energy capacity before 2009. Moreover, an ethanol corridor in the island of Negros shall be created from San Carlos City in the north to Tamlang Valley in the south. Site development activities for the PhP1.78 billion San Carlos Bioenergy project in Negros Occidental are currently going on, with target operation by early 2009.

Mindanao

The completion of the 210 MW Mindanao Coal Fired power plant in 2006 increased the aggregate dependable capacity to about 1,706 MW, resulting in adequate power in Mindanao until 2008. By 2009, however, Mindanao will need an additional 100 MW peaking capacity to meet demand growth while maintaining reserve margins to ensure sufficient supply of power. Load growth is expected annually, hence, projected required incremental capacity from 2009 to 2014 is 850 MW.

To ensure that Mindanao has sufficient supply of power, several generation projects are planned, namely, the 1 MW Sipangpang MHP in Surigao del Sur, the additional capacity addition of 42.5 MW to the Sibulan HEP in Davao del Sur, the 110 kW Panoon Falls MHP in Impasug-ong, Bukidnon, the 50 MW Mt. Apo 3 Geothermal Power Project and the 100 MW potential expansion of Mindanao Coal. All the plants are targeted to be commissioned by 2009.

Chapter 11

Power Sector Reforms

As mandated under Republic Act (RA) 9136 or the Electric Power Industry Reform Act (EPIRA) of 2001, the restructuring of the electric power industry aims to ensure that electricity rates are fair and competitive and to make existing and emerging industries in the electric power industry competitive without compromising quality. The law also plans to improve reliability and adequacy by increasing competition and economic efficiency in the delivery of electricity services. These goals can be achieved through the unbundling of rates, operation of the wholesale electricity spot market (WESM), and introduction of open access and retail competition, among others. Its implementation by the Department of Energy (DOE) and other concerned agencies is deemed critical to achieving sectoral goals.

ASSESSMENT AND CHALLENGES

Since the implementation of the EPIRA, the restructuring of the energy sector has proven to be a lengthy and tedious process. To ensure the smooth transition and adaptation into a competitive and efficient electricity market, the government has focused on addressing financial and institutional concerns and challenges. These challenges are rooted in the historical governance and political economy of the electric power industry which continued to place the power sector in an extremely difficult position. These concerns include the huge financial losses of the National Power Corporation (NPC), slow implementation of power market reforms including privatization, high distribution losses, and sustainability of rural electrification programs.

Address NPC Losses

The year 2006 saw NPC sustaining its profitability by posting a net income of PhP90 billion in 2006, following a successful financial recovery the previous year with a net income of PhP86 billion after 10 years of net loss. For 2007 and 2008, NPC continued to sustain its positive financial performance by generating more revenues and continually improving the efficiency of its power plant operations.

Assure the Successful Privatization of TransCo, NPC Generation Assets and NPC-Independent Power Producer (IPP) Contracts

The privatization of at least 70 percent of NPC's generating assets is a requisite to the full operation of open access and retail competition, as well as an important nontax revenue-generating measure. Previous efforts to privatize NPC failed mainly because of the absence of a ready market to assure returns in the bidders' investment. Hence, successful sales of large-scale plants in recent years are credited primarily to the attached transition supply contracts (TSCs) as well as the improved competitive climate in the power industry.

Towards this, 15 out of the 31 generating plants identified for privatization have been bid out since 2004. In 2007 alone, four plants were successfully bid out (Masinloc, Calaca, Ambuklao and Binga). For 2008, the Manila Thermal Power Plant, a decommissioned plant of NPC, was successfully privatized through a negotiated sale on April 25, 2008. The 747.53-megawatt (MW) Tiwi-Makban Geothermal Plant

located in Albay and Laguna was also successfully privatized on July 30, 2008. In addition, the 146.5 MW Panay and 22 MW Bohol Diesel Power Plants were bid out on November 12, 2008.

These privatization efforts met, albeit delayed, the targeted 70 percent privatization of NPC assets in Luzon and Visayas mandated under the EPIRA, by the end of 2005. The 13 NPC-owned generating plants are located in the Luzon and the Visayas grids and have a total rated capacity of 2,766.43 MW or about 73.2 percent cumulative privatization level (Table 11.1)

Table 11.1
Privatization Level of Generation Assets

Year	Generation Plants (Per Grid)	Fuel Type	Rated Capacity (MW)	Percent (%) Contribution to Privatization Level ^a
2004	Luzon			
	Barit	Hydro	1.80	0.05
	Cawayan	Hydro	0.40	0.01
	Visayas			
	Loboc	Hydro	1.20	0.03
	Sub-Total (MW and % Level of Privatization)		3.40	0.09
	Mindanao			
	Agusan	Hydro	1.60	Not Included ^b
	Talomo	Hydro	3.50	Not Included ^b
2006	Luzon			
	Pantabangan-Masiway	Hydro	112.00	2.97
	Magat	Hydro	360.00	9.53
	Sub-Total (MW and % Level of Privatization)		472.00	12.50
2007	Luzon			
	Masinloc	Coal	600.00	15.88
	Calaca	Coal	600.00	15.88
	Ambuklao-Binga	Hydro	175.00	4.64
	Sub-Total (MW and % Level of Privatization)		1,375.00	36.40
2008	Luzon			
	Manila Thermal (decommissioned)		na	na
	Tiwi-Makban	Geothermal	747.53	19.80
	Visayas			
	Panay-Bohol	Diesel	168.50	4.46
	Sub-Total (MW and % Level of Privatization)		916.03	24.26
	T O T A L		2,766.43	73.25 %
	TOTAL CAPACITY OF LUZON-VISAYAS GRID		3,777.43^c	

Source: PSALM, July 2008

a/ This refers to the capacity of the plant vis-à-vis the total operating capacity of the Luzon-Visayas Grids of 3,777.43 MW.

b/ Section 47-i of the EPIRA provides that at least 70 percent of the total capacity of generating assets of NPC and of the total capacity of the power plants under contract with NPC located in Luzon and Visayas shall be privatized for the initial implementation of open access.

c/ This refers to the capacity of the plant vis-à-vis the total operating capacity of the Luzon-Visayas Grids of 3,777.43 MW. PSALM submitted to the ERC in March 2007 the list of generating assets identified for privatization with total generating capacity of 4,335.7 MW which became the basis for the 70 percent open access and retail competition (OARC) requirement. Said list included Limay Combined-Cycle Plant Blocks A & B (620 MW) which are NPC-IPPs whose BOT contracts will expire in April and October 2008, respectively, after which, it will be transferred to NPC. PSALM has now come up with a revised list of Genco assets owned and operated by NPC, excluding the NPC-IPPs that will expire and will be transferred back to NPC with total generating capacity of 3,777.43 MW. The revised asset list indicating the privatization schedule and targets shall be submitted to the ERC for information on OARC timelines.

After the EPIRA's enactment in 2001 and the approval of its Implementing Rules and Regulations (IRR) on February 27, 2002, the National Transmission Corporation (TransCo) was placed on the auction block. By the time the Power Sector Assets and Liabilities Management (PSALM) was ready to bid out TransCo in 2003, investors were already hesitant to participate because of perceived political uncertainties brought about by the May 2004 elections. In July 2003, only one party submitted a prequalification proposal, and in August 2003, only one submitted an Expression of Interest. In both cases, the biddings were declared failures.

In the second half of 2004, PSALM opened discussions with qualified, interested parties on the concession agreement for the operation of TransCo. The discussions were, however, terminated because the terms and conditions, including the price of the investors' proposals were highly unique and complex. Given this situation and to fully satisfy expectations of transparency from all sectors, it was decided that the concession be awarded through public bidding. In February 2007, only one submitted a bid proposal, marking the third failed bidding.

For the fourth round, PSALM built on its previous experience and improved its administrative approach in privatizing TransCo involving oversight agencies comprising the PSALM Board. The Office of the Government Corporate Counsel, PSALM's statutory counsel, provided support on legal issues. PSALM also reviewed the bid documents and bidding procedures to address investor needs. To broaden investment base and generate investor feedback, an international roadshow for the TransCo bid was held in July 2007. Government assistance in securing a Congressional franchise was also provided for under the bid documents. The Constitution requires the operator of a public utility, such as the nationwide transmission assets of TransCo, to first get a franchise from Congress before it can run the public utility. This means that under the TransCo bidding rules, the winning bidder must incorporate a concession corporation which will apply for a franchise from Congress to operate TransCo. The winning bidder has one year from its receipt of a notice from PSALM to obtain the congressional franchise.

Two prequalified bidders submitted offers for the final stage (submission/opening of the technical proposal and financial bid) of the bidding process, held on December 12, 2007. The consortium of the Monte Oro Grid Resources Corp. (MOGRC), Calaca High Power Corp. and State Grid Corp. of China (SGCC), incorporated and approved by the Securities and Exchange Commission (SEC) on February 21, 2007 as the National Grid Corporation of the Philippines (NGCP), emerged as the highest bidder with a bid price of US\$3.950 billion for the concession contract. PSALM issued the notice of selection to the NGCP consortium on January 11, 2008 and undertook postqualification activity after the bidding to validate the documents submitted by the consortium. After the execution and delivery to the Concessionaire, the Concession Agreement became effective on February 28, 2008 and it submitted its franchise application to Congress on March 10, 2008.

RA 9511 (An Act Granting the National Grid Corp. of the Philippines a Franchise to Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-Bone System of Interconnected Transmission Lines, Substations and Related Facilities, and for Other Purposes) was signed into law by President Gloria Macapagal-Arroyo on December 1, 2008. In accordance with the Concession Agreement, the law mandated the transfer of the franchise of the government-owned power grid operator TransCo to NGCP and allowing the private concessionaire to commence its operation, maintenance and expansion of the electric transmission grid for 50 years.

Pursuant to the EPIRA, TransCo's subtransmission functions and assets have been segregated from the transmission assets and were operated and maintained by TransCo until their disposal to qualified Distribution Utilities (DUs). In accordance with RA 9511, the Concessionaire shall continue the operation

and maintenance of the unsold sub-transmission systems. As of June 30, 2008, 1,855 circuit-kilometers (ckm) of sub-transmission lines worth PhP2.52 billion have been sold to 42 DUs. In addition, 17 of the 42 successfully negotiated Sale Contracts have been approved by the Energy Regulatory Commission (ERC). Barriers to the divestment of subtransmission assets yet to be addressed include lack of financially and technically qualified DUs, lack of interest from qualified DUs, low load for the sub-transmission assets, and high maintenance costs.

Transfer Management and Control of at least 70 percent of Total Energy Output of Power Plants under Contract with NPC to Independent Power Producers/Administrators (IPPs)

The bidding for the IPPAs is both complex and unprecedented, with no international experience to draw upon. It requires a considerable period for the development of the structure and a comprehensive review by the implementing agency to ensure that the IPPA selection will yield positive and optimum results for the government. Moreover, the WESM, where energy output will be traded, was launched only in June 2006. PSALM currently serves as the interim IPPA, by trading the NPC/PSALM independent power producers (IPP) output into the WESM on a daily basis.

Despite this, PSALM is accelerating the privatization of the energy contracts of NPC with IPPs through the selection of IPP administrators since this is one of the preconditions to open access and retail competition. IPPAs are qualified independent entities that will administer and manage the energy output contracted by the NPC with IPPs operating in Luzon and the Visayas.

On November 5, 2008, the bidding for IPPAs selection commenced with the publication of the invitation to bid for the 1,000 MW Sual power plant in Sual, Pangasinan and the 700 MW Pagbilao plant in Pagbilao, Quezon, both presently operated by Team Energy under build-operate-transfer (BOT) contracts that will expire in 2024 and 2025, respectively. The bid date has been set on February 20, 2009.

Absorb NPC Debt

The PhP200 billion debt absorption was mandated by Congress in 2001 to acknowledge the need for government to assume part of the obligations of NPC. Otherwise, its entire debt obligations would have been passed on to consumers through higher electricity rates. The debt absorption is also a necessary step to complete the sale of NPC's assets. In accordance with the EPIRA, NPC's official creditors have included debt absorption as among the preconditions for giving their consent to the sale and transfer of its assets.

Executive Order (EO) No. 370 was signed on October 12, 2004 to start the debt assumption beginning December 31, 2004, and documentation of which was completed in March 2005.

Proceeds from the sale and privatization of NPC assets are being utilized for the payment of its debts. On September 16, 2008, PSALM prepaid two yen loans of NPC totaling ¥19.76 billion (US\$184.14 million). The loans were extended by the Asian Development Bank (ADB) and the Japan Bank for International Cooperation (JBIC) to the NPC for the 600 (MW) Masinloc coal-fired power plant in Zambales, which was successfully privatized in 2007. The ADB loan amounted to ¥12.66 billion, (US\$117.82 million) while the JBIC loan reached ¥7.10 billion (US\$66.32 million).

PSALM's aggregate prepayment amounting to US\$1.30 billion has substantially contributed to cutting NPC's total debts from US\$7.01 billion as of end-2007 to US\$5.8 billion as of September 2008.

Aside from savings on interest payments and guarantee fees, the prepayments reduced NPC's foreign currency debt by 4 percent, and increased the peso component of the debt currency mix by 2 percent to 13 percent.

Formulate Pricing Policy for Transmission and Distribution

To promote a regulatory environment that makes returns and risks manageable for investors, the Energy Regulatory Commission (ERC) has shifted from the Return on Rate Base approach to the Performance Based Regulation (PBR) for TransCo and private utilities. The Transmission Wheeling Rate Guidelines (TWRG) and Distribution Wheeling Rate Guidelines (DWRG), which it promulgated on May 29, 2003 and December 10, 2004, respectively, set out the performance-based methodology to be used in setting transmission and distribution rates to ensure appropriate and reasonable pricing of electricity.

Explore Financial Engineering Methods

The liability management and financing plan of PSALM covering loans of up to US\$2.4 billion of NPC's debts was approved. Most of the loans will mature between 2009-2011. The targeted documentation and compliance work to get government approvals for the purpose of prepayment (termination) of certain loans denominated in volatile currencies are ongoing.

A Principal-Only Swap (POS) transaction was executed on July 18, 2007, fixing US\$300 million of NPC's obligations at a dollar to peso rate of US\$1 to PhP44.788 until the maturity year in 2028 for a competitive premium interest of 2.867 percent per annum. This premium is effectively the cost of fixing the exchange rate of the dollar debt to PhP44.788. Accordingly on maturity date (2028), whatever the exchange rate is, NPC/PSALM is only obligated to pay at the fixed exchange rate of PhP44.788 per US\$.

The 2008 global financial turmoil affected one of PSALM's underwriters which went bankrupt. On September 23, 2008, the joint NPC and PSALM Boards approved the termination of US\$100 million POS with Lehman Brothers Special Financing, and gave authority to proceed with a competitive bid for a replacement swap with three potential counterparties. On November 7 of the same year, the lowest annual premium bidder (with prepayment option on November 15, 2009), Union Bank of Switzerland, was awarded the Replacement POS as NPC/PSALM's Counterparty.

Since NPC's revenues are in peso and almost 88 percent of its debts are in foreign currency, foreign exchange losses incurred during the years after the 1997 Asian Financial Crisis significantly accounted for the increase in the cost of its debts. Thus, the POS transaction is important for NPC/PSALM since it serves as liability insurance, as it increases the peso component of NPC debts in order to reduce exposure to foreign exchange fluctuations/risks and subsequently lower costs of debt.

The current appreciation of the peso today provides for a better time to hedge and change the company's foreign exchange obligations to peso as the company can recognize the foreign exchange gains immediately and take advantage of the nine-year low peso interest rates.

Due diligence was undertaken by a technical working group (TWG) created on January 19, 2007 to facilitate the documentary requirements for the filing of the universal charge (UC) for the recovery of stranded contract cost (UC-SCC) and stranded debt (UC-SD). The Rules for Recovery of NPC Stranded Contract Costs and Stranded Debts Portion of the Universal Charge were issued by the ERC in February 2007 and became effective a month later.

Through a letter dated June 06, 2007, PSALM informed the ERC that the PSALM Board deemed it practical and prudent to approve PSALM management's recommendation not to file the UC-SD/SCC for 2007. For 2008, PSALM informed the ERC on June 26, 2008 that the PSALM Board approved another PSALM Management's recommendation not to file the UC-SCC and UC-SD. This is because after considering the privatization proceeds, calculations showed that no SCC for the eligible IPPs in the Luzon Grid has been incurred by NPC in 2007, and no SD is expected for 2008.

Strive to Reduce Electricity Rates

Facilitate Establishment of WESM and Introduce Open Access and Retail Competition

The WESM started operations in the Luzon Grid in June 2006, six months behind the scheduled target date of December 2005 due to the firming up of the terms of reference (TORs) for market participants. Nine generators and 12 DUs participated with a total volume of 20,362,490 MWh traded from June 26 to December 25, 2006. This included spot transactions and volumes covered by bilateral power supply contracts. As of March 30, 2007, participation has increased to 20 generators and 15 distribution utilities (DUs).

On the other hand, DOE has recently deferred the commercial operations of WESM in the Visayas due to inadequate capacity both in the transmission and generation facilities. Nonetheless, the Philippine Electricity Market Corporation (PEMC), as the market operator, continued implementation of the live dispatch operations in the Visayas.

The July 2006 target of implementation of open access for end-user with a monthly average peak demand of at least one MW for contestable market for Luzon was not attained. Since privatization of 70 percent of the total capacity of the generating assets of NPC in Luzon and Visayas has been attained, and transfer of the management and control of at least 70 percent of the total energy output of power plants under contract with NPC to the IPPAs as prescribed by the EPIRA is being accelerated, the implementation of open access for Luzon is anticipated by 2009.

Strengthen the Electric Cooperatives (ECs)

The National Electrification Administration (NEA) had targeted to increase the number of category A+ and A ECs¹ by 10 percent in 2010, and conduct high-level management training for ECs and NEA through the Management Academy in 2005. This is to increase ECs' technical competency in sustaining the viability of their distribution utilities under the restructured power industry. As of 2007, 73 ECs were rated A+ and A, which already represents a 21.67-percent increase over the 2003 level of 60 ECs. Meantime, the NEA Management Academy for Rural Electrification forged a partnership with the University of the Philippines–National Engineering Center (UP-NEC) for the conduct of Competency Training and Certificate Programs in Electric Power Distribution System Engineering to train DU engineers. The courses have been offered in UP-NEC since 2005.

NEA also monitors the national average system loss level of ECs, targeted from 15.08 percent in 2003 to 13 percent in 2005 and to single digit level by 2010. As of the third quarter of 2008, the national

¹/ Annual EC Categorization is undertaken to evaluate the operating performance of ECs based on prescribed criteria and scoring system established by NEA, with Category A+ having the highest points of 90 and above (Outstanding), and E the lowest (29 points and below). It serves as a tool to determine appropriate measures that can be instituted specially for ECs wanting in performance and to motivate each to achieve viability in their operation.

average system loss level was monitored at 13.92 percent, a slight decline from the 2007 level of 13.87 percent. It was noted that some provisions of the Magna Carta for Residential Electricity Consumers (e.g. Article 19: right to tender payment at point of disconnection or deposit representing billing; Article 20: right to service despite arrears of previous occupant; Article 18: right to suspension of disconnection if holidays, sick, funeral etc.) weakened the implementation of the Anti-Pilferage Law, contributing to the non-attainment of original targets.

Implementation activities aimed at reducing household service interruptions are currently not monitored since assessment of service reliability is being held in abeyance, pending the issuance of standards by the ERC. It is in the process of preparing the guidelines for a new rate-making methodology for ECs that will promote access to capital, improve its efficiency, and reduce regulatory costs. Thus, an initial study was conducted to establish a database on EC household service interruptions.

Present evaluation of national average non-power cost level is based on ECs' individual unbundled rates as approved by ERC, with the approved Revised Standard Formula and Parameters for non-power cost of ECs being implemented. As of 2006, non-power cost level was 15 percent against the targeted reduction of non-power cost of 10 percent by 2010.

Reduce Stranded Costs

The year 2007 saw the conclusion of the IPP renegotiation started in 2003 (against the target conclusion by 2005) with clearance secured for the remaining four out of 35 IPP contracts (i.e., contracts for the Limay A & B Combined Cycle Plant, for Mindanao Barges 117 and 118, Malaya and Ilijan Agreements, and 200 MW Bauang Power Plant Complex).

The renegotiations proved to be meritorious exercises as these were able to realize the following:

For the IPPs, these served to put closure to the Inter-Agency Committee issues and public criticisms that had placed a cloud of doubt over the legality and enforceability of their contracts. The IPP renegotiated agreements have also been cleared by the National Economic and Development Authority-Investment Coordination Committee (NEDA-ICC) and, where appropriate, involved the assistance of the Department of Justice.

For the consumers, these provided tangible savings that could benefit end-users to reduce future funding needs of NPC. When the first batch of IPP contracts were successfully renegotiated in December 2003, the reduction in stranded contract cost led to an estimated potential savings of US\$1.028 billion in discounted present value terms. Additional potential savings of US\$19.51 million in net present value terms were posted in 2006 with the securing of clearance for the operation, maintenance, and repair agreement between NPC and Asea Brown Boveri (ABB) Power (later on acceded to Alstom) for Limay. In 2007, the approved supplemental agreement for the Power Barge 117 and 118 and general framework agreements for the BOT arrangement with the Bauang bunker-fired diesel power station provided estimated potential savings of PhP177.04 million and PhP5.97 million, respectively, in present value terms.

For the Administration, these manifested the government's adherence to the rule of law and the primacy of valid contracts, maintaining the good relationship between the government and private sector investors.

Provide Competitive Power Rates/Time-of-Use Electricity Pricing

The development of metering market rules was targeted by 2005 to allow implementation of the time-of-use tariff. The ERC released an Order on June 27, 2007 granting provisional approval on Manila Electric Company (MERALCO)'s application for time-of-use rates. Furthermore, they provided the Rules to Govern the Implementation of the Time-of-Use Retail Rates of Distribution Utilities Sourcing 100 percent of Their Power Requirements from the National Power Corporation in October 2007. The NPC and MERALCO are presently implementing the Time-of-Use (TOU) Rates to all of its bulk customers that include DUs and industries to reflect the true cost of power production.

To further give impetus to the objective of providing competitive rates, two other programs were implemented – the Enhanced One-Day Power Sales (e-ODPS) and the Customer's Choice Program (CCP). The e-ODPS allows consumers undertaking self-generation to avail of rates lower than those approved by the ERC, if not the cost of generating from their own facilities. The CCP, meanwhile, provides MERALCO franchise customers the choice to avail of NPC's TOU rates.

Eliminate Cross-Subsidy

The inter-regional grid cross subsidy was removed upon approval of the unbundled tariff of NPC in 2002; while the intraregional grid cross subsidy was completely removed in 2005. However, removal of inter-class cross subsidies is currently in various phases of implementation vis-a-vis the expected target of complete removal by October 2005. Sixty-seven ECs have already completely phased out their inter-class cross subsidies, and the remaining 53 ECs are still implementing the gradual removal of cross subsidies. Sixteen out of 18 or 88.9 percent of Private Utilities (PUs) have completed the removal of inter-class cross subsidies while two remaining PUs are still in the process of gradual removal.

As of June 30, 2008, the ERC has already issued final authorities to implement rate reduction resulting from condonation of loans to all of the 120 ECs. However, 12 ECs have not yet implemented the final rate reduction and were issued Show Cause Orders by the ERC.

Lifeline Rates

Full implementation of Lifeline Rates to marginalized consumers with minimal market distortions was achieved in 2004 as targeted.

On December 10, 2008, the ERC promulgated its decision in ERC Case No. 2008-016 RC on the petition of the Bureau of Trade Regulation and Consumer Protection- Department of Trade and Industry (BTRCP-DTI) for the approval of a new lifeline rate for marginalized end-users of MERALCO and other measures to achieve reduction of power rates. In its decision, ERC granted MERALCO's marginalized customers whose consumption levels fall below 21/kwh per month a 100-percent discount, an increase from the previous 50 percent.

Encourage Private Sector Participation

In WESM and Retail Competition with Open Access Provision

Full market competition has been deferred due to the delay in meeting the EPIRA-prescribed NPC asset privatization level. Meanwhile TransCo has been providing the Luzon WESM on a daily basis with

meter data from 497 active metering points as of June 2008, using its Automated Meter Reading (AMR) System since 2006. This is in preparation for the activities under WESM operations, Retail Competition and Open Access.

Even as Visayas WESM has been deferred, TransCo has completed the commissioning of the Vis/Min AMR System. Communication links have been installed in 199 out of 205 metering points, which are equipped with WESM-ready meters as of end-2007.

From January to June 2008, the total number of Metering Installations (MIs) equipped with telephone links reached 711 nationwide, including Mindanao, where 105 WESM-ready meters have been installed and communication links installed in 15 of these meters.

In the Privatization of NPC-Small Power Utilities Group (SPUG) Areas

Financially viable SPUG areas were offered to the private sector in pursuit of the targeted privatization of the first wave areas. These comprised 14 SPUG areas originally targeted by December 2005. However, due to lack of interest from investors, among others, only eight of these island grids thus far have identified their respective New Power Providers (NPPs) while two areas are in the process of being awarded and transferred to their NPPs.

In July 2007, the National Power Board approved opening to private sector participation 61 additional SPUG areas. However, these additional areas are currently awaiting approval from ERC.

In Waived and Missionary Electrification Areas

The 2004 Missionary Electrification Development Plan (MEDP) is intended to provide a framework for how government and the private sector can collaborate to achieve the objectives of the Expanded Rural Electrification Program. DOE is updating the MEDP 2007-2011 as the basis for approval of UC-ME subsidy to Qualified Third Parties (QTPs), New Power Producers (NPPs) and NPC-SPUG for offgrid missionary electrification. As mandated under the EPIRA, DOE continuously implements the QTP Program vis-a-vis the original target date of implementation of some waived areas by ECs since December 2004. Currently, DOE and ERC along with other concerned government agencies are collaborating on the full development of the QTP Program. To date, there are two pilot QTPs involved in the rural electrification program located in Palawan and Masbate and DOE is assisting both firms in filing their application as QTPs to ERC.

In Investment Management Contracts (IMCs) for ECs

Through Department Circular No. 2004-06-007, the DOE endorsed the IMC as one mechanism for private sector participation in the management and operations of the ECs and for them to gain access to private sector capital and management expertise.

In 2006, two IMCs were concluded between ECs and the private sector as against the target of at least six IMCs transactions by 2011. These include Camarines Sur IV Electric Cooperative, Inc. (CASURECO IV), which signed an IMC with Salcon Power Corporation on September 20; and Pampanga III Electric Cooperative, Inc. (PELCO III), which entered into an IMC with Asiaphil Management Resources Inc. (AMRI) on October 25.

However, CASURECO IV requested a moratorium on the implementation of its IMC due to various disagreements on the interpretation of the contract. CASURECO IV took over the management of the EC from Salcon Power on February 7, 2007. At the same time, there is an ongoing case filed by Mayor Marcel S. Pan of Goa, Camarines Sur, at Branch 30, Regional Trial Court, 5th Judicial Region, in San Jose, Camarines Sur on the legality of the IMC between CASURECO IV and Salcon Power in May 2007.

Meanwhile, both PELCO III Board of Directors and AMRI rescinded their IMC on July 30, 2007 due to labor disturbances and hostile protests and threats to AMRI personnel.

To date, DOE is finalizing the contract for the Technical Assistance (TA) on the Review and Assessment of IMC Program for ECs. This aims to provide a third party review of the IMC program and assist the agency in coming up with the appropriate decisions on the future of the IMC.

In the Provision of New and Efficient Energy Infrastructure in Power Generation

The review of sale structures and bid procedures for privatization of generating assets is periodically done to ensure that the program is in touch with investor interest and concerns while remaining committed to transparency of the privatization process.

In addition, government constantly promotes business opportunities in power generation with the private sector through the conduct of marketing activities such as investors' forums, surveys, and presentations and local and international roadshows. PSALM also complies with the procurement procedures of government biddings by advertising the power assets on the selling block through publication of notices.

Ensure Sufficient and Reliable Power Supply Delivery and System Efficiency Improvement

The sectoral target is to continuously implement transmission system upgrade and expansion program in order to provide efficient and reliable service to end-users.

From 2004 to 2007, the Philippine high-voltage backbone expanded by 514.9 ckm through 13 transmission line projects. In addition, the capacity of substations expanded by 2,330 megavolt amperes (MVA) through 23 substation expansion projects.

As of end-2007, the backbone cumulative capacity stood at 12,678.89 ckm of transmission lines with 22,574.0 MVA substation capacity, and 7,450.49 ckm of sub-transmission lines with 2,157.7 MVA of substation capacity.

Implement Total Barangay Electrification

It was the government's policy to ensure and accelerate the total electrification of the country originally by 2008. Nationwide, 40,775 barangays have been provided access to electricity, leaving 1,205 barangays yet to be energized. This brings the barangay-level electrification from 89 percent in 2003 to 97.13 percent as of September 30, 2008. Status of electrification in the four Super Regions is as follows:

Northern Luzon Agribusiness Quadrangle, 98.45 percent; Metro Luzon Urban Beltway, 99.10 percent; Central Philippines, 97.73 percent; and Mindanao, 93.37 percent².

STRATEGIC FRAMEWORK

Achieving the national development agenda remains a challenge to concerned agencies, based on the assessment and review of their performances from 2004 to 2007.

Address NPC Losses

Accelerate Privatization of TransCo and NPC Generation Assets and Transfer of Management and Control of NPC IPP Outputs to IPPAs

The government will accelerate the privatization of NPC generation assets. To facilitate the privatization efforts, TSCs for assignment to prospective winning bidders shall continuously be negotiated with NPC. PSALM is in discussion with the Philippine National Oil Company-Energy Development Corporation for possible amendments to the long-term steam supply agreement which will be attached to the Palinpinon-Panay plant package. This will take into consideration the issues raised by the Joint Congressional Power Commission (JCPC), the overseer of the government's power assets privatization program. The steam supply agreement assures prospective bidders of a stable supply of steam to fuel the Palinpinon facility. JCPC Resolution 2006-1 requires that this agreement, now called the geothermal resources supply contract (GRSC), be subject to its approval.

In the light of the limited developing country experience on contractual arrangements related to IPP Administration, a TA on the assessment of market revenues and fuel costs of PSALM/NPC IPPs and IPPA and legal assistance for the implementation of IPPAs are currently being implemented under the WB's Policy on Human Resources and Development (PHRD) and ADB grant administered by the DOE. The approval and issuance of bid packages for the Luzon IPPA selection are targeted within the third quarter of 2008 while bidding is targeted to commence within the first quarter of 2009.

Upon the enactment of RA 9511 and upon turnover of TransCo to the Concessionaire, it is understood that the NGCP will undertake the implementation of previously approved/ongoing TransCo projects. Furthermore, investments on the national transmission system are to be considered private sector investments. This notwithstanding, it should be noted that according to the law, TransCo's private concessionaire is mandated to ensure the continued implementation of priority projects identified in the Transmission Development Plan, subject to amendments or modifications of the said Plan, as may be approved by the DOE. In addition, RA 9511 states that the maintenance, operation and management of the transmission system, grid and related facilities, shall be in accordance with industry standards and the requirements of the ERC, giving NGCP the duty to modify, improve and change such system or facilities as may be reasonably required.

Continue NPC Debt Absorption and Liability Management

The implementation of the liability management and financing plan will be continued, covering NPC loans of up to US\$2.4 billion, most of which will mature between 2009-2011. Government

2/ DOE, June 2008

absorption of NPC debts is seen to lower interest payments for NPC requirements to 0.3 percent of the gross domestic product over the medium term.

Explore Financial Engineering Methods

Fund-raising and hedging transactions remain a major approach in managing liabilities and addressing financial gaps. PSALM shall also continue the targeted documentation and compliance work to get government approvals for the purpose of the prepayment (termination) of certain loans denominated in volatile currencies using privatization proceeds.

Strive to Reduce Electricity Rates

Accelerate Open Access and Retail Competition

The government targets to commence open access and retail competition in Luzon and Visayas, given that 70 percent of NPC's generating assets have been privatized and the transfer of management and control of 70 percent of total energy output of NPC's IPP contracts to its administrators is being accelerated.

ERC has issued Resolution No. 3 dated January 24 2007, prescribing a timeline for the implementation of Open Access and Retail Competition in Luzon. Retail Competition and Open Access shall commence upon the privatization of 70 percent of NPC's generating assets and transfer of management and control of 70 percent of total energy output of NPC's IPP contracts to IPPAs. Pursuant to the provisions of the EPIRA, the contestable market shall initially consist of customers with at least 1 MW monthly demand. Two years after, the contestable market shall be expanded to customers or aggregated customers with at least 750 kilowatts (kW) monthly demand. Within the succeeding seven years, the threshold level shall be reduced annually until it reaches the household level.

The timetable for Retail Competition and Open Access in the Visayas and Mindanao Grids shall be determined separately. Such accelerated implementation aims to empower consumer choice in the contestable market, which leads to increased competition and contributes to the lowering of electricity rates.

The 14th Congress, through the House Committee on Energy, intends to accelerate the implementation of open access and retail competition through the amendment of the EPIRA. Moreover, proposed amendments aim to lower electricity rates by limiting the Power Purchase Agreements (PPA) costs and other such charges incurred by NPC, which are passed on to the consumers through the universal charge.

Continue Strengthening of ECs

The NEA will continue to assist ECs in strengthening their technical competency in sustaining the viability of their distribution network. While possible amendments to the Magna Carta are being explored, NEA system loss reduction targets have been reduced to 13 percent by 2008, 11 percent by 2009 and 9 percent by 2010. On the other hand, a 15 percent nonpower cost level for ECs is targeted by 2010, while the target to increase the number of category A+ and A ECs by 10 percent was revised to 75 ECs rated A+ and A from 2008 to 2010.

On December 8, 2008, ERC approved its Resolution Adopting a New System Loss Cap for Distribution Utilities, that lowered the maximum recoverable rate of system losses (technical and nontechnical) of the total kilowatt hours generated, purchased and distributed by electric distribution utilities nationwide. For privately owned utilities, the threshold was lowered from 9.5 percent to 8.5 percent while for rural electric cooperatives, recoveries were capped at 13 percent from a previous rate of 14 percent. The new system loss caps will be effective beginning January 2010.

Actively Promote Private Sector Participation

The government will continue offering exploration blocks and service contracts for various indigenous energy sources to private investors. Advertisement of business opportunities in the power generation market and conduct of investor's fora and road shows will be continued.

RA 9513 or the Renewable Energy Act of 2008 was signed by President Arroyo on December 16, 2008 granting fiscal and non-fiscal incentives to renewable energy activities. The preparation of the Implementing Rules and Regulations is ongoing to facilitate the law's implementation in the energy market.

Continue to Ensure Sufficient and Reliable Power Supply Delivery and System Efficiency Improvement

As a government-owned and controlled-company, TransCo implemented projects to upgrade, expand and interconnect the country's transmission systems to support demand growth and sustain quality requirements. On December 4, 2007, it endorsed its 10-year Transmission Development Plan (TDP) to DOE for review. According to the TDP, TransCo or its concessionaire will install about 1,372 ckm of transmission lines and 2,030 MVA of substation capacity from 2008 to 2010. Likewise, additional reactors and capacitors totaling 1,675 MVA reactive (MVAR) will be installed for line voltage regulation. These transmission line additions and reinforcements are meant to relieve the network problems that may be encountered in 2008 to 2010 and enhance the infusion of private capital in power generation. Moreover, RA 9511 states that the scope of the franchise granted to the private sector concessionaire NGCP shall be nationwide in accordance with the TDP, subject to amendments or modifications as may be approved by DOE.

Implement Total Barangay Electrification

The remaining areas for electrification are located in remote coastal land, mountains and other upland areas which are more difficult and costly to energize. In addition, other factors such as security problems, uninhabited areas, DUs internal implementation policy, and right-of-way (ROW) problems contribute to difficulties in achieving the goals of the program. Given the physical, administrative and financial constraints, it will be difficult to achieve the target of 100 percent barangay electrification by 2008, but it is expected to be reached a year later. The government's rural electrification program also intends to realize 90.0 percent household connections by 2017.

SUPER REGIONS STRATEGY

The current priority outcome of reforms for the sector is 100 percent barangay electrification by 2009. To support this goal, small-scale renewable energy systems such as solar home systems and small hydropower plants are being installed in offgrid areas to support missionary electrification through several projects to electrify the remaining 132 unenergized barangays in North Luzon, 71 in the Luzon Urban Beltway, 361 in Central Philippines and 645 in Mindanao. Said electrification projects include the following:

- Rural Power Project - aims to increase access to electricity services and to support the transformation of the ECs into more viable and competitive commercial entities. It establishes “market packages” for QTPs and other private investors and a guarantee fund of US\$1 million to partially cover loan losses;
- Barangay Electrification Program – ongoing project since 1999 which seeks to electrify unenergized barangays using the most appropriate technology in the area;
- Philippine Rural Electrification Service Project – aims to energize 128 barangays in Central Philippines (Masbate), as well as provide livelihood opportunities;
- Remote Area Electrification Subsidy – targets the energization of 192 barangays in 2007-2009 through financial, institutional and technical services to distribution utilities;
- NEA Subsidy Program for Rural Electrification Project – aims to energize unelectrified barangays nationwide through financial, institutional and technical services to ECs;
- Benefits to Host Communities – ongoing since 2005 which targets electrification of unenergized barangays through indigenous sources of electricity;
- Japan Fund for Poverty Reduction 9042-PHI: Renewable Energy and Livelihood Development for the Poor in Negros Occidental (RENEW NEGROS) — Installation of sustainable RE systems with livelihood projects for 2,480 households in 3 barangays in Negros Occidental; and
- Electrification of PGMA’s Priority Areas – aims to electrify the remaining unenergized barangays nationwide from 2008 to 2009 to support the country’s medium-term goal of 100 percent barangay energization by 2009.

Strategic transmission and substation capacity expansion projects, as embodied in TransCo’s TDP, are also crucial to the transition to a full market-based competition and to encouraging private capital in power generation and distribution. The following TransCo Projects, which were approved by the NEDA-ICC in 2008, will be pursued to fuel the social and economic activities in Visayas and Mindanao:

- Abaga-Kirahon-Maramag 230kV Transmission Project - expects to link and strengthen the backbone transmission system in the Mindanao Super Region, from Northern Mindanao, where majority of the cheap and environmentfriendly hydropower plants are located, to Southern Mindanao, where bulk of the major industrial and commercial customers are located;
- Bohol Backbone Transmission Project - aims to prevent overloading of Ubay-Trinidad 69 kV line during outage of Ubay-Alicia 69 kV line;
- Southern Panay Backbone Transmission Project - aims to avert the overloading problem of the Sta. Barbara-Sibalom 69 kV transmission line and the Sta. Barbara substation;

- New Naga (Cebu) Substation Project - aims to provide a termination point for the Cebu-Negros Uprating Project;
- General Santos – Tacurong 138kV Transmission Project for uprating and strengthening the existing backbone; and
- Wright-Calbayog 138kV Transmission Project – aims to support the long term power requirements of Samar.

Chapter 12

Responding To The Basic Needs Of The Poor

Overcoming the recurring problems of poverty and inequity require the peoples' security and empowerment. Strategic policies and well-targeted interventions in the areas of health, nutrition, education, shelter, income and assets, welfare and protection are necessary to ensure that these basic needs are effectively addressed. Specifically, the marginalization of the poor in terms of their access to adequate, quality and timely delivery of basic social services needs to be dealt with to prevent them from falling further below an acceptable standard of wellbeing.

Moreover, as a means of promoting genuine human development, it is necessary to adapt measures safeguarding cultural liberty especially among indigenous peoples. Efforts to improve the delivery of social services need to consider the cultural dimension and ensure that no one is discriminated or disadvantaged on the basis of his/her cultural identity.

ASSESSMENT AND CHALLENGES

Based on the 2003 and 2006 Family Income and Expenditure Surveys (FIES), poverty incidence in the country increased from 30 percent in 2003 to 32.9 percent of the total population in 2006. This means about 3.8 million more Filipinos did not meet their basic food and nonfood requirements in a sustained manner.

However, it is evident that from 2003 to 2006, annual incomes in all deciles increased. The average annual income of the bottom 30 percent of families (or the lowest three income deciles combined) increased by around PhP7,000. In real terms, the total income of families increased slightly by 1.68 percent while the total expenditure increased by 3.63 percent during the period.

Also, the surveys show that the gap between the income of the families belonging to the tenth decile and those in the first decile narrowed slightly. In 2006, the total family income of the first decile was about 19 times that of the tenth decile, while it was 20 times in 2003.

Meanwhile, the extent of poverty can also be described in terms of the hunger situation in the country. According to the Fourth Quarter 2008 Social Weather Stations (SWS) Survey, the proportion of families experiencing involuntary hunger rose to 23.7 percent (estimated 4.3 million households) from 18.4 percent (estimated 3.3 million families) in September 2008. This is 11 points above the 10-year average hunger rate of 12.6 percent.

Microfinance and Livelihood

In her 2001 State of the Nation Address (SONA), President Gloria Macapagal-Arroyo cited "microfinance as one of the cornerstones in her fight against poverty in this country". Micro, small and medium enterprises (MSMEs) were tasked to contribute three million jobs to the President's 10-point agenda target of creating six to 10 million new jobs from 2004 to 2010, with two million jobs

coming from the micro sector, from the microenterprises and livelihood activities of 4.2 million active microfinance borrowers by 2010 as targeted in the Plan.

Policies supportive of the microfinance industry have been set in place. The Bangko Sentral ng Pilipinas (BSP) has introduced amendments to the General Banking Act of 2000 to recognize microfinance as a legitimate venture among banks and other financial institutions. Also, the National Credit Council (NCC) has developed performance standards that cut across all types of microfinance institutions.

Policy and program enhancements were made to expand microfinance services in areas where the poor and vulnerable are located. Foremost is the issuance of Executive Order (EO) 558-A in 2006 which mandates the Department of Social Welfare and Development (DSWD), a government nonfinancial agency, to provide direct credit services in “unserved areas” through its Self-Employment Assistance-*Kaunlaran* (SEA-K) Program. Unserved areas are places with no identified and available microfinance institutions (MFIs) such as banks, cooperatives and NGOs.

In 2005, a Microfinance Program Committee (MFPC), chaired by the People’s Credit and Finance Corporation (PCFC), was created to monitor, validate, and consolidate program accomplishment reports of concerned agencies and institutions involved in microfinance operations such as : Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), Small Business Guarantee Finance Corporation (SBGFC), National Livelihood Support Fund (NLSF), and Quedancor. The National Anti-Poverty Commission (NAPC), Urban Asset Reform Project Management Office (UARPMO) and DSWD are also represented in the Committee.

From July 2004 to April 2008, a total of PhP93.75 billion had been released to finance the livelihood projects of 3.95 million active microfinance clients or 94 percent of the targeted 4.2 million clients by 2010, including SEA-K beneficiaries. Microenterprises of these new microentrepreneurs generated 1,703,623 jobs out of the two million jobs targeted by 2010 in the Plan. In terms of geographical coverage, microfinancing is being availed of in all provinces and cities and 97 percent of all municipalities nationwide. As of April 2008, some 47 municipalities remain unserved by MFIs due to reasons related mostly to remoteness/inaccessibility, lack of infrastructure, and peace and order conditions.

As a livelihood-cum-capability program for poor families, the SEA-K Program was able to organize 7,795 SEA-K Associations and has provided capital assistance for livelihood to 103,112 families or about 50.4 percent of the total Plan target as of September 2008. The average repayment rate of SEA-K associations stood at 94 percent indicating strong community support and appreciation for this livelihood assistance. Under SEA-K Level II, 128 SEA Kabayans comprising 6,083 families were provided with higher level of entrepreneurial skills training and seed capital for microenterprises and repairs/construction of shelter units.

Meanwhile, the *Tindahan Natin* (TN) Project which started in 2006 has benefited at least 2,303,000 families on food security, job generation and livelihood. TN Outlets (TNOs) sell cheaper noodles (7-10% lower) and iron-fortified rice (10 to 12% lower) than the prevailing market price. As of March 2008, there are 9,212 TNOs nationwide.

Since 2004, the Poverty Free Zone (PFZ) Program was able to set up 59 PFZ sites out of the 96 sustained livelihood convergence projects targeted by 2010. This has generated 813 self-employed workers with an increased income averaging PhP2,883.23 per month in these PFZ sites. Moreover, the *Unlad Kabuhayan Program Laban sa Kahirapan* (or Worktrep Program) was developed and implemented to help micro entrepreneurs or “worktrepreneurs” make their enterprises grow into viable, sustainable businesses with productive results for income and employment, and contribute to the growth of the country’s economy.

The challenge is now in two areas: (a) in ensuring the financial sustainability of these livelihood and microenterprise activities; and (b) in linking them with the mainstream market in terms of skills, products and/or services, credit, information, and technology, among others.

Asset Reform

The Comprehensive Agrarian Reform Program (CARP) aims to complete land distribution by 2008 when the 10-year extension period under RA 8532 expires. From 2004 to September 2008, a total of 570,360 hectares was distributed by the Department of Agrarian Reform (DAR), or 90.5 percent of the revised land distribution target of 630,046 hectares for 2004-2008. At the onset of 2008, however, the Presidential Agrarian Reform Council (PARC) made a declaration that the new land distribution balance under the DAR’s jurisdiction stood at 1,337,538 hectares beginning 2007.

In providing tenurial security through nonland transfer scheme, the DAR, from 2004 to 2007, has placed under leasehold operations a total of 103,515 hectares which is 67 percent of the total MTPDP leasehold target of 154,200 hectares. As a result, a total of 45,841 share tenants became agricultural lessees in areas planted with palay, corn, sugarcane, coconut, vegetables, and other crops.

Existing implementing guidelines for leasehold were enhanced in 2006 to improve mechanisms in the implementation of leasehold and the method of determining and fixing lease rentals. In addition, specific policies were also introduced: (a) leasehold on lands primarily devoted to sugarcane and coconuts; (b) the rights, obligations, and prohibitions on agricultural lessees and lessors; and (c) supervision of harvest while there is a pending dispute for resolution.

In terms of securing the tenure of indigenous cultural communities, 85 Certificates of Ancestral Domain Titles (CADTs) and 145 Certificates of Ancestral Land Titles (CALTs) were awarded from 2004 to December 2008 in recognition of the indigenous peoples’ (IPs) ownership and occupation of the domains and lands since time immemorial. This accomplishment represents only 28 and 36 percent of the 2010 Plan targets of 306 CADTs and 405 CALTs, respectively.

The low turnout of coverage was caused by such factors as: (a) difficulty in the segregation of prior rights in ancestral domains, which is required under the provisions of the joint Memorandum Circular between the Land Registration Authority (LRA) and the National Commission on Indigenous Peoples (NCIP); (b) incomplete and slow submission of necessary documents for mapping the vast areas covered by the ancestral domains/lands; (c) the difficulty in resolving boundary conflicts; and (d) budgetary constraints. External assistance is currently being directed towards improving the standards and procedures of processing and issuing titles of ancestral domains/lands as well as strengthening the institutional capacity of NCIP particularly on data gathering and establishing the database on ancestral domains.

To pursue development within ancestral domains, 48 Ancestral Domain Sustainable Development and Protection Plans (ADSDPPs) were formulated from 2004 to 2007.

Essential Services: Health and Nutrition

Generally, the health status of Filipinos improved from 2004 to 2006.

First, infant mortality rate (IMR) declined from 29 per 1000 live births in 2003 to 24 per 1000 live births 2006, while under-five mortality rate improved from 40 per 1000 live births in 2003 to 32 per 1000 live births in 2006.

Second, underweight children aged 0-5 years old dropped from 26.9 percent in 2003 to 24.6 percent in 2005.

Third, maternal health also improved, although at a slower rate, with the decline in maternal mortality ratio (MMR) from 172 per 100,000 live births in 1998 to 162 per 100,000 live births in 2006.

And fourth, total fertility rate slightly improved from 3.5 births per woman in 2003 to 3.2 births per woman in 2006.

Meanwhile, the contraceptive prevalence rate (CPR) slightly increased from 49 percent in 2003 to 50.6 percent in 2006. According to the 2006 Family Planning (FP) Survey, there is still high unmet need for family planning (15.7%) especially among the poor. The main reasons cited for the low practice of family planning include: (a) the lack of information and access to quality family planning services; (b) fear of side effects; and (c) want for more children. Also noted was the low participation of men in fertility management. Male FP users only account for less than two percent of the 35.8 percent who use modern methods.

On key public health program indicators, the target for tuberculosis (TB) case detection rate has been met and a total of 22 provinces have been declared malaria-free as of end of 2007. In addition, the prevalence of HIV and AIDS remains below one percent of total population but the number of HIV cases has been increasing every year. Despite improvements, these diseases remain public health problems in the country, thus requiring that disease prevention and control efforts be further intensified.

Gains can also be observed in terms of reducing the prices of essential medicines commonly bought by the poor. These include medicines for diarrhea, asthma, fever and headache, hypertension, among others. As of April 2008, the prices of selected essential medicines decreased by an average of 41 percent from 2001 price levels. With the passage of the Cheaper Medicines Act (RA 9502), the availability of low-priced quality medicines will be assured.

On expanding the coverage of health insurance, there was difficulty in sustaining the 85 percent coverage of the population achieved in 2004 since some members did not renew their membership. As of June 2008, reports from Philippine Health Insurance Corporation (Philhealth) showed coverage of about 73 percent or about 66 million beneficiaries.

Also, about 2.9 million indigent families were enrolled under the Sponsored Program as of June 2008. It should be noted that sustainability of the Sponsored Program largely depends on the

availability of resources from the National Government and the willingness of LGUs to enroll their constituents. Fluctuations in coverage can also be explained because of: (a) irregular contributions from individually-paying members; (b) difficulty in reaching unorganized groups (informal sector); and (c) inadequate health infrastructure in some areas.

On health expenditures, the share of health expenditure as a percentage of GNP remained the same at 3.1 percent based on the 2005 Philippine National Health Accounts. Data from the Budget of Expenditures and Sources of Financing (BESF) of DBM showed an increase in the allocation for health expenditure of the national government (including transfers to GOCCs and LGUs) from PhP13.8 billion in 2005 to PhP16 billion in 2006 (or 5.7% of total expenditure of National Government for Social Services). Moreover, the same expenditure for health in 2007 amounted to PhP18 billion and about PhP28 billion is programmed for 2008.

Despite the general improvement in health status, several challenges remain, including: (a) the need to address disparities in health outcomes and program coverage across regions; (b) the further strengthening of capacities of local government units (LGUs) to deliver basic health services; (c) addressing the outmigration of human resources for health which has an effect on the health care system; (d) accelerating health sector reforms; (e) addressing the high maternal mortality ratio (MMR), which has a low probability of attainment in terms of the MDGs; and (f) building public-private sector partnerships to bridge financing gaps.

The Fourth Quarter (December) 2008 SWS Survey showed that families who experienced involuntary hunger at least once in the past three months rose to 23.7 percent (estimated at 4.3 million households) from 18.4 percent in September 2008. Moreover, the number of families that experienced severe hunger increased to 940,000 in December 2008 from 580,000 families last September 2008. The proportion of households experiencing hunger was highest in Mindanao at 33.7 percent, followed by Metro Manila at 23.3 percent, Visayas at 20.7 percent and the rest of Luzon (excluding Metro Manila) at 20 percent. In order to address this, hunger-mitigation programs were initiated upon instruction of the President.

Protection of the Vulnerable

Policy enhancements through legislations were strategically pursued to give further emphasis on the protection of the welfare, development and empowerment of the vulnerable groups. Major legislations include the Expanded Senior Citizens Act of 2003, Anti-Violence Against Women and Their Children Act of 2004, Amendment to the Magna Carta for Disabled Persons, and the Juvenile Justice and Welfare Act of 2006.

Improvements in the frontline services of DSWD to prevent children from being victimized, abandoned and neglected were made available through the Internet which include: (a) travel clearance for minors; (b) registration, licensing and accreditation of social welfare and development agencies; (c) accreditation of day care centers and day care workers; (d) public solicitation permits; (e) duty-free entry; (f) domestic and intercountry adoption; and (g) the internal support systems such as the Crisis Intervention System and Disaster Monitoring System.

Moreover, social technologies were developed and pilot-tested such as Group Home for Older Street Children; Foster Home for persons with disabilities; Recovery and Reintegration for Trafficked Persons; Halfway Home for Children in Conflict with the Law; Rehabilitation Project for Street

Children Recovering from Substance Abuse; Care and Support Services for Persons Living with HIV and AIDs.

In terms of direct welfare assistance, the poor and vulnerable are continuously provided with protective and rehabilitative services through community and center-based facilities to help them reduce risks, vulnerability, and empower themselves against abuses and exploitation. As of September 2008, the following vulnerable groups were assisted: (a) 380,145 children in need of special protection; (b) 21,761 youth with special needs; (c) 228,928 women in especially difficult circumstances; (d) 34,238 persons with disabilities; and (e) 11,197 older persons. Relief and rehabilitation activities were provided to disaster victims benefiting 3,982,168 families.

It is imperative to have well-targeted and strategically-designed social welfare programs and projects in addressing the particular needs of the poor and the vulnerable groups of women, children, older persons, persons with disabilities, indigenous peoples, among others. This must be done through the partners and intermediaries especially at the local level who can ably implement, monitor and mobilize resources for social welfare programs and projects.

Empowerment

A major program under the government's comprehensive and integrated approach for poverty reduction and empowerment of the poor is the *Kapit-Bisig Laban sa Kahirapan* – Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS). The program aims to empower communities, improve local governance, and reduce poverty by providing communities with capability building and training on key skills such as development planning, resource allocation, and management. KALAHI-CIDSS encourages active community participation in social preparation by engaging the community in subproject planning, situation analysis, and financial and project management.

As of June 2008, the KALAHI – CIDSS, continues to be institutionalized and implemented in 42 provinces (100%), 183 municipalities (100%) and 4,229 barangays (100%). Under this program, 2,826 subprojects were already completed covering mainly construction and rehabilitation of roads (742), potable water source (682), health stations (240), schools (281) and day care centers (206). The increase in the number of municipalities and barangays covered by the KALAHI CIDSS relative to previous years could be attributed to the finetuning of operations and ensuring the timely release of funds.

The institutionalization of the KALAHI-CIDSS as a community-driven development approach following the Harmonization Framework on Community Empowerment Activity Cycle – Local Planning Process (CEAC-LPP) is now underway as the Program demonstrates the extent of readiness and ownership of concerned LGUs and the communities to manage and source funds for their own locally driven programs and projects.

As an aid to the empowerment approach at the local level, the nationwide adoption and implementation of the enhanced Core Local Poverty Indicators Monitoring System (CLPIMS) is intensified through the adoption of the Community-Based Monitoring System (CBMS). As of November 2008, CBMS has been adopted and implemented in: (a) 26 provinces on a province-wide basis; (b) 26 provinces with partial implementation; (c) 531 municipalities; (d) 13,498 barangays; and (e) 42 cities.

In 2007, a conditional cash transfer type of program for poor households, the *Pantawid Pamilyang Pilipino* Program (4Ps), was launched by DSWD for pilot implementation in partnership with other agencies such as DepEd and DOH to enable poor households to meet human development goals particularly on health and education. The 4Ps is designed to provide cash directly to poor families through a “social contract” or set of conditionalities related to human capital specifically on school participation and access to/availment of health services and facilities. Particularly, the cash grants are provided to poor households who meet the following conditions: (a) pregnant women must get pre- and postnatal care; (b) parents must attend family planning sessions/parent effectiveness service; (c) 0-5 year old children must get regular preventive health check-ups and vaccines; (d) 3-5 year old children attend preschool/day care program; and (e) 6-14 year old children are enrolled in schools and attend at least 85 percent of the time. Its pilot phase covers the cities of Pasay and Caloocan and the provinces of Agusan del Sur and Misamis Occidental.

In 2008, the 4Ps was implemented nationwide and was able to provide cash grants to a total of 337,416 poor households for the period January to December 2008 or 105 percent of the targeted 321,000 poor households for the year.

Table 12.1
Highlights of Accomplishments

INDICATOR	TARGET	ACTUAL ACCOMPLISHMENTS (2004-2008)	
		2004	2005
Livelihood and microfinance			
No. of active clients ^{/1}	4.2 million active microfinance borrowers by 2010	719,586 active clients from July to December 2004	778,890 active clients
Microfinance loans released ^{/1}	Total loan amount increased by PhP43.5 billion by 2010	PhP19.38 billion loans from July to December 2004	PhP20.42 billion released
Jobs generated by the microfinance sector ^{/1}	2 million jobs generated by 2010	249,975 jobs generated from July to December 2004	313,104 jobs generated
Asset reform			
Land distributed (has.) ^{/2}	630,046 hectares distributed from 2004-2008 *	104,069 hectares distributed	131,069 hectares distributed
Land placed under leasehold (has.) ^{/2}	154,200 hectares placed under leasehold by 2010	22,858 hectares placed under leasehold	25,307 hectares placed under leasehold
Number of Certificate of Ancestral Domain Titles (CADTs) issued ^{/3}	306 CADTs issued by 2010	18 CADTs issued	9 CADTs issued
Number of Certificate of Ancestral Domain Titles (CALTs) issued ^{/3}	405 CALTs issued by 2010	4 CALTs issued	2 CALTs issued
Essential Services: Health and Nutrition			
Health insurance: Universal coverage Indigent Families [/]	85% of total population; 5 million indigent families (sustained)	85% 6.3 million	64% 2.3 million
Reduction in the cost of selected essential medicines ^{/6}	Prices of essential medicines to decrease by an average of 50% based on 2001 prices	Prices of essential medicines decreased by an average of 60.9%	Prices of essential medicines decreased by an average of 41%
Prevalence of underweight preschool children aged 0-5 year old (in %) ^{/7}	21.6	26.9 (2003)	24.6
Infant mortality rate (per 1000 livebirths) ^{/8}	17	29 (2003)	No data available
Under five mortality rate (per 1000 livebirths) ^{/8}	32	40 (2003)	No data available
Maternal mortality ratio (per 100,000 livebirths) ^{/8}	90	172 (1998)	No data available
HIV prevalence rate ^{/9}	Less than 1% of population	Less than 1 %	Less than 1 %
TB detection rate TB cure rate ^{/6}	70% 85%	61% 77%	71% 82%
Malaria morbidity rate ^{/6} Contraceptive Prevalence Rate ^{/8}	24/100,000 60%	53/100,000 49.3%	55/100,000 49.3%

ACTUAL ACCOMPLISHMENTS (2004-2008)			
2006	2007	2008	2004-2007
953,546 active clients	1,136,765 active clients	368,817 active clients (Jan-Apr2008)	3,588,787 active clients (July2004-2007)
PhP21.15 billion released	PhP25.95 billion released	PhP6.85 billion released (Jan-Apr 2008)	PhP86.9 billion released (July 2004-2007)
423,105 jobs generated	570,120 jobs generated	147,319 jobs generated (Jan-Apr 2008)	1,556,304 jobs generated (July 2004-2007)
125,177 hectares distributed	134,041 hectares distributed	9,643 hectares (as of June 2008)	494,356 hectares distributed
28,393 hectares placed under leasehold	26,957 hectares placed under leasehold	No update	103,515 hectares placed under leasehold
18 CADTs issued	2 CADTs issued	38 CADTs	47 CADTs issued
112 CALTs issued	13 CALTs issued	14 CALTs issued	131 CALTs issued
79%	73%	73% (as of June)	
4.95 million	2.72 million	2.9 million (June)	
prices of essential medicines decreased by an average of 41%	prices of essential medicines decreased by an average of 60%	prices of essential medicines decreased by an average of 41%	
No data available	No data available	No data available	
24	No data available	No data available	
32	No data available	No data available	
162	No data available	No data available	
Less than 1%	Less than 1%	Less than 1%	
70% 85%	75% 82%	No data available	
41/100,000 50.6%	No data available No data available	No data available No data available	

Table 12.1
Highlights of Accomplishments (continued)

INDICATOR	TARGET	ACTUAL ACCOMPLISHMENTS (2004-2008)	
		2004	2005
Access to safe drinking water ¹⁰	92-96%	80.2%	No data available
Access to sanitary toilet facility ¹⁰	86-91%	86.2%	No data available
Protection of the Vulnerable Groups⁴			
Children in need of special protection Community-based Center-based	411,196 children served	76,341 4,837	78,462 4,095
Youth in special needs: Community-based Center-based	26,827 youths served	3,570 1,523	4,697 1,662
Women in especially difficult circumstances: Community-based Center-based	27,258 women in especially difficult circumstances served	4,576 983	4,591 849
Persons with disabilities Community-based Center-based	11,500 PWDs served	197 10,119	658 7,354
Older persons Community-based Center-based	5,168 older persons served	1,665 563	1,727 533
Disaster Victims Families served Families affected		817,782 1,760,406	234,053 403,181
Empowerment			
Number of provinces, municipalities, and barangays institutionalizing and implementing the KALAHI-CIDSS ⁴	42 provinces, 183 municipalities, and 4,216 barangays * implementing and institutionalizing KALAHI-CIDSS	42 provinces, 101 municipalities, and 2,373 barangays	42 provinces, 101 municipalities, and 2,367 barangays

revised targets

Source:

1/ Peoples Credit and Finance Corporation

2/ Department of Agrarian Reform

3/ National Commission on Indigenous Peoples

4/ Department of Social Welfare and Development

5/Philippine Health Insurance Corporation

6/ Department of Health

7/Food and Nutrition Research Institute

8/ Family Planning Survey, National Statistics Office

9/ National Epidemiology Center, DOH

10/ Annual Poverty Indicator Survey, National Statistics Offices

ACTUAL ACCOMPLISHMENTS (2004-2008)			
2006	2007	2008	2004-2007
No data available	Data not yet available	No data available	
No data available	No data available	No data available	
60,051 5,560	35,150 5,025	106,666 2,960 (Jan-Sept 2008)	251,004 19,515
3,718 1,801	1,449 1,656	682 1,003 (Jan-Sept 2008)	13,434 6,642
172,162 2,211	37,989 2,250	1,677 1,640 (Jan-Sept 2008)	219,318 6,293
594 5,488	60 8,096	204 1,468 (Jan-Sept 2008)	1,509 31,057
2,382 683	282 788	2,075 499 (Jan-Sept 2008)	6,056 2,567
1,258,811 2,397,619	261,504 586,409	1,407,018 1,730,211	2,572,150 5,147,615
42 provinces, and 183 municipalities and 4,216 barangays	42 provinces, and 183 municipalities and 4,229 barangays	42 provinces, and 183 municipalities and 4,229 barangays	

STRATEGIC FRAMEWORK

The government shall continue to intensify its efforts to meet the basic needs of the poor and vulnerable groups. Protective, inclusive and progressive policies and programs in the areas of poverty alleviation, hunger mitigation and social protection shall be deepened to ensure effectiveness in terms of targeting, impact, and financing.

Microfinance and Livelihood

In line with widening and deepening the impact of livelihood and microfinance on the welfare and income status of the poor and the vulnerable groups, the government will continue to expand the outreach of livelihood and microfinance services to benefit the poor in unserved/far flung areas. This will include scaling up livelihood opportunities for the poor through the Self-Employment Assistance–Kaunlaran (SEA-K) Program and the TN Program. Also, the implementation of the National Financial Literacy Program shall be continued to increase knowledge on financial concepts, skills and attitudes and to translate this knowledge into behaviors that result in good financial outcomes both for the providers and users of microfinance services.

More specifically, new activities shall be pursued relative to the government's Plan strategies and targets on livelihood and microfinance. These include: (a) support the passage of amendments to the Cooperative Code and the Cooperative Development Authority Charter; (b) enable the livelihood of the informal sector-worktrepreneurs to grow into sustainable and competitive microenterprises with capability to maintain paid workers with social protection; (c) provide opportunities for the youth to acquire skills and competencies required by the market thru training, scholarships, expanded apprenticeship and learnership program; and (d) special employment for deserving students as well as emergency employment for out-of-school and out-of-work youths.

Asset Reform

To support the acceleration of land distribution, specific strategies on improving the tenurial status of agrarian reform beneficiaries (ARBs) and speeding up resolution of agrarian-related disputes cases will be pursued. These will include: (a) completion of land acquisition and distribution within five years (2009-2013) in support of the pending consolidated House Bill on sustaining the CARP implementation and providing funds and necessary reforms thereof; (b) adoption of innovative Land Acquisition and Distribution (LAD) modalities that are least costly or without cost to government; (c) synchronization of DAR's LAD target with that of other CARP implementing agencies; (d) improvement in the collection of land amortization; (e) mainstreaming of the ARB carding and ID system in the land acquisition and distribution process; (f) treating leasehold as a continuing effort that must be demand-driven; (g) institutionalization of system of ageing of cases to decrease the number of pending cases; (h) amendment of the DAR Adjudication Board (DARAB) Rules of Procedures to simplify and facilitate early resolution of cases; (i) classification of the nature of cases and provision of feedback to Field Operations Office to improve on service quality standard and lessen the number of cases filed; (j) strengthening the linkages and coordination between Field Operations, Support Services, Legal Affairs Office, and DARAB at the national and subnational levels; (k) prioritization of "flashpoint cases" or cases with higher "magnitude" of affected ARBs; (l) aggressive utilization of mediation and conciliation and other alternative dispute resolution scheme to prevent disputes to become full-blown legal cases; and (m) ensuring the provision of adequate number of lawyers and legal officers.

Essential Services

Clean Water

Potable water shall be provided to the entire country. (Refer to *Chapter 3: Green Philippines*)

Power

Power supply shall be provided in all barangays and municipalities through the rural electrification program. (Refer to *Chapter 11: Power Sector Reforms*)

Education

Investments in education shall be continued to provide learning opportunities to all. (Refer to *Chapter 18: Education*).

Health and Nutrition

Health sector reform initiatives shall be continued through the leadership of the DOH using the FOURmula One for Health (F1) framework. The F1 initiative is an enhanced approach taking off from the Health Sector Reform Agenda (HSRA). It aims to achieve better health outcomes, create a more responsive health system and provide for equitable health care financing. The following are the four thrusts of Fourmula One for Health: (a) higher, better and sustained financing; (b) regulation to ensure quality and affordability; (c) service delivery to ensure access and availability; and (d) governance to improve performance. Furthermore, the major programs, activities and targets in the health sector are further elaborated and operationalized in the National Objectives for Health.

For health financing, the objective is to secure higher, better and sustained investments in health to improve health outcomes.

The major strategy to achieve this is the Expansion of the National Health Insurance Program (NHIP). To help achieve universal coverage, PhilHealth aims to increase the enrolment of indigents to the Sponsored Program and the informal sector through the *Kalusugang Sigurado at Abot-kaya sa Philhealth Insurance* (KASAPI) Program. This complements the other programs (Employed, Individually Paying, Overseas Workers Program, Non-Paying) which are less difficult to cover and manage because these are either mandatory (Employed Program) or those who voluntary enroll (Individually-Paying Program, Overseas Workers Program) have the capability to pay.

Activities will also include intensifying Philhealth accreditation of facilities, advocating for rational use of PHIC reimbursement, and encouraging local government premium counterpart. Other strategies for health financing include: (a) advocating increased LGU investment in health; (b) mobilizing resources from extra budgetary resources; (c) coordinating national and local health spending; (d) focusing direct subsidies to priority programs; and (e) adopting a performance-based financing system.

For health regulation, the objective is to assure access to quality and affordable health goods and services.

To achieve this, the following strategies shall be accelerated: (a) enforcement of and compliance to national health legislation and standards, i.e., Generics Law, Salt Iodization Law, Food Fortification Law; (b) legislation of health-related laws at the local level; and (c) improvement of access to low cost quality drugs and commodities. *Botika ng Barangays* shall be expanded, including expansion of product range. Moreover, alternative health care will also be promoted.

For health service delivery, the objective is to improve accessibility and availability of basic and essential health care for all.

There will be aggressive implementation of the following: (a) disease-free zone initiatives (malaria, rabies, schistosomiasis, leprosy, filariasis); (b) intensified disease prevention and control (National Tuberculosis Control Program, AIDS Prevention and Control Program, etc.) including emerging and re-emerging diseases; (c) child health and nutrition, in the context of integrated early childhood care and development; (d) Maternal health, women's health, and nutrition; (e) healthy lifestyle and management of health risks; (f) surveillance and epidemic management system; (g) disaster preparedness and responsive system; (h) health promotion and advocacy; and (i) health facilities development program. There shall also be upgrading of primary into secondary level hospitals; upgrading capacities for heart, lung and kidney diseases of selected hospitals (including selected health facilities located in the Super Regions); and the establishment of drug treatment and rehabilitation centers.

For health governance, the objective is to improve health system performance at the national and local levels.

- Governance in local health systems shall be improved by undertaking the following: (a) establishment of convergence sites; (b) development of LGU scorecard to track progress; and (c) institutionalization of Health Professional Development and Career Track (including implementation of the Health Human Resource Master Plan);
- Capacities to manage and steward the health sector shall be strengthened through: (a) retooling and retraining of personnel; (b) improving public finance and procurement management systems; (c) strengthening of information and communications technology capability; and (d) strengthening of monitoring, evaluation, research and knowledge management systems;
- Innovative research and development efforts shall be continued to be undertaken to generate knowledge and technologies that will result in improved health, health equity, and productivity. Accordingly, continuous support will be given to implement the projects and activities of the different program components of the Philippine National Health Research System (PNHRS), including research management, ethics, research utilization, capacity building, structure, organization/monitoring and evaluation, and resource mobilization. Resources will be secured to fund the research priorities identified in the National Unified Health Research Agenda (NUHRA), which cover researchable areas in health financing, health regulation, health care service delivery, governance, health technology development, health information systems and ethics; and

- Development of rationalized and more efficient national and local health systems through strengthening of networking mechanisms and referral systems, sharing of resources, capacity building and organizational transformation and restructuring.

Programs and projects in pursuit of health reforms will continue to be implemented in all Super Regions. Some of the major ongoing projects that will be completed by 2010 include: National Sector Support for Health Reform Project; Health Sector Policy Support Program; and the Development of Sub-Specialty Capabilities for Heart, Lung and Kidney Diseases in Selected Hospitals in Luzon, Visayas and Mindanao. These programs and projects will have to be sustained in order to attain the Millennium Development Goals (MDGs) and realize the needed health reforms.

Hunger and human poverty are interrelated and mutually-reinforcing challenges. The hungry are poor and vice-versa. In order to address hunger, programs under the Accelerated Hunger Mitigation Plan (AHMP) shall be aggressively carried out. The AHMP provides critical programs and projects to address hunger both at the supply-side or the unavailability or insufficiency of food to eat, and the demand-side or the inability to buy food. The overall target of the AHMP is to reduce by half the number of severe hungry families from 800,000 families in 2006 based on the 3rd quarter SWS survey to 400,000 families.

On the supply side, measures to mitigate hunger include increasing food production and productivity as well as enhancing efficiency of logistics and food delivery. Specifically, the expansion in production capacity shall be determined by the following: (a) increase productivity in key programs including livestock, crops, marine regeneration (mangrove and coastal fishery development); (b) encourage home food production through the *Gulayan ng Masa* and other related initiatives; and (c) improve irrigation. Meanwhile, efficiency in logistics and food delivery shall be determined by: (a) expansion of *Barangay* Food Terminal and TN as sources of basic commodities at relatively low prices; (b) ensuring efficient use of ports (RORO), maximum use of private ports and shipping; (c) improvement of farm-to market-roads; (d) ensuring efficient local transport; (e) implementation of Food for School Program, and including day care centers as channels of distribution; (f) creation of NGO networks to support feeding programs; and (g) implementation of community tradeable rice certificates.

The demand side measures include: (a) putting more money in peoples pockets by improving productivity in coconut areas (coconut coir, virgin coconut oil and other value-adding products, coconut production); (b) more aggressive microfinancing; (c) maximizing employment opportunities in construction and maintenance of farm-to-market roads, irrigation and roadside maintenance; (d) implementation of job or employment-linked skills training programs; and (e) improving upland land distribution (4 million hectares for jathropa, rubber, etc.).

Other demand side measures include promoting good nutrition which can be achieved by conducting social marketing; promoting exclusive breastfeeding; appropriating complementary feeding and increasing consumption of vegetables; and implementing nutrition education in schools. The last measure on the demand side is population management through Responsible Parenthood. There is a need to manage the population since family size is highly correlated with poverty and hunger. Since the delivery of reproductive health and family planning services is already devolved, the support of LGUs is emphasized in managing the country's population growth rate.

The Medium-Term Philippine Plan of Action for Nutrition (MTPPAN) shall continue to be implemented through the collaborative efforts of the national government, LGUs, and NGOs. The

strategies under MTPPAN include the following: (a) strategic focus by prioritizing nutrition and related services for infants and young children as well as pregnant women, and in more nutritionally depressed areas (AHMP and F1 areas); (b) intensified delivery of nutrition interventions that will include micronutrient supplementation, IEC, food fortification, food assistance, and home, school, and community food production; (c) improved quality of service delivery; (d) effective complementation of nutrition interventions with other development interventions that address the basic cause of undernutrition; (e) stronger nutrition perspective in disaster management; and (f) effective coordination among those directly involved in nutrition interventions.

The Responsible Parenthood and Natural Family Planning Program (RP-NFP) shall be vigorously implemented to contribute in improving the quality of life of all Filipinos through: (a) responsible parenting; (b) better health and education; (c) attainment of population outcomes that are in harmony with available resources and sustainable environmental conditions; and (d) reduction of poverty, hunger and inequalities in human development opportunities.

The RP-NFP Program is based on the policy pronouncements of the President, namely: (a) responsible parenthood; (b) birth spacing; (c) respect for life; and (d) informed choice. The President also emphasized a greater role of LGUs in reproductive health and family planning services.

More recently, the President gave additional directives to promote RP-NFP, three-year birth spacing, and breastfeeding. One strategy is through a grassroots and couple-oriented campaign called Responsible Parenting Movement (RPM). The objectives of the RPM are the following: (a) make couples aware of their basic responsibilities as parents, awakening in them a sense of responsibility and commitment towards their family, neighbors, community, society and nation as a whole; and (b) consider responsible parenting as a way of life towards the attainment of sustainable human development.

Protection of the Vulnerable and Empowerment

Social protection policies and programs shall be enhanced and guided by the official definition of Social Protection as provided by the NEDA Board-Social Development Committee (SDC) Resolution No. 1, s. 2007. The Social Protection Sector is defined as constituting policies and programs that seek to reduce poverty and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihood and employment, protecting against hazards and sudden loss of income, and improving people's capacity to manage risks.

The components of the Social Protection Sector are: (a) Labor Market Programs including measures aimed at enhancing employment opportunities and protection of the rights and welfare of workers. Employment enhancing measures include trade policies and skills development and training. Labor protection includes compliance with labor standards such as minimum wages or health and safety in the workplace; (b) Social Insurance Programs that seek to mitigate income risks by pooling resources and spreading risks across time and classes. These are designed in such a way that beneficiaries pay a premium over a given period of time to cover or protect them from loss of income and unemployment as a result of illness, injury, disability, retrenchment, harvest failure, maternity, old-age, etc. This component includes micro- and area-based schemes to address vulnerability at the community level (such as microinsurance, agricultural insurance and social support funds); (c) Social Welfare that are preventive and developmental interventions that seek to support the minimum basic requirements of the poor, particularly the poorest of the poor, and reduce risks associated with

unemployment, resettlement, marginalization, illness, disability, old age and loss of family care. Social welfare and assistance programs usually comprise direct assistance in the form of cash or in-kind transfers to the poorest and marginalized groups, as well as social services including family and community support, day care service, alternative care and referral services; and (d) Social safety nets that are stop-gap mechanisms or urgent responses that address effects of economic shocks, disasters, and calamities on specific vulnerable groups. These are measures that specifically target affected groups with the specific objective of providing relief and transition. Measures include emergency assistance, price subsidies, food programs, employment programs, retraining programs, shelter assistance, and emergency loans.

Consistent with the definition and coverage of the Social Protection Sector, the Social Welfare subsector shall continue to undergo policy and program reforms through the leadership of DSWD. The reforms are essentially guided by the following objectives, namely: (a) improve outcomes of social welfare and development services; (b) improve governance of assistance and delivery through integrated national and local level reforms; and (c) build capacity of DSWD and associated agencies in performance-oriented budgeting and management. Among the priority activities in this area are the installation of a centralized targeting system to identify the poorest of the poor, and undertaking research in the field of social welfare and development.

The 4Ps, a conditional cash transfer type of assistance being implemented nationwide, shall be sustained and scaled-up to cover more poor households to allow them to meet certain human development goals set by the government, specifically on school participation, nutrition and health status of children.

Priority Legislative Agenda

An Act to Strengthen and Propagate Foster Care for Abandoned and Neglected Children and Children with Special Needs, Providing Funds Therefore and For Other Purposes

This Bill seeks to provide the best alternative setting for abandoned, neglected and children with special needs. Through foster care, children who are deprived of family care and protection shall be provided alternative parental care. Foster care refers to the provision of planned temporary substitute parental care to a child by a foster parent. This Bill contains provisions for the eligibility, procedure, adoption of a foster child, assistance to foster parents, and the penalties for violations committed related to this proposed Act.

An Act Requiring Certification of DSWD to Declare a Child Legally Available for Adoption Proceedings Amending the Domestic Adoption Act of 1998, the Inter-Country Adoption Act and the Child and Youth Welfare Code, and For Other Purposes

This seeks to transfer the resolution of Declaration of Abandonment cases to the DSWD, changing the nature of this proceeding to a quasi-judicial one. Further, the certification to be issued by DSWD declaring the adoptee as legally available for adoption shall be a prerequisite for all adoption proceedings, domestic and intercountry alike. Lastly, the Bill aims to shorten the six month period defined in the Child and Youth Welfare Code before the child may be considered abandoned to three months.

An Act Providing a Long Term Care Program to Address the Needs of Senior Citizens, Providing Funds Therefore and for Other Purposes

In recognition of the importance of a care-giving role of the family and the community, the government must initiate comprehensive social protection programs which include but not limited to labor market interventions, social insurance, social welfare, and social safety nets. This Bill, therefore, seeks to provide the Senior Citizens a comprehensive program that will address their social, economic and health needs.

Bill Providing Special Protection to Internally Displaced Persons

This proposed measure, which is a localization of the United Nations (UN) Guiding Principles on Internal Displacement, seeks to institutionalize the protection of citizens from and during arbitrary displacement. The Bill hopes to install a mechanism of support to victims of internal displacement such that damage and injury may be minimized in cases when they cannot be prevented. It establishes the norm that the government has a duty to defend and protect its people from domestic threats.

Amendments to the Cooperative Code and the Cooperative Development Authority (CDA) Charter

The amendments to the Cooperative Code and CDA Charter will institutionalize the use of cooperative standards, strengthen the CDA and facilitate the growth of the credit cooperative sector. The amendment of the CDA Charter intends to restructure the CDA into a regulatory body and provide a regulatory framework for the development of cooperatives nationwide. Further, it aims to grant quasi-judicial functions and more funds to the CDA for additional manpower for a more effective monitoring and supervision of cooperatives.

Bill for the augmentation of the appropriation cover and necessary reforms for sustaining the CARP implementation

With the expiration of the implementation schedule provided under RA 8532 in June 2008, immediate amendments to the Comprehensive Agrarian Reform Law (CARL) are being advocated, as a continuing constitutional mandate in the form of additional appropriation cover and necessary reforms. The amendments aim to complete the acquisition and distribution of the projected balance of 1,077,538 hectares of private agricultural lands and 570,943 hectares of public Alienable and Disposable lands to benefit an additional 633,846 ARBs and 837,053 ARBs by the DAR and Department of Environment and Natural Resources (DENR) respectively. The extension also intends to intensify the provision of support services to farmer stakeholders to increase productivity and enhance their wellbeing, and deliver agrarian justice to the ARBs and landowners, as well.

Gender and Development bills

Bills on Gender and Development which intend to promote women empowerment and gender equality shall be advocated for passage. Among the proposed legislations are the Magna Carta for Women, the Anti-Prostitution Act, the Local Sectoral Representation Act, the *Kasambahay* Act, and the Marital Infidelity Act.

Health regulatory bills

House Bill No. 875 (An Act Strengthening the Regulatory Capacity of BFAD by Establishing Adequate Testing Laboratories and Field Offices, Upgrading its Equipment, Augmenting its Human Resource Complement, Giving Authority to Retain Its Income and for Other Purposes), Bureau of Health Facilities and Services (BHFS) Strengthening Bill, and Bureau of Health Devices and Technology (BHDT) Strengthening Bill were seen as priorities in the effort to upgrade, harmonize and streamline the regulatory systems and processes.

Health service delivery bills

The proposed legislation on the Amendment of Disease Notification Act of 1929 is seen a priority in order to enhance disease surveillance in the country. Meanwhile, the proposed Midwifery Act aims to amend the definition of “practice of midwifery” in order to intensify disease prevention and control strategies.

To intensify health promotion and advocacy of health lifestyle and management of health risks, the Graphic Health Warning Bill is proposed to provide photographic picture warning on health dangers related to tobacco use or exposure to tobacco smoke. It shall also pose higher and stiffer penalties by DOH in their Health Promotion Program on Tobacco Control.

Legislation to promote optimum infant and young child feeding practices should also be put in place, e.g. promotion of breastfeeding in the workplace and public places alongside amendments of EO 51 (Milk Code) on the marketing of breast milk substitutes.

Health financing bills

The Amendment to RA 7875 (National Health Insurance Act of 1995) as amended by RA 9241 is seen as a legislative priority as it will provide police and visitorial powers to PhilHealth and provide stiffer penalties against erring providers, employers and members. Meanwhile, Amendments to the Local Government Code (RA 7160) institutionalizing the Sponsored Program at the LGU level shall provide for a percentage from the Internal Revenue Allotment (IRA) of the LGU to be earmarked for social health insurance or the National Health Insurance Program.

Philippine National Health Research System Act

The proposed legislation will establish the Philippine National Health Research System and the Philippine National Health Research Fund. In doing so, the Bill will ensure and secure resources for health research and development efforts, integrate all health researches, and strengthen the synergy that will increase the volume, range and impact of health research in improving the health status of all Filipinos.

Chapter 13

Automated Elections

Certain issues and problems hindered efforts to reform the electoral system. Among these were the Commission on Elections' (COMELEC's) failure to implement the Automation Law, and its limited administrative and regulatory capability; a weak political party system; flaws in the campaign financing system; and a defective partylist system (ADB Governance Assessment, 2005).

ASSESSMENT AND CHALLENGES

For three years after the 2004 presidential elections, the COMELEC had planned for the automation of the election system. Yet, nothing significant has changed because Republic Act (RA) 9369 which amended the Automation Law of 1998 was enacted only in January 2007, or barely four months before the May 2007 national and local elections. The COMELEC fell short of modernizing and automating the electoral process except for the continuation of demographics and biometrics data capturing of potential and registered voters.

In retrospect, the automation of the electoral process was stalled mainly by legal issues. In January 2004, the Supreme Court (SC) declared as null and void the PhP1.3-billion Mega Pacific contract that would have allowed the use of counting machines for the 2004 presidential elections. In June 2005, the SC also turned down a motion by the COMELEC to use the procured automated counting machines for the ARMM elections that same year.

These setbacks, however, did not discourage the government from pursuing the automation of the electoral process – from voting to transmission of election results. With RA 9369 already in place, full automation of the 2010 national and local elections is highly attainable. The COMELEC vowed for automated elections in 2010 after it fairly succeeded in pilot-testing the poll automation in the Autonomous Region in Muslim Mindanao (ARMM) in August 2008 where proclamation of winners came two days after the elections.

To address its limited administrative and regulatory capability, the COMELEC must institute organizational reforms – from promoting and developing its capacity to sustain education and information campaigns, its competence in managing an automated election system, and its ability in resolving election cases.

In addition, the political party system in the country has been in crisis since the imposition of martial law in 1972 and has not improved even with the ouster of then President Ferdinand Marcos in 1986. Over 20 years thereafter, elections have been basically confined to candidates' personalities rather than to issues and political platforms. Turncoatism has become prevalent among candidates. Shifts in political party affiliation were made for reasons of convenience, rather than for commitment to platforms and programs. Campaign activities of the candidates became individualistic, too. All these have brought about a weakness in the political party system which, in turn, have made political financing too costly for the candidates.

Another issue that needs to be addressed is the defective partylist system. The past elections have failed to open representations for the real marginalized and under-represented sectors brought about by loopholes in the law that allowed political dynasties and undeserving individuals to be elected to the House of Representatives.

Since 1998, when it was first introduced, the partylist elections have resulted in a voters' turnout of only around 40 percent. The low turnout has been attributed to the voters' low awareness of the partylist system.

Among those problems that need to be fixed are the criteria for accreditation of partylist groups and a continuing awareness campaign among the voting public on the partylist system.

STRATEGIC FRAMEWORK

Section 1, "Declaration of Policy" of RA 9369 reads: "It is the policy of the State to ensure free, orderly, honest, peaceful, credible and informed elections, plebiscites, referenda, recall and other similar electoral exercises by improving on the election process and adopting systems, which shall involve the use of an automated election system that will ensure the secrecy and sanctity of the ballot and all elections, consolidation and transmission documents in order that the process shall be fast, accurate and reflective of the genuine will of the people."

Paragraph 2 of the same section further reads: "The State shall recognize the mandate and authority of the Commission (COMELEC) to prescribe the adoption and use of the most suitable technology of demonstrated capability taking into account the situation prevailing in the area and the funds available for the purpose."

With this declaration of policy, the COMELEC has ample time for planning and implementation of RA 9369 for the full automation of the May 2010 elections.

The COMELEC and the Advisory Council has complied with the decision to pilot-test the automated election process in the August 11, 2008 ARMM elections. The Optimal Mark Reader (OMR) and Direct Recording Electronic (DRE) technologies were used for this exercise. The OMR was used in Lanao del Sur, Shariff Kabunsuan, Basilan, Sulu, and Tawi-Tawi, while DRE in Maguindanao.

Talks on modernizing the electoral process, however, shall not leave behind issues such as a new building for the COMELEC and development of its human resources. It must be remembered that human resources are equally, if not more important, than the electoral machines. These machines are considered nothing without competent, honest and efficient people who operate them. As aptly stated, manpower is the most important asset of an organization. Thus, in order to regain its credibility, the COMELEC must develop its human resources.

The COMELEC performs a vital role in all stages of the electoral process, Thus, strengthening this institution which has a constitutional mandate to oversee the country's elections should always be given high priority.

In response to public clamor for reforms, the COMELEC formulated its Strategic Directions for 2006-2010, dubbed as “*Oplan MERIT*: Modernization and Electoral Reforms with Integrity and Transparency”. This is an operation owned and crafted by the COMELEC employees in 2006. The employees’ mission is to conduct clean, credible, free, honest, orderly and modernized electoral exercises, and to empower the electorate towards a vibrant Philippine democracy.

The Plan embodied five main strategies: (a) strengthening of the COMELEC as a constitutional institution; (b) rationalization and codification of election laws; (c) modernization of electoral process; (d) effective and continuing voter education; and (e) advocacy and networking.

Strengthening the COMELEC as a constitutional institution is aimed at developing and boosting its capability to perform its quasi-judicial and administrative functions. A key activity to achieve this is reorganizing or reengineering the Commission’s structure, functions and processes. The reorganization of the COMELEC aims to come up with an appropriate organizational structure composed of a lean and mean workforce with upgraded position, pay scale and benefits scheme.

The development of its human resources through sustained and continuing trainings will bolster the integrity, credibility and efficiency (ICE) of the COMELEC. A COMELEC Training and Development Center (CTDC) is proposed to enhance the capabilities and roles of its stakeholders (i.e., COMELEC employees and its deputies, nongovernment organizations (NGOs), civil society organizations (CSOs), media, politicians, voters and other election stakeholders). In line with this, it has organized a COMELEC National Pool of Trainers (CNPT) composed of 18 trained men and women of the main office and is in the process of organizing the regional counterparts. All these efforts should likewise be coupled with improving the employees’ working conditions.

After the fire that gutted one of the old buildings of the COMELEC, the need for a new building, modern equipment, and election records has become urgent.

An effective and continuing voter education will still be pursued. This will mean conducting voter education in between elections to be jointly worked out by COMELEC and other institutions such as the Catholic Bishops Conference of the Philippines (CBCP), Parish Pastoral Council for Responsible Voting (PPCRV), Consortium for Electoral Reforms (CER), Commission on Higher Education (CHED), and other concerned NGOs and CSOs. This strategy will address the lack of political maturity which characterizes the electorate and will engender voters and empower the citizens as well. Studies show that being elected in government is usually attended with the three G’s of politics – guns, goons and gold. There has been a wide perception that popular personalities, such as the case of those in the media and political dynasties, are considered sure winners in political contests. This is not to mention the rampant vote-buying and selling, and the gross violations of laws during elections.

Voter education aims to improve the quality of citizen participation in elections and ensures that only those who are competent will be elected.

Participation of the citizens at all levels of the electoral process should also be intensified. The media, CSOs, and the private sector should also participate not only as watchdog organizations, but as instruments for information and education campaigns as well.

Strict monitoring of campaign financing and spending can be one approach to fight corruption and at the same time should be a key strategy towards credible elections. This reform seeks to strengthen the political party system and enhance transparency in campaign contributions and expenses.

The House of Representatives has filed HB No. 3655, entitled “The Political Party Development Act of 2008”, in the 14th Congress. This measure seeks to reform the orientation of political parties and impose requirements such as party platform for party registration and accreditation. This will veer away from the concept of traditional politics and discourage “turncoatism”. It also seeks to create a party development fund that shall provide subsidy to political parties of national character for their operational expenses and party-building activities. In addition, the Party List Law shall be revisited so that only the true marginalized and underrepresented sectors can have representation in the Lower House.

Chapter 14

Strategic Framework: National Peace Plan 2008-2010

Executive Order (EO) No. 3, signed by President Gloria Macapagal Arroyo on February 28, 2001, states that the government shall primarily aim towards the attainment of a just, comprehensive and enduring peace under the rule of law and in accordance with constitutional processes.

In particular, it shall seek to prevent and resolve internal armed conflicts and social unrest as well as their root causes through the pursuit of a comprehensive peace process which consist of the following major activities coined as Six Paths to Peace, namely: implementation of reforms; consensus-building and empowerment for peace; negotiated settlement with rebel groups; rehabilitation and reintegration of former rebels to society; addressing immediate concerns in areas affected by ongoing hostilities; and building and nurturing a climate conducive to peace.

Specifically, Agenda No. 9 of the President's Ten-Point Legacy Agenda calls for the completion of the peace process particularly with the Communist Party of the Philippines-New Peoples Army-National Democratic Front (CPP-NPA-NDF) and the Moro Islamic Liberation Front (MILF).

ASSESSMENT AND CHALLENGES

From 2004 to July 2008, the following were achieved in pursuit of the national peace agenda:

- The Government of the Republic of the Philippines (GRP) and the MILF reached consensus points in the outstanding issues on the territory strand of the ancestral domain agenda, while relative peace was sustained in areas affected by the armed conflict with the MILF through the continued implementation of the agreement on cessation of hostilities;
- Relative peace was nurtured along with the implementation of community rehabilitation and development in areas covered by existing final and interim peace agreements, particularly those with the *Rebolusyonaryong Partidong Manggagawa ng Pilipinas*-Revolutionary Proletarian Army-Alex Boncayao Brigade (RPMP-RPA-ABB), *Rebolusyonaryong Partidong Manggagawa ng Mindanao* (RPMM), Moro National Liberation Front (MNLF) and the Cordillera Peoples Liberation Army (CPLA);
- Despite the impasse in peace negotiations with the CPP/NPA/NDF since 2004, the peace process was sustained through discreet informal talks with the leaders of the NDF in May 2008, facilitated by the Royal Norwegian Government, as well as the pursuit of parallel initiatives, notably: (a) the continued monitoring and advocacy for the implementation of the Comprehensive Agreement on Respect for Human Rights and International Humanitarian Law (CARHRIHL); (b) coordination with the Philippine and Norwegian Ecumenical Peace Platforms in exploring ways of bringing both sides back to the negotiating table; support to local peace efforts; and (c) delivery of basic services under the *Kalayaan Barangays* Program

(KBP); among others. In September 2007, the President issued Proclamation No. 1377 which granted amnesty to members of the CPP/NPA/NDF and other communist rebel groups. The Proclamation becomes effective upon the concurrence of both Houses of Congress. The House of Representatives gave its concurrence last September 2008 while the Senate is yet to give theirs.

- The rehabilitation and socioeconomic transformation of conflict-affected communities were achieved through various programs, notably the KBP; Mindanao Trust Fund for Reconstruction and Development Program (MTF-RDP) which targeted MILF-governed areas; Action for Conflict Transformation (ACT) for Peace in Mindanao; GOP-UNDP Conflict Prevention and Peacebuilding (CPPB) Program which mainly covers Luzon and the Visayas; Growth with Equity in Mindanao (GEM); ARMM Social Fund Project (ASFP); and the Socio-Economic Reconstruction and Development of Conflict-Affected Areas in Mindanao (SERD-CAAM), among others;
- Former rebels mainstreamed into society were given monetary, livelihood and/or scholarship assistance. In particular, the following were achieved during the review period: (a) emergency assistance amounting to Php3.2 million provided to 1,303 rebel returnees; (b) livelihood assistance in the aggregate amount of Php14.8 million granted to 1,470 rebel returnees; and (c) scholarship grants awarded to 400 rebel returnees or their next of kin. In March 2007, the President issued Administrative Order (AO) No. 172, establishing an enhanced reintegration program for the rebels, also called the Social Integration Program;
- Peace constituency was sustained and expanded through various peacebuilding and peace advocacy programs, such as peace education, promotion of interfaith dialogue and cooperation, support to local peace initiatives including indigenous peace mechanisms, public information and education through media, and capacity building for regional and local government agencies on conflict analysis and peace-promoting planning; and
- The government's peace infrastructure strengthened through the designation of Regional KALAH! Convergence Groups (RKCGs) as regional peace mechanisms and the Presidential Assistants as Regional Peace Advisors, as well as the creation of new structures such as: the Council on Interfaith Initiatives; National Committee on Social Integration under OPAPP; Task Force *Kasangga*; Sub-Committee on Children Affected by Armed Conflict and Displacement under the Council for the Welfare of Children; Human Rights Offices in AFP and PNP; and Task Force Against Political Violence, among others.

To date, however, the peace process particularly with the MILF suffered a major setback which had repercussions on the other peace efforts of the administration. In August 2008, the Supreme Court issued a Temporary Restraining Order (TRO) on the signing of the Memorandum of Agreement (MOA) on Ancestral Domain which would have marked the conclusion of the negotiations on the ancestral domain agenda and thus would have paved the way for the resumption of formal peace negotiations. The wanton violence perpetrated by elements of the MILF against innocent civilians following the failed signing of the MOA has caused the government to rethink negotiating with MILF since it appeared that the MILF hierarchy is not in full control of its forces. In view of this, the administration has decided that it will no longer sign the MOA.

The President also directed a new paradigm on the peace process by mandating that peace

negotiations be refocused from one that is centered on dialogue with rebels to one of genuine dialogues with the communities and stakeholders.

Any negotiation with armed groups will be in the context of disarmament, demobilization and reintegration (DDR). All peace efforts with various rebel groups shall be realigned in accordance with the new policy. The President further directed the Presidential Adviser on the Peace Process to carry out a thorough review of all peace initiatives, particularly the negotiations with all rebel groups as well as the implementation of existing final peace agreements. The results of the dialogues and the review shall serve as bases for the formulation of an enhanced roadmap for the peace process to be submitted to the President for consideration and approval.

NATIONAL PEACE PLAN: 2008-2010

Guiding Principles

For the period 2008-2010, government shall continue to pursue a comprehensive peace process that is human security-based, involving primarily the protection of people's fundamental rights and freedom especially in situations of armed conflict. It shall be governed by the following principles as stated in EO3:

1. A comprehensive peace process should be community-based, reflecting the sentiments, values and principles important to all Filipinos;
2. It aims to forge a new social compact for a just, equitable, humane and pluralistic society; and
3. It seeks a principled and peaceful resolution to the internal armed conflicts, without blaming or surrendering, but with dignity for all concerned.

Also underlying the peace process is the adherence to the rule of law, primacy of the Philippine Constitution and the principles of sovereignty, territorial integrity and national unity.

Outcomes and Strategies

By the end of 2010, the following outcomes shall be achieved in the pursuit of the comprehensive peace process:

End of hostilities between government and rebel groups achieved

Hostilities between government and rebel forces shall be reduced, if not eliminated, through the following strategies:

Completion of peace negotiations with rebel groups in the context of DDR.

DDR shall be part of the overall framework of the peace negotiations with rebel groups and part of the peace agreement. It shall be deliberately pursued as one of the end results of the peace negotiations. The activities under DDR are overlapping and are not necessarily sequential. Hence, they may be conducted simultaneously depending on the local context.

DDR shall also be pursued as both a process and a goal of normalization of relationships at the community level. Normalization means communities are rebuilt, confidence is restored, and healing and understanding are achieved through dialogue and joint activities.

- Conduct of genuine dialogues with communities and stakeholders

Dialogues with sectoral and community leaders will be carried out to generate consensus on how to promote the peace process particularly in terms of specific recommendations on the parameters and agenda of the peace negotiations, operationalization of DDR, and the people's role and contribution to the peace process.

On the other hand, continuing dialogues with community members will be conducted to promote social cohesion and harmony among people and conflict-affected communities based mainly on the consensus for the rejection of armed violence as a means to achieve aspirations and social change.

The dialogues must not provoke or initiate violence on the community or those conducting the dialogue. Interest groups which might also promote their own agenda which is detrimental to the objective of the community dialogue, should be cautioned.

The dialogue shall be spearheaded or coconvened by partners from civil society.

- Full implementation of existing peace agreements

Towards the full implementation of the 1996 Final Peace Agreement with the MNLF, the government and the MNLF shall jointly identify and address issues relative to the following: Sha'riah and Judiciary, Special Regional Security Force and unified command for the Autonomous Regions in Mindanao, natural resources and economic development issues, political system and representation, and education.

The full implementation of the peace accord with the Cordillera Peoples Liberation Army (CPLA) shall also be fasttracked.

- Social integration of former rebels

The Social Integration Program (SIP), as provided for under AO 172, series of 2007, shall be undertaken. It consists of the following components: community awareness and acceptance; weapons and security management; and socioeconomic intervention for former rebels.

The granting of amnesty under Proclamation No. 1377, series of 2007, particularly to members and supporters of the CPP-NPA-NDF is part of the SIP. The proclamation becomes effective upon the concurrence of both Houses of Congress.

The monitoring mechanism and coordination among agencies involved in the implementation of amnesty, rehabilitation and reintegration programs shall be strengthened.

Enhanced human security in conflict-affected communities

This calls for the implementation of the following strategies:

Full compliance with human rights and International Humanitarian Law (IHL) principles.

Enhancing the responsibility and capacity of both state and nonstate actors to respect and protect human rights and IHL shall be pursued in close coordination with civil society organizations. In this aspect, the government shall:

- Continue to monitor and advocate compliance with IHL principles and relevant instruments such as the CARHRIHL and the Optional Protocol to the Convention on the Rights of the Child (CRC) on Children Involved in Armed Conflict, among others;
- Establish a monitoring, reporting and quick response mechanism on children's rights violations in conflict-affected areas;
- Strengthen the implementation of UN Security Council Resolution 1325 on Women, Peace and Security;
- Promote the rights of the Indigenous People;
- Intensify interagency coordination on protective measures relative to enforced disappearances and unexplained killings; and
- Support judicial reforms as well as local mechanisms and processes that strengthen human security in conflict-affected areas, such as the declaration of peace zones and similar spaces for peace, conduct of localized peace talks and dialogues, civil society monitoring of ceasefires, and indigenous conflict resolution mechanisms.

Rehabilitation of conflict-affected communities towards peace and development.

Conflict-affected communities shall be rehabilitated through convergent, multistakeholder, and innovative approaches based on the assessment of the needs and resources of the target areas. The following basic services shall be established in identified barangays:

- suitable access roads,
- school buildings,
- water systems,
- facilities for electricity,
- suitable medical facilities,
- early childhood care and development services,
- access to livelihood,
- psycho-social healing centers, and
- reconciliation services.

The KBP, which initially targeted 600 communities, shall be more vigorously carried out as the government's national program to address the original causes of insurgency.

By virtue of EO 569 entitled "Defining the Role of the Regional *Kapit-Bisig Laban sa Kahirapan (KALAHI)* Convergence Groups in the Comprehensive Peace Process

and Providing Funds for the Purpose,” the Regional KALAHI Convergence Groups (RKCGs) under the leadership of the Presidential Advisers/Assistants as Regional Peace Advisors shall be tapped as the overall mechanism to facilitate, coordinate, and monitor rehabilitation and development programs and projects supportive of the peace process in the Philippines.

In Mindanao, the following are among the major peace and development programs and projects to be pursued:

- Mindanao Trust Fund for Reconstruction and Development Program (MTRDP);
- ARMM Social Fund (ASF);
- Action for Conflict Transformation (ACT) for Peace;
- Growth with Equity in Mindanao Peace and Development (MPAD) Program;
- Socio-Economic Reconstruction and Development of Conflict-Affected Areas in Mindanao (SERD-CAAM); and
- Health, Education and Livelihood Progress (HELP) for Sulu, Basilan and other areas of the ARMM, as provided for in AO 192.

The national government shall continue to engage the LGUs toward their adoption of conflict-sensitive and peace promoting planning and programming processes.

Peace constituency broadened and citizens’ participation in the peace process strengthened

The following strategies shall be pursued:

Peace education and advocacy

As provided for in EO 570, series of 2006, peace education shall be fully mainstreamed in basic education and teacher’s education. By 2010, public and private schools as well as duly recognized training institutions throughout the country shall be implementing a peace education curriculum.

Nonformal and community-based peace education shall also be undertaken in priority areas.

Media-based promotion and advocacy for a culture of peace shall also be carried out. In support of this, a peace education program for media practitioners shall be pursued.

Promotion of interfaith, interreligious, and intercultural dialogue and solidarity

As called for under EO 714, series of 2008, the government shall strengthen its linkage and partnership with various faith-based and interfaith organizations throughout the country. While taking leadership in the global promotion of interfaith cooperation, the government shall encourage and support community-based interfaith, interreligious and

intercultural dialogue and cooperation especially in the context of the peace process. Interfaith desks shall be established within government.

Strengthening of sectoral and institutional networks

Peace networks shall be established, strengthened and sustained within priority sectors, like children, youth, women and indigenous peoples and institutions such as media and religious groups, among others. They shall be encouraged and supported to participate in policy formulation as well as in the design, implementation and monitoring of community-based peace and development programs particularly in conflict-affected and vulnerable areas.

Enhanced policy environment conducive to peace and human security

This outcome shall be achieved through the following strategies:

Ensuring policy coherence, consistency and relevance

Monitoring and interagency coordination systems shall be strengthened to fully ensure consistency among the three pillars of policy, namely: peace, national security and national development.

Coordination and advocacy within the government shall be geared towards ensuring the implementation of social, economic and political reforms to address the root of armed conflict, as well as the primacy of the peace process.

Peace research shall be undertaken to continuously enhance the foundation of government's policy and program response to the complex, dynamic and evolving nature of social conflicts and violence. A peace policy and peace research agenda shall be developed, regularly updated and implemented.

Institutionalization of the peace process

Part of government's peace agenda shall be the adoption of measures to institutionalize the peace process.

Moreover, various national government institutions and their regional offices, as well as local government units (LGUs), shall be capacitated with the end in view of making their plans, programs, systems and processes conflict-sensitive, peace-promoting, and reflective of the national peace agenda.

Pursuant to EO 569, series of 2006, the capacities of the Presidential Assistants and Regional KALAHI Convergence Groups shall be enhanced relative to their roles as Regional Peace Advisors and regional peace process mechanisms respectively.

Finally, the OPAPP shall be strengthened as the primary agent of national government in addressing internal armed conflicts, addressing their root causes, and building a culture of peace.

Chapter 15

Healing Divisions in Society

Achieving national reconciliation by addressing the root causes of social conflicts is a tall order especially for parties with diametrically opposing interests and irreconcilable points of view. This is compounded by continuing debate among various sectors of society about the real legacy of EDSA 1 and 2 in the transformation of Philippine governance, culture, politics and society in general. It would be difficult to achieve progress towards healing if Filipinos cannot even agree on the scope of changes that have occurred and the benefits that have accrued as a result of those milestones. Worse, there seems to be creeping cynicism across segments of the population that all the hopes and dreams for a fundamental transformation of Philippine society have remained unfulfilled.

The nagging perception that “everything has remained the same” has led people to question whether it was worth the trouble to have gone through those events in the first place. After EDSA 1 and 2 societal reforms which would have fulfilled the people’s dreams and aspirations were not put in place. Hence, EDSA 1 and 2 remain unfinished revolutions. The social revolution must still be waged. Resistance or apathy to social reforms can be traced to the loss of moral values which is also seen as the root cause of a myriad of social ills (corruption, criminality, dirty politics, etc.). Social transformation can only take place with personal transformation through values formation.

ASSESSMENT AND CHALLENGES

The onus for setting the parameters with which such “healing” is to take place rests with the government. It has a critical role for defining the terms and conditions for reaching out to the other side. The guiding principles should be made clear in achieving reconciliation. Given the sensitivities involved, care should be exercised so that they do not resemble terms being dictated by a victorious army to a vanquished foe. While the primary consideration is to avoid resentment among the groups disadvantaged by people power, government should also exercise caution not to be perceived as bending over backwards to accommodate demands. The main challenge remains striking a balance between fostering national harmony through “peace with justice” and not “peace at any price”. It is critical to avoid a situation where government seeks to placate the opposition without spelling out their obligations or responsibilities. This could only serve as a disincentive since the other party may not want to exert effort to meet halfway with the government.

The focus however of healing should not only be limited to the so-called wounds of EDSA 1 and 2 since they represent only the initial agenda of the President. In her inaugural addresses on January 20, 2001 and 30 June 2004, President Gloria Macapagal Arroyo expressed her desire to heal the deep divisions in our country. Healing the deep divisions and her call for unity have been her constant messages in her State of the Nation Addresses (SONAs) from 2001 to 2007. The Filipino people are, after all, stratified into economic and social classes. Harmony and healing must be geared towards the reintegration of all Filipinos into the mainstream of Philippine society. It is for this reason that this Chapter (15) has been retitled from **National Harmony: Healing the Wounds of EDSA** to **National Harmony: Healing the Divisions in Society**.

An action plan for national healing and reconciliation should be two-tracked:

Justice: (a) accelerate compensation to victims of human rights violations; (b) pursue reforms in the military and implement recommendations of the Davide and Feliciano Commissions; and (c) formulate and implement effective national security reforms with a balanced focus on both internal and external concerns; and

Reconciliation: (d) consult people nationwide on how to pursue reconciliation and national unity; (e) provide safe venues accessible to victims and perpetrators for carrying out structured sharing of experiences; and (f) design and implement creative approaches, involving an appropriate mix of modalities for handling conflicts involving figures of the administrations deposed in February 1986 and January 2001.

These elements have not been fleshed out in the past where concrete targets are identified in the Strategy Planning Matrix. The absence of targets makes it difficult, if not impossible to keep track of progress and measure performance. Moreover, a concrete program of action that would have spelled out the agenda to guide both parties is likewise unavailable. Said document could have been drawn up through a consultative process involving representatives from the executive, legislative, judiciary, church, professional organizations, business sector, etc., under the guidance of the Office of the President (OP). This could have provided a clear sense of direction by identifying a set of priorities and deliverables according to a given timeframe. The lack of coherence in the said program has resulted in disjointed efforts by agencies without taking into account their impact on other components and the overall contribution to the desired outcome of healing divisiveness. More importantly, there seems to be a lack of a framework for reconciliation which presupposes the conduct of a series of consultations with opposition groups as well as the convening of a multisectoral forum to identify sources of disunity and the key issues to be resolved.

To create an enabling environment for social reforms in order to fulfill the people's expectations from EDSA 1 and 2, the EDSA People Power Commission (EPPC) spearheaded the Good Citizenship Movement (GCM). The GCM has been promoting nationwide the Filipino values embodied in the Preamble of the 1987 Constitution as the way by which Filipinos can become good citizens and contribute to nation-building. In response to Presidential Proclamation No. 828 Declaring a Decade of Good Governance and Good Citizenship to Fight Corruption and Eradicate Poverty, issued on April 14, 2005, the EPPC/GCM has been mobilizing all agencies of government, civil society organizations, professional and religious organizations, the mass media, and the citizenry in the promotion of Filipino values. This was highlighted by the holding of two National Good Citizenship Congresses (October 27-28, 2006 and August 17-18, 2007). Through the Congresses, the commission has sought the alignment of efforts of the different values formation groups from schools, government, civil society and the business sector towards good citizenship and nation-building, using a common values framework (the core Filipino values in the Preamble of the Constitution).

Of the six strategies mentioned earlier, only three—compensation to human rights victims, nationwide consultation, and design of creative approaches—have actual accomplishments. As for the rest, there have been no reports/data from the concerned agencies including any updates on the reforms undertaken to implement the recommendations of the Davide and Feliciano Commissions.

On the compensation for human rights victims, the Senate has passed on third and final reading in December 2007 Senate Bill No. 1532 (Human Rights Victims Compensation Act). The bill seeks

to indemnify at least 10,000 Filipinos who suffered under the dictatorial regime of former President Ferdinand Marcos. Unfortunately the 13th Congress adjourned before it could be discussed and reconciled with the House version. At present, the bill is now with the House Committee on Civil, Political and Human Rights. This is a continuing source of frustration for the victims since the delay is perceived to be a denial of justice that prevents them from moving on with their lives.

Relatedly, there has been a persistent clamor from martial law victims for government not to block the awarding of compensation as a result of a favorable ruling by the Hawaii US Circuit Court granting the 10,000 victims with US\$2,000 each to be sourced from the Merrill Lynch account of the late President Marcos. The claimants have deplored the filing by the Presidential Commission on Good Government (PCGG) of several motions which prevent them from receiving the said amount. The PCGG for its part, while agreeing that the victims have a right to be compensated, has justified its actions based on the provisions of the Comprehensive Agrarian Reform Law of 1988 and Administrative Order No. 231 dated August 23 1991. The legal issuances essentially mandate that proceeds from the sale or disposition of shares of stock in connection with the ill-gotten wealth of the Marcoses, should form part of the Agrarian Reform Fund.

On the other hand, two PCGG cases were decided favorably for the government by the Supreme Court, namely: (a) recovery of shares of stock in the Philippine Telecommunications Investment Corporation (PTIC) valued at PhP25 billion; and (b) recovery of shares in the Manila Bulletin in the names of Eduardo Cojuangco, Jr., Jose Campos and Cesar Zalamea valued at PhP1.44 billion. Despite these successes, the agency still encountered problems and delays in the prosecution of ill-gotten wealth cases. These include delays which were due to the invocation by defendants in said cases of legal remedies allowed under the procedural rules.

On the conduct of people's consultation, a Council of State was convened in January 2006 to forge a strong consensus among the political leaders on how to strengthen the economy, social equity and political renewal. While this is laudable, the major challenge that needs to be hurdled is how to sustain the follow through efforts.

Relative to pursuing creative approaches, two initiatives have been undertaken to handle conflicts arising from the overthrow of political figures in February 1986 and January 2001. The first was the granting of absolute pardon by President Arroyo to former President Joseph Estrada. The second was the proposal of former Speaker Jose de Venecia granting amnesty to all enemies of the state. These two have elicited mixed reactions from the involved parties and from the public in general.

The six-and-a-half year trial of ousted President Estrada and his subsequent conviction of plunder charges by the Sandiganbayan raised hopes that even high officials could be held accountable for their misdeeds. This was hailed by both lay persons and religious groups as a triumph of justice. However, the grant of executive clemency by President Arroyo merely six weeks after Mr. Estrada was sentenced to reclusion perpetua seemed to dampen the optimistic mood of people. The controversial decision drew its share of supporters and detractors alike. One group voiced the sentiment that it was within the President's legal prerogative to do so and would hasten national unity. Others, however, opposed the move as divisive to the nation because it would not serve the ends of justice especially as it was perceived to be the result of a political compromise.

On the proposal to grant amnesty, this has to be studied carefully to determine the parameters for deciding who deserves to avail of this instrument. A blanket amnesty to all groups without

thoroughly screening the applicants may only lead to further discontent or political instability. A recommendation of South Africa's Truth and Reconciliation Commission (TRC) could be instructive in this respect. In its final report, the TRC recommended that where there is evidence that an individual has committed a gross violation of human rights and where amnesty has not been sought or denied, then prosecution will be considered. The TRC further warned that the granting of general amnesty in whatever guise should be resisted in order to avoid a culture of impunity and to entrench the rule of law.

STRATEGIC FRAMEWORK

Creating an Environment for National Harmony through Shared Values

EDSA 1 and 2 found the Filipino people on both sides of the political divide. To foster unity and reconciliation, a common ground must be found to serve as a basis for unity.

The Filipinos' values as a people are enshrined in the Preamble of the 1987 Constitution (Faith in the Almighty, Truth, Justice, Concern for the Common Good, etc.). These are the shared Filipino values. These can be the basis for unity. When people live according to these values they are being good citizens and this is how they contribute to nationbuilding. This is how they can show love for country.

The nationwide campaign mobilizing all sectors of society in promoting the Filipino values by the Good Citizenship Movement spearheaded by the EDSA People Power Commission since 2003 has been creating an environment for national harmony through a sense of shared values, love for country and pride in being Filipino.

Essentially, the goals, strategies and action plans enunciated in the original version of the Chapter are still valid. What is needed is to come up with an overarching framework to bind the elements into a coherent whole. Such framework should contain the general principles agreed upon by concerned parties through a series of consultations. These principles could be further enriched by ideas garnered from a multistakeholder forum composed of representatives from the executive, legislative, judiciary, local government units (LGUs), church, professional organizations, business sector and nongovernment organizations (NGOs). Once the framework is formulated, a concrete program of action can be drawn up through a similar consultative process. As indicated earlier, this is critical in providing a sense of direction, spelling out concrete programs as well as translating the objectives into specific activities with clear deliverables over a certain timeframe. Lastly, the targets should be fleshed out and the responsible agencies identified in order to establish accountability.

The overall guiding principle for attaining national unity should be peace with justice, as reconciliation done through appeasement has never led to lasting peace.

The program of action should consist of doable and realistic activities and outputs with clear milestones. It might be appropriate for the President to designate a trustworthy senior OP official with enough authority to manage the series of consultations with various sectors to come up with said document. Performance indicators must be identified to better keep track of progress and measure the degrees of accomplishment. In order to ensure smooth program implementation, a lead agency should be tasked to oversee the entire process. A champion from the lead agency should be designated and given enough authority to call on certain officials to thresh out problems and formulate solutions.

On the compensation for human rights victims, the bill on Human Rights Victims Compensation Act should be included as part of the priority legislative measures in the 14th Congress. Malacañang, through the Presidential Legislative Liaison Office and Legislative-Executive Development Advisory Council, should work closely with the leadership of the House and Senate and push for its swift enactment. The government should likewise adopt a policy that the rights of martial law victims are firmly respected. No effort should be spared to guarantee immediate receipt of just compensation. Consistent with such policy is an introduction of an amendment to the Comprehensive Agrarian Reform Law (CARL). The CARL amendment should specify that a portion of the proceeds obtained by the PCGG from the ill-gotten wealth will be set aside to satisfy the claims of the 10,000 martial law victims as an initial step towards the eventual granting of the US\$2 billion award.

Adoption of Reforms in the Military to Implement Recommendations of Davide and Feliciano Commissions

The Davide Fact-Finding Commission was established in the aftermath of the December 1989 coup attempt against then President Corazon Aquino. The Feliciano Commission, on the other hand, was in response to the July 2003 Oakwood mutiny against President Arroyo. Both bodies were formed to investigate the underlying causes for these two events and recommend measures to address them. They came up with Final Reports which extensively analyzed the reasons behind the destabilization moves by disgruntled elements in the military and civilian population. Several reforms were also recommended not only to quiet the restiveness in the uniformed services but also correct any deficiency in the sociopolitical system which gave rise to such disturbances.

Unfortunately, no reports on the concrete measures undertaken by the concerned parties are available to show the extent by which said recommendations were implemented. Given the level of dissatisfaction against the current administration and calls for leadership change, it is imperative that such recommendations are revisited and appropriate actions taken. Coup rumors are symptomatic of a deeper malaise in the body politic which if not properly addressed could lead to public disenchantment and serious political unrest that threatens democracy in the country.

Establishment of a Truth and Reconciliation Commission

One approach that holds much promise for achieving the much-sought-after unity involves setting up a forum where both victims and perpetrators are able to confront their past by giving their testimonies on human rights violations and other wrongdoings. This affords victims of martial rule the opportunity to share their experiences, hear the side of their tormentors and in the process attain catharsis. On the side of the perpetrators, they will be able to give testimony, express contrition for offenses committed, seek forgiveness and offer restitution. Such forum could also be the venue for processing applications for amnesty by offenders. The rationale for this approach is for the parties to disclose the truth without fear of punishment in order to delve into the deep seated wounds and attain proper closure. The main thrust is to tell the truth in order to gain genuine reconciliation in the long run rather than just inflicting punishment. This is consistent with the concept of restorative justice advocated by Chief Justice Reynato Puno which focuses on reinstating the losses of victims, holding wrongdoers accountable for the offenses they commit and engendering peace within the community. It is more concerned about restoring the peace, repairing and preventing the harm and healing both the victim and offender. This represents a paradigm shift from retributive brand of justice (i.e. Biblical admonition for “an eye for an eye, a tooth for a tooth” where the objective is punishing the offender).

In this regard, the experience of South Africa with the Truth and Reconciliation Commission (TRC) established at the end of apartheid during the term of President Nelson Mandela could be worth looking into. Chaired by no less than Nobel Peace Laureate Archbishop Desmond Tutu, the aim of the TRC was to promote reconciliation in South Africa's divided society through truth. It was established in September 1995 to investigate crimes committed during the apartheid era in South Africa. A body patterned after the TRC could be set up in the Philippines to institutionalize memory and truth-telling sessions conducted by Ateneo de Manila University in the past.

Nevertheless, it should be stressed that in restorative justice, offenders are not exempt from the requirement to show contrition for their sins and mistakes as well as offer restitution. A sincere confession of their crimes is still essential before forgiveness can be given.

Political expediency should not be used as an excuse to overlook crimes at the expense of justice. History has shown that peace at any price does not lead to a lasting resolution of conflict and attainment of national unity. On the contrary, it could very well sow the seeds of future conflicts. While government can always reach out to its opponents, one must always bear in mind that reconciliation is a two-way process. Acknowledgment of one's errors or crimes is an essential first step before pardon can be even considered. Forgiveness cannot be demanded; it has to be earned. One precondition of reconciliation should be restitution of illegally acquired wealth to its rightful owners. Pardon for the sake of quieting restiveness of opposition supporters is a recipe for instability in the long run. In a desperate attempt to heal "old wounds of EDSA" the administration could risk opening up "new wounds." Administration supporters could be alienated and disillusioned because of the wrong signal sent that government is condoning corruption. This could set the stage for another round of people power movements which international observers dubbed as "mobocracy."

Other Priorities in Support of Consultations to Achieve National Unity

These priorities will include the following: (a) develop a healthy partnership between trimedia outfits and LGUs in promoting a culture of peace and sustainable development; (b) uphold cultural integrity by advancing indigenous peoples interests in appropriate fora, establish region-wide events to showcase different cultures, and include tribal values in school curricula; and (c) localize the National Commission on Indigenous Peoples in line with the implementation of RA 8371 (Indigenous Peoples Rights Act of 1997).

Chapter 16

Peace And Order

Peace and order is one of the government's priority agenda to promote a conducive economic climate amidst differences in political ideologies and cultural beliefs. When sustained, economic growth will facilitate the influx of local and foreign investments as well as tourism to generate employment opportunities. A number of programs, projects and activities were implemented to improve the peace and order situation.

Law enforcement agencies pursued their mandated tasks to achieve effective, efficient and credible law enforcement through continuous intensified operations to neutralize terrorists and other organized crime groups and conscious efforts to professionalize the Philippine National Police (PNP).

ASSESSMENT AND CHALLENGES

Prevention and suppression of crimes continued to be a challenge. Even with a decrease in reported crimes from 2005 to 2007, security and safety remains a threat to the citizenry.

Table 16.1
Crime Volume, 2005-2008 First Sem

Year	Crime Volume		Total	% Decrease in crime volume
	Index ¹	Non-Index ²		
2005	44,018	32,740	76,758	0.64
2006	41,583	29,644	71,227	7.21
2007	37,057	28,887	65,944	7.42
2008 (1st sem)	18,724	15,794	34,518	N/A

1/ Index crimes include murder, homicide, physical injury, rape, robbery and theft.

2/ Non-Index crimes include parricide, infanticide, maltreatment, kidnapping, estafa, falsification, malicious mischief, damage to property, prostitution, vagrancy, alarm and scandal, assault/resistance to authority, corruption of public officials, gambling, slander and libel, threat and coercion and trespassing, abduction, seduction and lascivious acts, illegal possession of firearms, explosives and ammunitions, concealment of deadly weapons, smuggling, carnapping and prohibited drugs.

The reduction of crime incidents especially in crime-prone areas is attributed to police visibility. Among the strategies that intensified police visibility are: the conduct of night watch operations; installation of checkpoints in strategic areas; maintenance of a total of 3,365 COPS-Kababayan Centers nationwide; and deployment of 94 percent of the police to the communities. During the implementation of Oplan “*Manman Kalye*” in 2005 and 2006, reported common or street crimes dropped by 24 percent from 14,569 to 11,042 crimes.

Strengthened inter-agency intelligence and counter-intelligence linkages resulted in a decreased volume of syndicated crimes like kidnap-for-ransom, bank robbery, illegal gambling and illegal drugs.

Table 16.2
Volume of Syndicated Crimes

Year	Kidnap for Ransom		Bank Robbery		Illegal Gambling		Illegal Drugs	
	No.	% increase (+)/ decrease(-)	No.	% increase (+)/ decrease(-)	No.	% increase (+)/ decrease(-)	No.	% increase (+)/ decrease(-)
2005	50	-0.54	37	29.1	8,001	35.0	9,346	42.6
2006	44	12	25	32	6,024	24.7	6,725	28.0
2007	24	83	30	-20	3,731	38.0	6,106	9.0
2008 (1 st Sem)	16	undetermined	13	undetermined	2,624	undetermined	4,039	undetermined

Note: The percentage decreases for the syndicated crimes in 2008 can't be determined since it only covered the first semester and will not be comparable to the previous year's full year figure.

Organization of Task Forces boosted operations against syndicated crimes such as the National Law Enforcement Coordinating Committee (NALECC), National Anti-Kidnapping Task Force, Joint Task Force Santugis, Joint Anti-Bank Robbery Action Committee which involves coordination among other law enforcement agencies, LGUs and private sector organizations. Barangay Information Networks (BINs) were also established. To date, 19,740 or 47 percent of the barangays have maintained BINs with 41,876 informants.

Local officials and communities were also actively involved in the promotion of peace and order through the Peace and Order Councils (POCs) and the Anti-Drug Abuse Councils (ADACs). As of the first Semester of 2007, 62 percent and 33 percent POCs and ADACs, respectively, were organized in LGUS at all levels.

The PATROL 117 Program was intensified by call centers located in 22 cities and one municipality. Response time to life and nonlife threatening incidents averaged 6.68 minutes. Police and rescue operations topped reported calls followed by emergency/medical assistance calls.

Crime Solution Efficiency Rate from 2004 to 2008 surpassed the 80 percent annual target. Challenges remain, such as the acquisition and improvement of PNP modern equipment (Table 16.3), as well as facilities and a crime mapping system in the identification of criminals. In fact, only 20 percent of required investigative equipment for police investigators has been acquired (e.g., cameras, master evidence collector kits, investigative kits, etc.) This deficiency hinders the ability of police investigators to generate sufficient evidences of criminal identification for crime solution.

Table 16.3
Crime Solution Efficiency Rate

Year	Crime Solution Efficiency Rate (%)
2004	89.86
2005	88.79
2006	88.56
2007	88.37
2008(1 st sem)	89.25

Source: Directorate for Investigation and Detective Management (DIDM)

Professionalizing PNP personnel is a key strategy to improve effectiveness and efficiency of police services through the conduct of various career courses and skills development trainings. A total of 42,688 or an average of 10,672 PNP personnel per year attended the mandatory courses from 2004 to the first semester of 2007, while a total of 961 or an average number of 240 per year attended specialized training courses from 2004 to October 2007.

At present, the Philippine Public Safety College (PPSC) conducted 125 mandatory courses to a total of 7,615 student police officers; of these, 10 courses were completed with 1,711 graduates. With a limited budget, PPSC managed to achieve the target of around 10 percent of the total number of PNP personnel trained per year.

Furthermore, the PNP conducted 10 various specialized training courses in 2008 with 734 student police officers. These courses included those for Finance Officers and/or Police Intelligence Officers on Police Intelligence; Criminal Investigation Detective Development; Counter-Terrorism Investigation Management; Public Safety Investigation and Detection; Public Safety Narcotics Investigation; and Public Safety Traffic Investigation.

Despite the efforts of the PNP to achieve more, the lack of resources impede the efficient and effective performance of law enforcers. Table 16.4 shows the percentage of equipment acquired as of the first quarter of 2008. The deficiencies in equipment need to be addressed to improve police operations.

Table 16.4
Equipment Acquired, as of 2008 Q1

Type	% Filled-Up
Patrol Cars	37
Short Firearms	62
Long Firearms	48
Communication Equipment	
Handheld radio	12
Mobile Radio	9
Base Radio	13
Investigative Equipment	20

Source: Supply Management Division, Directorate for Logistics

The strict implementation of the recruitment policies by the NAPOLCOM resulted in the hiring of 17,787 qualified PNP personnel starting 2004 to 2007 to fill up the attrition quota for 2003. In addition, 6,979 personnel were recruited from 2007 to June 2008 to fill up the regular quota¹. Stringent selection and recruitment for 4,782 available attrition quotas² is ongoing. Table 16.5 and 16.6 shows the policeman-to-population ratio per year and proportion of PNP positions filled up from 2004 to June/July 2008.

Table 16.5
Policeman-to-Population Ratio 2004-2008 1st Sem

2004	2005	2006	2007	2008 (1st sem)
1:723	1:751	1:747	1:702	1:764

Source: DIDM

Table 16.6
Proportion of PNP Positions Filled Up, 2004-July 2008

2004	2005	2006	2007	As of July 2008
95.79	94.34	94.42	92.27	92.84

Source: DIDM

Personnel recruitment primarily considers the availability of budgetary resources. With the limited budget per person, the target police-to-population ratio of 1:525 for 2010 and 1:500 by 2012 will not be achieved.

In a joint study conducted by the Supreme Court and the United Nations Development Program (UNDP), the politicization of PNP's institutional integrity and accountability is identified as one of the weaknesses of the peace and order sector. The appointment and promotion process is perceived as politicized. External agencies like the Department of the Interior and Local Government (DILG) and the National Police Commission (NAPOLCOM) exercise administrative control and supervision over PNP personnel. The PNP, in turn, aims to firmly establish a self-administering and managing professional police organization that will ensure PNP's institutional continuity and stability. Thus, PNP submitted a Reorganization Plan and will continue to lobby its passage in Congress. In the Reorganization Plan, the PNP Directorates/Units with overlapping functions will be merged to avoid duplications and confusion of mandated tasks.

GOALS, STRATEGIES AND KEY TARGETS

To attain the goal of maintaining peace and order, government efforts will focus on the following strategies:

- Continuous and intensified police operations to address criminality, insurgency and terrorism; and,
- Professionalization of the PNP.

Increased police visibility through deployment of at least 90 percent of the police force in the communities shall be implemented, especially in the most crime-prevalent areas. Night watch

¹ Regular quota refers to new positions for recruitment based on the available budget given to PNP for a given year.

² Attrition quota pertains to positions vacated by PNP personnel for reasons of death or retirement.

operations, manning of checkpoints, mobile and foot patrols will be pursued to deter the occurrence of crimes.

Strengthened partnerships shall be created between and among the police, local government units (LGUs) and the communities. The number of functional community-based institutions organized in the LGUs, such as the Peace and Order Councils and the Anti-Drug Abuse Councils (ADACs), shall be increased alongside intensified public awareness of the PATROL 117 Hotline.

Inter-agency intelligence and counter-intelligence networks will be strengthened. Barangay intelligence networks (BINs), proven to be instrumental in improving police suppression operations through the conduct of raids, seizures and search will be better maintained. As of June 2008, 21,370 barangays already established BINs with around 50,313 informants recruited.

A Crime Solution Efficiency Rate (CSER) of not less than 80 percent will still be the annual target from 2008 to 2010 specifically for street crimes. To maintain if not improve this CSER target, the procurement of investigative equipment for police investigators will be a priority. This will enable the gathering of accurate and adequate evidences necessary for successful prosecution and/or resolution of cases. Likewise, PNP will work towards ensuring that 100 percent of the received warrants of arrests will be served.

Intensified operations against terrorism will also be a primary strategy. The framework of the Three-Tiered Defense System, which integrates operations, intelligence and police-community programs shall be implemented. This system rests solidly on community partnership or the involvement of the entire society. The LGUs will take the lead role, while the Department of National Defense/Armed Forces of the Philippines, Department of Justice and the Commission on Human Rights shall assist in the investigation, documentation and prosecution of all terrorism-related cases.

To further professionalize the PNP, the stringent screening process on recruitment of police applicants will be undertaken through strict implementation of the policies issued by the NAPOLCOM. This will ensure recruitment of qualified and eligible police applicants and eradicate corruption in the recruitment process.

Recruitment of qualified personnel will also be pursued to at least narrow the gap in achieving the ideal policeman population ratio of 1:500. Thus, the PNP will target the recruitment of 10,000 to 20,000 policemen per year.

PNP and PPSC will provide training interventions to enhance knowledge and skills of PNP personnel and develop the right work attitude and values essential to perform duties effectively and efficiently.

Likewise, the acquisition of basic equipment and upgrading of crime prevention infrastructure and technology must be pursued. The PNP shall continue to seek assistance from the LGUs in filling up the equipment shortage of the police under their jurisdiction. The LGUs share the responsibility with the PNP in maintaining peace and order in their localities as provided in Section 14 of the Local Government Code.

Finally, the PNP will lobby and seek support of the legislators for the approval of the proposed PNP Reform and Reorganization Act pursuant to Republic Act 8551.

Chapter 17

Rule of Law

The aim of having a more efficient and responsive justice system is shared by the Supreme Court (SC), Court of Appeals (CA), Sandiganbayan, Court of Tax Appeals, First and Second Level Courts, Department of Justice (DOJ) and its attached agencies: the Bureau of Corrections (BUCOR) and Parole and Probation Administration (PPA). The rule of law in democratic governance is enhanced and strengthened by reforms in these institutions. The reforms are expected to lead to a well-functioning justice system that is efficient and fair, accessible and transparent, and independent and autonomous, all of which are expected to restore public trust and confidence in the government system. This, in turn, will lead to a socioeconomic environment that is stable and predictable, thereby encouraging increases in investments and stronger investor confidence.

In the past years, these government agencies and the private sector and various support groups implemented programs and projects to improve the conditions and performance of judicial services and restore trust and confidence in the justice system.

ASSESSMENT AND CHALLENGES

The Courts Pillar

Courts administer and carry out justice, resolve disputes promptly, protect individuals, deter and punish crime, ensure fair access to justice, provide for restitution, and generally uphold the law. To improve its performance and attain its vision as an independent, effective and efficient judiciary that is worthy of public trust and confidence, the Judiciary continues to pursue the following strategies:

1. Support and complete the ongoing Action Program for Judicial Reform (APJR) projects on case decongestion, judicial systems and procedures, human resource development, institutional development and reform support systems;
2. Improve functional administrative and operating structures in the Judiciary;
3. Provide sufficient public information and collaboration with civil society;
4. Provide access to justice by the poor through the ongoing institutional development reforms project under the APJR;
5. Enhance the institutional integrity of the Judiciary; and
6. Pursue an advocacy on Alternative Dispute Resolution (ADR) mechanisms under RA 9285 in the judicial system.

Improving Judicial Systems and Procedures

The timely disposal of cases has been a major challenge for the courts. Until recently, total caseloads were increasing each year as the volume of cases being filed was higher than those disposed. To improve disposition of cases and decongest dockets, the Judiciary continued efforts in improving judicial systems and procedures as well as enhancing human resource development, institutional development and reform support systems.

The Caseflow Management (CFM) Pilot Project in Pasay City was completed in 2005. It focused on time- and events-management to move a case from the point of initiation through disposal to avoid undue delay in case resolution. The system was evaluated in 2006 and enhanced by integrating into the system additional case-tracking features and data generation, e-raffling and e-payment. The enhanced CFM was installed in Pasay City and rolled out to Lapulapu City and other pilot sites in 2008. Further assessment on the effectivity of the CFM will be done after completing the second pilot phase.

A Court Administration Management Information System (CAMIS) was developed in 2004 to build and strengthen the capacity of the Office of the Court Administrator (OCA) and the Supreme Court Management Information Systems Office (MISO) in establishing and supporting a Court Administration Management Information System for the judiciary. The CAMIS has improved the OCA's capacity to monitor and evaluate the performance of the lower courts. The SC intends to link the CAMIS with the e-CFM to further facilitate the generation of statistical reports necessary in evaluating the performance of courts. Both the CFM and CAMIS seek to sufficiently address the public perception on delay in the adjudication of cases and the issue of efficiency of the courts in general.

Another milestone project of the court is the Justice on Wheels (JOW) project or Mobile Courts. It is geared towards decongesting the court dockets and increasing access to justice. The operation of the Mobile Courts consists of three buses and aims to improve physical access to court services especially by the poor. At present, all three mobile courts are deployed in different areas of the country. Two buses are presently being utilized for ADR through the Mobile Court-Annexed Mediation (MCAM) proceedings in Rizal and Bulacan, while the third bus was deployed to Bohol Municipal Circuit Trial Courts.

The first bus deployed in Rizal on September 21, 2007 successfully mediated 68 cases in less than a month. Prior to its deployment in Rizal for ADR proceedings, the mobile court was utilized in Metro Manila to assist in the declogging of detention centers by hearing cases of the detention prisoners inside the bus (Table 17.1).

Table 17.1
Cases Heard/ Resolved by Mobile Court, 2004-2008

2004		2005		2006		2007		2008	
No. of Resolved Cases	No. of Cases Facilitated for Release	No. of Heard Cases	No. of Cases Facilitated for Release	No. of Heard Cases	No. of Cases Facilitated for Release	No. of Heard Cases	No. of Cases Facilitated for Release	No. of Heard Cases	No. of Cases Facilitated for Release
40	-	714	300 juveniles	505	90 detainees	43	358 cases mediated, 219 successfully mediated	18,470 cases mediated and 10,374 cases mediated successfully; 56% success rate for January to August; two mobile courts deployed to Bulacan and Rizal for MCAM;	Facilitated the release of 25 inmates from Manila City Jail and Manila Youth Reception Center

Source: SC-PMO, SC Committee on JOW, PHILJA-PMC

Even as the MCAM continues to be implemented, the SC Committee on Justice on Wheels has relaunched the Justice on Wheels and Increasing Access to Justice by the Poor programs. The Mobile Court has conducted jail decongestion activities at the Manila City Jail and the Manila Youth Reception Center. Additionally, inmates from these facilities who need immediate medical attention were referred to the Philippine General Hospital, Ospital ng Maynila and the National Center for Mental Health for treatment. The program was also implemented in Caloocan and Quezon Cities.

The Rule on the Writ of Amparo

The most remarkable activity of the Judiciary in 2007 is the formulation of the Rule on the Writ of Amparo which aims to protect and enforce constitutional rights, including the protection of witnesses.

To enable the Judiciary to address the increase in unexplained killings of political activists, media practitioners and other advocates, the SC organized the “National Consultative Summit on Extrajudicial Killings and Enforced Disappearances – Searching for Solutions” on July 16-17, 2007. Chief Justice Reynato S. Puno had earlier raised the idea of reexamining Philippine legal procedures to make these more helpful to the victims, more forceful against the suspected perpetrators and more demanding of government agents to solve such cases. He also referred to Article VIII, Section 5 (5) of the 1987 Constitution which provides that “[t]he Supreme Court shall have the following powers x x x (5) Promulgate rules concerning the protection and enforcement of constitutional rights x x x x”. This constitutional power has, until now, remained unused or untapped.

Summit participants came up with a comprehensive list of recommendations addressed to the different branches and agencies of the government, including the Judiciary. As a result, the SC issued Administrative Matter No. 07-9-12-SC, *The Rule on the Writ of Amparo*, on September 25, 2007, which took effect on October 24, 2007. The *Writ of Amparo* was conceived to address the extra-judicial killings and enforced disappearances in the country and the protection of the right to life,

liberty and security in general. It is defined as “a remedy available to any person whose right to life, liberty and security is violated or threatened with violation by an unlawful act or omission of a public official or employee, or of a private individual or entity”.

Under *Amparo*, the alleged victims and the aggrieved parties are given additional remedies in addition to those already available under the Rules of Court such as the *Writ of Habeas Corpus*. These remedies are better witness protection, inspection of an object/property or premises, protection orders against persons and offices or institution (in the case of the latter, it will be directed against its officers), and the right to *habeas data*, as called in other countries — an exercise of the right to information through the issuance of production orders for documents and papers.

By the issuance of the Rule on the *Writ of Amparo*, the SC aims to protect all the fundamental human rights of the people which are enshrined in the Constitution. It is a milestone issuance by the High Tribunal which will complement other legal remedies such as the *Writ of Habeas Corpus*. The SC is currently orienting judges and justices on the Rule on the *Writ of Amparo*.

On November 22, 2007, the Chief Justice issued Administrative Circular No. 118-2007, directing the justices, judges and clerks of court of the CA, Sandiganbayan and the Regional Trial Courts (RTCs) to submit periodic reports on the status of petitions filed under this Rule which are pending in these Courts.

Improving the Functional, Administrative and Operating Structures in the Judiciary

Another challenge for the Judiciary is to build within its system a stronger capacity for strategic planning, financial management and human resources development.

To improve the functional, administrative and operating structures in the Judiciary, the SC pursued projects that will enhance the organizational and physical infrastructures of the court system. The study on Strengthening the Independence and Defining the Accountability of the Philippine Judiciary was completed in 2005. It proposed a framework for systems and procedures that would improve: (a) administrative and financial management; (b) recruitment, selection and appointment to the bench; and (c) the capability of Philippine Judicial Academy (PHILJA) to deliver judicial training. Building on the results of the study, the SC approved the implementation of the Enhancing the Autonomy, Accountability, and Efficiency of the Judiciary, and Improving the Administration of Justice Project. The project includes the piloting of decentralization of administrative and financial operations through the establishment of a Regional Court Administration Office (RCAO) in the Seventh Judicial Region (Central Visayas), among others.

In 2004, the SC planned to renovate three Halls of Justice (HOJ) into Model HOJs in Luzon (Angeles City), Visayas (Lapulapu City), and Mindanao (Cagayan de Oro City). However, the Court was able to acquire only the land titles for the Angeles City and Lapulapu City properties. Since the SC was not able to secure the title over the property where the Cagayan de Oro City HOJ was located, it decided to construct the third pilot HOJ in Manila. The first and second level courts in the City of Manila have the largest caseload, yet do not have an HOJ of their own.

The construction of HOJs in Lapulapu City and Angeles City started in 2006. The Lapulapu City HOJ was inaugurated on December 5, 2007. The Angeles City HOJ is expected to be completed in April 2009.

In Mindanao, five Justice Centers were renovated in the Autonomous Region in Muslim Mindanao (ARMM), and one Justice Center constructed in Lanao del Sur in 2005 under the project for the support and rehabilitation of Internally Displaced Persons (IDPs) and Communities in Southern Philippines. During the same year, a series of trainings and seminars in strengthening Shari'a and Islamic Jurisprudence and the Shari'a Court System in different areas of Mindanao was conducted by PHILJA.

The Integrated Electronic Library System aims to establish a network of libraries which can readily provide all the latest legal information, in electronic format, to the first and second level courts, court libraries, selected (initial) law schools and the general public. The SC's e-Library is now operational and is linked to the SC webpage. Continuous updating and back-data capturing is being done by the Court's Library Services. Efforts to establish linkages with other libraries through Memoranda of Agreement (MOA) and further improve the e-Library's database are ongoing. Further, in addition to decisions of the Supreme Court being posted in the e-Library, the publication of CA decisions started in 2008. Such publication will make the courts more accountable to the public for the quality and consistency of their decisions and will also provide another source of legal information on how courts are likely to decide various issues. Thus, increased accountability and greater consistency in deciding cases are promoted and frivolous appeals are discouraged at the level of the trial and appellate courts.

To further improve case adjudication efficiency and access to justice, the SC conducted a study on Reengineering of Courts' Jurisdictional Structure. The study will determine and propose a design of the courts' jurisdictional structure that will address issues on speedy disposition of cases and access to courts.

Providing Sufficient Public Information and Collaboration with Civil Society

In pursuing its goals of improving access to justice by the poor, the SC together with selected first-level trial courts, DOJ, Department of the Interior and Local Government (DILG) Department of Social Welfare and Development (DSWD), and the Alternative Law Groups, Inc. signed a MOA in 2004 to decentralize and institutionalize information of judicial function through the Access to Justice Project. As of 2007, a total of 17 Clerks of Court were designated as Municipal Court Information Officers while judges in the pilot provinces were trained on information education and communication (IEC). The project has likewise distributed information wall sheets and brochures on the stages of civil and criminal actions to inform the public on the processes involved in filing a case.

For purposes of disseminating information and as advocacy for the APJR, seven brochures explaining the various projects of the APJR were developed by the SC's Program Management Office (PMO). To facilitate information dissemination to the youth, it also developed a reading and activity book for elementary and high school students about the Supreme Court and its functions. Exemplars for elementary school pupils and high school students on the Rule of Law were developed in 2005 by the Department of Education (DepEd). These exemplars will help public schools incorporate the concept of the rule of law in their curricula.

To assist in promoting and strengthening the Shari'a Justice System, the King Faisal Center for Islamic, Arabic and Asian Studies (KFCIAS) conducted several focus group discussions (FGDs) and key informant interviews to aid in the development of an IEC plan and materials on the Code of Muslim Personal Law (CMPL). It is also currently preparing for the publication of an academic journal on the CMPL.

Enhancing Institutional Integrity

Another challenge faced by the Judiciary relates to its credibility. The administration of justice must be and must be seen to be unbiased, free of political and financial pressures or criminal influence and guided by ethical values.

In pursuit of the APJR, the SC implemented the Judicial Reform Support Project (JRSP). The JRSP is designed to support selected policy and institutional reforms together with associated infrastructure improvements set out in the APJR. One of the JRSP's components is enhancing institutional integrity. This component sets out the development of an integrity infrastructure for the Judiciary. Accordingly, the Court has promulgated the *New Code of Judicial Conduct for the Philippine Judiciary* on April 27, 2004, and the *Code of Conduct for Court Personnel* on April 13, 2004. Both Codes took effect on June 1, 2004.

The annotation of the Code of Judicial Conduct for the Philippine Judiciary has already been completed by the PHILJA. The Court aims to complete the annotation of the other Code by 2008. A series of orientation-workshop for judges and court personnel on the new Codes was conducted by PHILJA. Under the JRSP, the Court targeted to cover 50 percent of the Judiciary personnel by these workshops by June 2006. As of yearend 2007, a total of 17,337 judiciary personnel (64% of all judiciary personnel) attended the orientation-workshops on the new Codes. The Court aims to cover all other court personnel by 2010.

As a result of these seminar-workshops, a marked decrease was noted in the number of administrative complaints filed against judges and court personnel.

The Court has also taken steps to address the perceived corruption in the Judiciary. This perception puts into question the integrity and quality of its decisions. Currently, graft and corruption in the Judiciary is being measured through public perception, primarily through public opinion surveys. However, public opinion polls will never be able show the depth of the corruption issue in the absence of hard facts. Within the Judiciary itself, indicators of graft and corruption are few and involved mainly information on administrative cases filed against its members. While there is no hard information available on the level of judicial corruption, it is accepted as fact that certain areas in the Judiciary's operations are vulnerable to corrupt practices. The SC recognizes these vulnerabilities and addresses them by policing its own ranks.

Since January 2007, the Office of the Chief Justice (OCJ) has been closely monitoring the issuances of Temporary Restraining Orders (TROs) by the Appellate Courts, particularly the CA by requiring the submission of a report on the number of TROs issued. This is another initiative taken by the Court to address allegations and the perception of corruption in the issuances of TROs, indiscriminate or otherwise.

The OCJ started monitoring TRO issuances in March 2007. There was a decrease in the number of TROs issued towards the end of 2007. However, there is a need to develop a system that would support the evaluation of the data gathered and provide a trigger mechanism that would alert the SC of a possible need to investigate the issuance of the TROs. Furthermore, this proposed system should also be applicable to the trial courts, particularly the Regional Trial Courts (RTCs), given their number and location all over the country.

In addition to the Code of Conduct for Court Personnel, the SC is also planning to establish a system of lifestyle-checks on Clerk of Court and Court Sheriffs. This is meant to address the perceived corruption particularly with regard to these personnel, since such perception arises from the nature of their functions. This activity will be conducted in cooperation with the Office of the Ombudsman.

To complement activities aimed at enhancing institutional integrity in the Judiciary, as well as with the impending decentralization of the Judiciary's administrative and financial operations, an Integrity Unit will be established within the RCAO. This Integrity Unit which is a judicial accountability mechanism shall ensure the proper management of funds at the regional level. Thus, the Court's integrity infrastructure is brought down to the regional level.

Advocacy of the ADR Mechanisms under RA 9285 in the Judicial System

In advocating ADR mechanisms, the Judiciary seeks to foster the resolution of disputes without the need of recourse to the courts. The SC advocated ADR as the "wave of the future". In supporting and promoting ADR mechanisms, the Judiciary established the Philippine Mediation Center (PMC) in 2001 and to date has established 125 PMC units in 12 provinces all over the country. This is aimed primarily to declog court dockets and improve people's access to a speedy and less expensive way of settling disputes.

From 2002 to 2006, 38,913 cases were referred for mediation. Of these cases, 27,094 cases or 70 percent were settled.

Table 17.2
Cases Settled Through the Use of ADR

2005		2006		2007		2008	
No. of Cases Settled	Success Rate (%)	No. of Cases Settled	Success Rate (%)	No. of Cases Settled	Success Rate (%)	No. of Cases Settled	Success Rate (%)
7,626	65	8,159	63	14,051	68	10,374	56.17

Source: PHILJA-PMC

Table 17.3 below shows the decrease in number of pending cases per year from 2004 to June 2008. The decline in the number of pending cases is the result of the various programs and projects of the SC in addressing challenges on the disposition of cases at all court levels.

Table 17.3
Number of Pending Cases in All Courts, 2004-June 2008

2004	2005	2006	2007	2008 (as of June 30, 2008)
839,544	775,980	754,630	703,987	694,923

Source: SC-PMO, SC-JRO, SC-OCA-CMO-SRD

Table 17.4 shows the marked decrease in the vacancy rate for judgeship positions in the various first and second level courts thereby contributing to the effectiveness of these reform projects.

Table 17.4
Vacancy Rate of Judgeship Positions

Courts	Total Positions	Vacancy Rate (%)		
		As of December 31, 2006	As of December 31, 2007	As of August 31, 2008
RTC	962	15.65	15.07	18.09
MeTC	95	19.51	28.42	26.32
MTCC	212	18.54	13.20	16.51
MTC	387	31.96	21.70	21.71
MCTC	470	46.71	30	31.28
Shari'a District Court	5	100	100	100
Shari'a Circuit Court	51	45.1	43.13	35.29
TOTAL	2,182	36.41	20.71	22.36

Source: SC-PMO, SC-OCA-CMO-SRD

Prosecution

Despite its very limited resources, the DOJ, through the National Prosecution Service, has vigorously pursued the applicable strategies stated in the MTPDP Chapter on Rule of Law. It also includes those for the prosecution pillar of the criminal justice system, free legal services to the public, the *Katarungang Pambarangay*, and justice sector cooperation and reform. For the prosecution pillar, the MTPDP espoused the expeditious resolution of preliminary investigation cases.

Expedite Resolution of Cases

Data from 2005 to 2007 show an increasing resolution rate and decreasing number of pending cases.

Table 17.5
Cases Resolved, 2005-2007

Particulars	2005	2006	2007
Caseload	391,382	406,274	399,621
Resolved Cases	298,147	317,571	318,497
Resolution Rate	76%	78%	80%
Pending Cases	93,235	88,703	81,124

Source: DOJ-Management Services Office

Table 17.5 indicates an improvement in expediting the resolution of cases. The DOJ intends to work towards progressively increasing the disposition rate to at least 85 percent, and further reduce backlogs in terms of pending cases by 2010.

Among the activities identified in the MTPDP to enable the prompt resolution of cases is the intensified recruitment of 500 prosecutors. This is to fill the large number of vacancies in the NPS and make up for the high turnover of prosecutors to the Judiciary. From 2005 to 2007, a total of 682 new prosecution officers (prosecutors and prosecution attorneys) were recruited, effectively exceeding the target of 500 (Table 17.6). However, while the intensified recruitment has met its target, there has been a high separation rate of prosecutors, resulting in high vacancy rates or at least 25 percent or more than 600 vacancies out of 2,402 authorized positions as of midyear 2008.

Table 17.6
Trends in Turnover in the National Prosecution Service, 2005-2007

Year	Recruitment	Separation from NPS			Net Increase/ (Decrease)
		Transfer to Judiciary	Others	Total	
2005	215	34	90	124	91
2006	277	55	55	110	167
2007	190	85	88	173	17
Total	682	174	233	407	275

Source: DOJ-Management Services Office, NPS

The turnover to the Judiciary has increased for the past few years due to higher compensation. The revenues of the Judiciary from legal fees enabled the grant of special allowances for judges at the maximum rate of 100 percent of basic salaries (2004 level), while the DOJ has only been able to grant around 25 percent based on income collected. The special retirement compensation package that judges receive also attracts prosecutors to the Judiciary. Nevertheless, the DOJ will further intensify the recruitment of prosecutors and aims to hire 600 more prosecutors from 2008 to 2010 to fill vacancies at least to a certain extent while compensation disparity remains unresolved.

An information technology (IT) system for the NPS has been established with the development and implementation by the DOJ and approval by the Commission on Information and Communications Technology (CICT) of the 2006-2008 and 2009-2011 Information Systems Strategic Plans (ISSP). Included in the ISSP is the development of the IT infrastructure of NPS and the Prosecution Case Management System (PCMS). In 2007, around 600 computers with printers were acquired and distributed nationwide for the NPS to augment and/or replace the old units. More are programmed for acquisition for 2008 to 2011 using the appropriations provided for the purpose. Support systems were also installed. Problems remain, including the limited IT manpower of DOJ, lack of support personnel in the field prosecution offices to operate the system, and other administrative constraints. Aside from the provision of the necessary appropriations, another challenge would be sustained capital funding until the NPS is adequately automated.

To further accelerate the resolution of cases, monitoring is of utmost importance. For 2007 and 2008, the DOJ developed and implemented a unified reporting and performance monitoring system for the NPS where reporting procedures and requirements were partially rationalized. The said system enabled the DOJ to gather and generate adequate information on NPS accomplishment, pending cases, and manpower and basic physical resources nationwide. The information derived guided the DOJ in assessing operational performance, evaluating internal management, and coming

up with further organizational improvements. The goal now is not just to inventory pending cases as originally contained in the MTPDP, but to fully rationalize the reporting and performance monitoring system of the NPS to further improve its effectiveness and efficiency in generating/monitoring relevant management information. The major challenge on this effort is the severe lack of support staff nationwide. Thus, the internal administrative capability particularly case management, monitoring and reporting of prosecution offices nationwide has been crippled. This problem is due to the insufficient number of authorized positions and the personnel attrition caused by the continuing moratorium on hiring of personnel under the government rationalization program.

The DOJ has also supported existing programs of the SC on prompt resolution of cases. The DOJ and its prosecutors actively participated in various undertakings of the Supreme Court, including the development of the 2007-2010 Medium-Term Development Plan for the Criminal Justice System, and design of the National Justice Information System. The DOJ is also strengthening its partnership with the High Court in terms of information sharing and cooperation on other reforms.

To enhance the institutional capacity of the NPS, sustain the implementation of its activities and integrate these with other reform efforts, the DOJ developed and commenced the NPS Organizational Development Program in 2006. The Program identified the efforts to be done relating to key institutional areas in the NPS such as case management and monitoring, organizational structure, systems and procedures, internal management, resource programming, accountability and integrity mechanisms, and human resource development. The Program includes various plans and projects for the medium term. Ongoing projects include the rationalization of systems and procedures related to operations and management. Under the Program are other projects and activities for 2008 to 2010 including rationalization of legal procedures and policies, management systems development, and ethical strengthening and productivity enhancement. Active partnerships with foreign donor institutions have been and are still being made on projects/activities that require substantial funding that cannot be supported by existing government resources.

Legal Assistance

To further expand public access to justice, the DOJ also made improvements in the delivery of free legal assistance.

Improve Free Legal Assistance

A major program of the DOJ is the establishment of the DOJ Action Center (DOJAC) which expanded the access of the public to free legal assistance. The DOJAC is composed of both public attorneys and DOJ Prosecutors who provide free legal assistance during office hours. The Center was initially established at the DOJ Proper and later fully regionalized as provided by the MTPDP. In 2007 alone, more than 50,000 clients were provided with free legal assistance nationwide. The inadequate number of prosecutors/support staff and lack of appropriations for the program, however, has limited its ability to render services and serve more clients.

Consistent with the MTPDP, the DOJ conducted lectures/seminars for policemen on legal procedures, law, and tactical investigation without violating due process. Similar trainings/seminars were conducted for policemen on child protection and trafficking in persons. DOJ prosecutors served as resource persons in these activities.

The PAO, for its part, intensified its effort to upgrade the skills of public attorneys. PAO lawyers attended various trainings and conferences related to their skills and functions. The main challenge is the high turnover of PAO lawyers to the NPS, Judiciary and other institutions due to higher wage and career development. Capability building should be a sustained effort to ensure that new PAO lawyers are immediately equipped with the necessary skills in order to effectively deliver free legal services to the public.

Katarungang Pambarangay

With the goal of ensuring greater access to justice through ADR and effective administration of justice at the local community level, the DOJ improved the implementation of the *Katarungang Pambarangay*.

Maximum Utilization of the Katarungang Pambarangay

The DOJ took steps to maximize the *Katarungang Pambarangay* in resolving disputes at the barangay level, thereby preventing further legal action among the parties and reducing the number of complaints/cases filed before prosecution offices and the courts. Complaints filed are screened and/or evaluated whether they are covered by the *Katarungang Pambarangay*, and referrals to local governments are made if necessary.

Prosecutors for their part acted as resource persons in various trainings of barangay officials on the implementation of the Katarungang Pambarangay. To equip barangay officials on basic legal principles and knowledge, legal education assistance to the said officials was extended by the PAO through its Barangay Outreach Program. The PAO reported that 119 barangays have already been assisted as of first semester of 2008. For 2008 to 2010, the PAO aims to assist 231 more barangays.

Corrections and Rehabilitation

Constituent agencies of the DOJ worked to effectively administer the corrections and rehabilitation pillar of the criminal justice system, consistent with the activities outlined in the MTPDP.

Improvement of Records System

Systematic monitoring of prisoners' carpetas and prison records ensures that prisoners are released on time upon the completion of sentence. From 2004 to the first semester of 2008, improvements on the monitoring and records system resulted in a total of 16,996 carpetas forwarded to the Board of Pardons and Parole (BPP) for evaluation. The BUCOR has recently been implementing an automated inmate records information system. However, it requires more funds to allow connectivity among prisons nationwide. For 2008 to 2010, BUCOR targets a 15 percent annual increase in the number of carpetas forwarded to BPP. The BPP for its part has developed a Pardons and Parole Information System that is used to monitor carpetas and other prisoner records, thereby expediting evaluation of prisoners who may be eligible for parole and executive clemency.

Improve Prison Facilities

To strengthen the corrections system, efforts are pursued to rehabilitate, upgrade and expand facilities, including the repair of existing prison furniture and equipment. Due to lack of capital

outlay appropriations for BUCOR prior to 2007, facility improvements were mostly repairs and maintenance. Nevertheless, a dormitory at the Davao Prison and a therapeutic community dormitory at the Reception and Diagnostic Center were constructed out of external donations. Also, a female prison facility was established in the Davao Prison. From the capital outlay appropriation in 2007, six units of modular panel buildings were acquired for installation in the various prisons.

The BUCOR intends to include modern correctional facilities in the transfer of the National Bilibid Prison to Tanay, Rizal under EO 568 issued in September 2006, once implemented. The primary challenge to this is the lack of appropriations for the transfer.

Strengthen Rehabilitation Programs for Prisoners

The MTPDP provides for the continuing provision of formal and informal education to interested inmates in coordination with the DepEd, Commission on Higher Education (CHED), and appropriate schools at the elementary, high school, and college levels. In college, the degree BS Commerce (for Entrepreneurs) is being encouraged. From 2004 to the first semester of 2008, there has been a yearly average of 20 percent education rate for elementary, high school, college (BS Entrepreneurship), vocational, and literacy classes. In addition, out of the total number of prisoners, 45 percent engaged in sports and recreation and 82 percent in spiritual activities. The BUCOR intends to strengthen formal and informal education and livelihood programs and obtain support from the private sector including educational institutions.

The Parole and Probation Administration (PPA), mandated to supervise parolees, probationers and pardonees, encouraged and improved citizens' participation in rehabilitation activities through volunteerism, employment, and training of volunteer probation aides. From 2004 to the first semester of 2008, 6,415 volunteer probation aides (VPAs) were recruited, 4,120 trained and 8,005 deployed/utilized, with support from foreign donors. This exceeded the 2005 to 2010 yearly target of 350 officers and 350 volunteers to be trained. The PPA aims to recruit a total of 10,000 VPAs, train 6,000 and deploy/utilize 9,000 within 2004 to 2010.

Maximizing the Jail Decongestion Program

Originally, the MTPDP provides that the DOJ shall issue a directive to all prosecutors to conduct inventory of detained prisoners who might be considered for release and whose cases are pending due to long delays. This is in the Jail Decongestion Program, where qualified jail detainees are identified and assisted in obtaining release on recognizance and temporary release. However, this strategy has not been implemented due to the inadequacy of prosecutors and their heavy caseloads. Hence, the Jail Decongestion Program may instead be pursued through individual, coordinated and joint efforts of participating agencies, particularly the Parole and Probation Administration (PPA) and PAO.

From 2004 to the first semester of 2008, PPA conducted 24,786 jail visits, and assisted/referred to other agencies 93,318 detention prisoners. On the other hand, PAO visited 45,455 detainees/inmates and rendered legal assistance to 6,966, resulting in the release of 4,217 from 2007 to the first semester of 2008.

Justice System Reform

The MTPDP stipulated the implementation of the MOA creating the National Council on the Administration of Justice (NCAJ) which will coordinate all reform efforts on the justice system. However, actual operationalization of the NCAJ was not sustained mainly due to lack of logistical support and changes in leadership. Reforms thus remained largely disjointed and sometimes redundant or overlapping. Institutions with adequate internal capability and resources were able to undertake intensive reforms while others could not. Nevertheless, the envisioned cooperation between the DOJ, DILG, Supreme Court and other stakeholders materialized, at least to a limited extent, in terms of coordinated reform activities undertaken through the APJR and other criminal justice system reform initiatives.

The future goal is to further strengthen this cooperation by developing and implementing a sector-wide framework of reforms for the entire justice system. This approach will entail formal and systematic coordination at all stages particularly strategic planning, policy making, program and project development, implementation, oversight and monitoring. The medium-term reform program should comprehensively cover and harmonize key institutional areas. These include functional structures, processes and procedures, management and monitoring systems, accountability and integrity mechanisms, human resource development, financial and physical resource buildup, expenditure program, legislative agenda, political and popular support, partnerships with development institutions and other stakeholders, protection of human rights, and ultimately improve services and access to justice.

Chapter 18

Education

Modest gains and shortfalls in the three levels of education were recorded during the first three years (2004-2006) of the Plan period. Despite some setbacks, positive developments were experienced in enhancing access to education and skills development and improving the quality and relevance of learning. A harmonization effort was initiated in the entire educational system to improve coordination between and among agencies and programs.

ASSESSMENT AND CHALLENGES

Cross-cutting

Across the three levels of education, a significant development was the creation of the Office of the Presidential Assistant for Education (OPAE) through Executive Order (EO) No. 632. The function of the defunct National Coordinating Council for Education (NCCE) was transferred to this Office with policy guidance from the Presidential Task Force for Education (PTFE) which was established by virtue of EO 652. The OPAE's main function is to assess, plan and monitor the entire education system in order to prioritize and harmonize the policies, programs and projects as well as reform initiatives of the three education agencies.

Basic Education

The universalization of early childhood education and standardization of preschool and day care centers yielded significant results for 2004-2007. As of April 2008, the coverage of early childhood education (ECE) reached 80 (99%) provinces and 32 (24%) cities. A total of 56,000 day care children benefited under the Expanded Preschool Education Program as of 2006. Current enrolment in the Department of Education's (DepEd) Pre-School Program, through the Education Service Contracting Scheme (ESCS) stood at 176,300 children. Meanwhile, the Food for School Program, which started in School Year SY 2004-2005, covered 9,165 schools nationwide benefiting 2.6 million preschool and Grade 1 children as of first half of SY 2007-2008.

EO 685 of 2008 or Expanding the Pre-School Coverage to Include Children Enrolled in Day Care Centers, was likewise issued. With this issuance, DepEd shall initially focus on five-year old children enrolled in Day Care Centers in the 50 percent of the lowest performing schools in each region. Existing Day Care Center workers/teachers will be trained on the curriculum and competencies for preschool education and provided with the necessary instructional materials from the DepEd.

In terms of budgetary allocation, basic education continued to be a top government priority. The budget share of the DepEd, which comprised around 12.4 percent of the national budget, posted an average annual growth of 7.9 percent for 2004-2007. In the same period, the basic education budget posted an average share of 85.8 percent of the entire budget. Per capita cost for both elementary and secondary students also increased from PhP6,061 in 2004 to PhP7,560 in 2007. Real per capita cost increased from PhP5,026 in 2004 to PhP5,331 in 2007.

Enrolment in formal basic education exhibited a fluctuating trend for the period 2004-2006. From 19.4 million students in SY 2004-2005, enrolment declined to 19.3 million in SY 2005-2006 then increased to 19.5 million in SY 2006-2007. Basic education performance based on key indicators declined over the period 2004-2005, thus missing the 2005 Plan targets (Table 18.1). Although said indicators improved in 2006 (except for elementary Net Enrolment Rate), breaking the declining trend in previous years (2001-2005), the huge gap between performance and target still persist. Unless interventions like the use of innovations and technology are made in the coming years, there is low probability of achieving the MTPDP and MDG targets for 2010. The low performance based on these indicators may be due to the high cost of schooling-related expenditures and more students seeking employment to augment family income, especially those at the secondary level. Moreover, a widening gender gap was noted as females outperformed males in terms of the said indicators. In this regard, the MDG goal of achieving gender equity in the area of education remains a challenge.

Providing critical education inputs (i.e., classrooms, teachers, desks and textbooks) and improving the learning environment remain major concerns. From 2004 to 2007, a total of 51,999 new classrooms were constructed nationwide under the DepEd's Regular School Building Program, ODA-assisted projects and other school building interventions of the government and the private sector. With classroom constructions exceeding the yearly minimum target of 6,000, and the adoption of double-shift classes at 1:50 classroom-pupil ratio, classroom shortages were largely addressed in 2006. The government was successful in tapping support from other sources and harnessing the participation of strategic partners. It also significantly reduced the cost of classroom construction/rehabilitation through its principal-led construction strategy. However, classroom shortages (vis-à-vis the ideal 1:45 classroom-pupil/student ratio) still persist in many schools/areas due to continued increase in enrolment, poor targeting of resources, classroom damages due to calamities, and disparity in resources/funding among schools in different areas. The failure to amend RA 7880, otherwise known as "Fair and Equitable Allocation of the DECS Budget for Capital Outlay", undermined efforts to address disparity in classroom construction across regions and districts.

To assist children who cannot be absorbed by public schools, the government continued to provide financial subsidy under the Government Assistance to Students and Teachers in Private Education (GASTPE) Program. This program, which now comes in two modes, i.e., the Education Service Contracting Scheme (ESCS) and Education Voucher System (EVS) has benefited a total of 475,560 and 88,346 students, respectively, from 2004 to 2007. Annual targets in terms of number of beneficiaries that reached 50,000 were achieved for the two schemes under the program. However, constraints in implementing the program were met because of the low availment rate of the EVS due to inability of the parents to pay for the balances of tuition fees which are not covered by the subsidy. This low availment rate gave rise to the need to improve the system of targeting the deserving beneficiaries. This can be done by using normative financing to determine the cost of quality education that should be made more accessible to poor families through educational outsourcing. Hence, the GASTPE Law needs to be reviewed and amended to make it more responsive. Similarly, alternative modalities of delivering basic education were adopted to address the needs of children, youth and adults who have difficulties attending the formal schools under the following programs: (a) Distance Education for Public Elementary Schools, (b) Multigrade Program, (c) Open High School, Easy and Affordable Secondary Education (EASE), (d) Strong Republic School – Distance Education, (e) Basic Literacy Program, (f) Accreditation and Equivalency Program, and (g) Balik Paaralan for Out-of-School Adults (BP-OSA).

Table 18.1
Basic Education Performance 2004 To 2006
vis-a-vis Plan Targets (in percent)

Indicator	Actual			Original Plan Targets		Revised Targets 2010
	2004	2005	2006	2005	2010	
ELEMENTARY						
Net Intake Rate in Grade 1^{a/}	41.3	36.6	39.7	52.4	61.2	86.3
Male	37.5	33.0	36.2			
Female	45.3	40.5	43.5			
Net Enrolment Ratio^{b/}	87.1	84.4	83.2	91.0	93.0	96.0
Male	86.2	83.6	82.4			
Female	88.1	85.4	84.1			
Cohort Survival Rate	71.3	70.0	73.4	73.0	78.0	80.0
Male	66.1	65.5	68.8			
Female	77.2	75.0	78.6			
Dropout Rate (School Leaver)	7.0	7.3	6.4	5.5	4.3	3.0
Male	8.4	8.6	7.6			
Female	5.4	6.0	5.0			
SECONDARY						
Net Enrolment Ratio^b	60.0	58.5	58.6	67.5	83.7	85.0
Male	55.0	53.7	53.9			
Female	65.0	63.5	63.4			
Cohort Survival Rate	78.1	67.3	77.3	68.0	71.5	93.0
Male	73.3	61.5	72.7			
Female	82.8	73.0	81.8			
Dropout Rate (School Leaver)	8.0	12.5	6.6	11.2	8.1	2.0
Male	9.9	15.0	7.5			
Female	6.1	10.1	5.9			

Source: Department of Education

^{a/} Based on six-year old children only

^{b/} This is another term for Participation Rate

The problem of teacher shortages, which was estimated to be 20,113 in 2004 (at 1:50 teacher-pupil ratio), was substantially addressed through 37,620 new teacher items in 2004-2007. While the national average gave a favorable picture, widely varying disparities exist across schools in terms of teacher-class size and availability of teachers (i.e., there are schools experiencing teacher shortage and others having surplus). This problem could have been largely addressed if there were no constraints in redeployment of teachers as provisioned in the Magna Carta for Public School Teachers (the Magna Carta prevents the transfer of teachers to other stations without their consent). While the creation of teacher items has been continuously addressed, the filling up of positions and the subsequent submission of deployment reports by the divisions and regions to the DBM remain a problem. In 2007, the number of unfilled positions stood at 7,856 or 1.64 percent of the total plantilla positions.

Textbook shortage, on the other hand, increased from 34.7 million in 2004 to 41.32 million in 2006. The increase could be attributed to the nonprocurement of textbooks in 2006 due to some legal problems. Textbook-pupil ratio, however, stood close to 1:1 for the core subjects (English, Science, Math and Filipino). The further decline in classroom and teacher shortages in 2006 enabled the DepEd

to pursue improvement of learning environment in schools by lowering the class size to 1:45 in 2007. As such, expected gaps in 2007 would be relatively higher with 29,321 classrooms and 16,390 teachers (at single shift) at the start of the year.

In order to enhance the IT skills of students and support the teaching-learning process, the government through the DepEd Computerization Program, continued to provide computer packages to public secondary schools, including selected public elementary and ALS learning centers. As of June 2008, a total of 4,769 schools or 94 percent of the total public secondary schools (5,078) benefited from the Program which aims to cover all public secondary schools by 2010.

Achievement levels in formal basic education remained unsatisfactory based on the National Achievement Test (NAT) results in SY 2007-2008 with Mean Percentage Scores (MPS) in core subjects of 64.8 percent in elementary (Grade 6) and 49.3 percent in the secondary (2nd Year).¹ The National Career Assessment Examination (NCAE) was administered for the first time in January 2007 in public and private schools nationwide to assess the abilities of high school seniors in areas essential for post-secondary education and provide as bases for the granting of scholarship by the Commission on Higher Education (CHED) and Technical Education and Skills Development Authority (TESDA).

Recognizing the need for critical changes to improve basic education performance, a package of policy reforms called the Basic Education Sector Reform Agenda (BESRA) was formulated in 2005. The specific policy actions comprising the BESRA sought to create a basic education system capable of attaining the Education for All (EFA) objectives. The Philippine EFA 2015 Plan – entitled “Functionally Literate Filipino, An Educated Filipino” was approved in 2006 to serve as the overall blueprint for basic education. It is envisioned that the EFA Plan would set the direction for basic education complemented by the BESRA. The successful implementation of the latter would depend on how the government would be able to process and translate its policy and program recommendations into actual policy actions.

To institutionalize focused values formation program in basic education, the use of mass media as a tool for learning was pushed with the full implementation of the 1997 Children’s Television Act (RA 8370), which created the National Council for Children’s Television (NCCT). The huge potential of mass media in children’s education and development, particularly television, was not fully maximized in previous years due to the non-operationalization of the NCCT Secretariat until the appointment of its first Executive Director in August 2007. Preparatory activities for the formulation of a sports plan were also undertaken through the leadership of the Philippine Sports Commission (PSC). The lack of a sports plan that provides directions for the advancement of sports in the country, especially the mass-based ones has yet to be realized over the years.

Middle-Level Skills Development

Enrolment in technical vocational education and training (TVET) under the current Job-Skill Matching Program (JSMP) increased from 2004 to 2007 and exceeded the target of one million students annually. However, from the total enrollees of 4.6 million, only about 71.0 percent (3.3 million) graduated. Given the numerous initiatives and investments in TVET, this apparent low internal efficiency has to be properly addressed in subsequent years in order to optimize use of resources.

¹ The NAT was taken by 4th year high school students in prior years and 2nd year high school students starting 2006.

The access of the economically and socially-disadvantaged groups to TVET was enhanced through the various scholarship and financial assistance programs such as the Private Education Students Financial Assistance Program (PESFA), Technical Education and Skills Development Project (TESDP), Jobs-Directed Scholarship (JDS), PGMA Training for Work Scholarship Project (TWSP) and *Iskolar ng Mahihirap na Pamilya* (IMP).

The PESFA beneficiaries for 2005 (13,944), 2006 (13,860) and 2007 (15,262) exceeded the targets set at 13,800 per year. Similarly, the TESDP beneficiaries for 2005-2006 (11,557) surpassed its cumulative target by 13 percent. Additional TESDP grantees for 2007 reached 1,667. The JDS Program, a subcomponent of the TESDP Student Loan Fund, also benefited a total of 1,279 students in 2006 and 853 in 2007. Moreover, the PGMA-TWSP which provides skills and competencies to job seekers through appropriate training programs yielded 66,595 graduates (50.0%) from the total enrollees of 130,760 as of September 2007. Of these graduates, 48.8 percent were already employed.

On the other hand, only about two percent (44 families) of the 1,979 target for 2005-2006, availed of the Certificates of Education Assistance under the IMP Program. Availment is low because of the problem in clientele targeting. The Youth Profiling for Starring Careers (YP4SC) aimed at guiding parents and students about their career aptitudes was also piloted in 2005. About 101,716 individual reports (youth profiles) out of the 106,000 fourth year high school students assessed nationwide, have been disseminated. Career Guidance and Counseling has been institutionalized in all TESDA Technology Institutions nationwide.

The expansion and intensification of MLSD was pursued through different enterprise-based and community-based training programs like *Kasanayan at Hanapbuhay* (KaSH) Program, Dual Training System (DTS), Special Zones of Peace and Development (SZOPAD), and *Negosyong Pang-Agrikultura sa Eskwela*. The number of apprentices trained under the KaSH tremendously increased from 21,733 in 2004 to 101,514 in 2005. It went down in 2006 with only 62,399 apprentices and fell short of the 1.2 million target during the year but increased again to 71,424 in 2007. The DTS, on the other hand, posted a decreasing number of apprentices from 2,866 in 2005 to only 472 in 2006 due to lack of interest of private companies to participate in the program brought about by certain provisions of RA 7686 (Dual Training Act of 1994) on the obligations of the companies. The provisions include the payment of trainee's allowance which as the law provides should not be below 75 percent of the applicable minimum daily wage for days spent in the establishments. Similarly, a total of 609 persons were trained under the SZOPAD project in Mindanao in 2005. The *Negosyong Pang-Agrikultura sa Eskwela* yielded a total of 42,260 persons trained in entrepreneurship development. All of these work-related education and training could have been systematized, harmonized and improved through the long-proposed corrective legislation entitled Enterprise-based Education and Training Bill. This bill has been envisioned to strengthen relationships between TVET institutions and industry.

In establishing active collaboration with TVET partners, three comanagement schemes/ arrangements were coordinated by the TESDA Training Center Taguig Campus Enterprise (TTCTCE) in 2006, namely: (a) Center for Advanced Training in Food and Beverage Services, Inc. (CATFABS); (b) Center for Advanced Technical Industry Automation Federation, Inc. (CATIAFI); and (c) Original Equipment Manufacturing Association of the Philippines (OEMAP). The comanagement of TESDA-administered training institutions with industries and LGUs need to be continuously implemented in preparation for the devolution of the agency's training functions to prospective partners. The existing four industry working groups (IWGs) were maintained and continued to be active partners in competency standards development and planning for the required

skills in their respective sectors. As a result, TVET governance was strengthened with the completion of the National Sectoral Skills Plans (NSSP) and the development of handbooks for TVET students and clientele in the previous year.

Continuing improvements in the quality of TVET curriculum were achieved with the development of additional curriculum exemplars along with the efforts to continuously review and revise the TVET curricula to incorporate work values and ethics, and gender-fair principles, among others. The plan to establish the Polytechnic System in two regions by 2005 was not carried out as this would require legislative action. Instead of the Polytechnic System, the long-envisioned occupation-oriented community colleges recommended by the 1991 Congressional Commission on Education (EDCOM) would be given priority.

Despite the ongoing reforms and initiatives, the following major issues and challenges continue to confront the TVET subsector: (a) well-entrenched societal bias against TVET and inadequate social marketing particularly among basic education students and their parents; (b) slow pace of implementing the devolution of TESDA's training functions; (c) limited involvement of industry in the area of developing competency standards and curricula; (d) lack of financial support for skills training and upgrading for industry workers; (e) declining industry support to the DTS; and (f) existence of labor market demand-supply mismatches, among others.

Higher Education

Enrolment in higher education posted a modest increase from 2.40 million in 2004 to 2.57 million in 2007. The number of graduates also increased from 409,722 in 2004 to 491,320 in 2007. Efforts to improve access to, and quality of, higher education were pursued through programs and projects such as the PESFA, DOST-SEI-administered Science and Technology (S&T) Scholarships, Faculty Development Program of the Higher Education Development Project (HEDP-FDP) and the Ladderized Education Program (LEP). The annual target of 42,600 beneficiaries under scholarships and other financial assistance programs for priority courses was not met in 2005, with only 33,466 beneficiaries. Nonachievement of the 2005 targets was partly due to lower allocation and untimely release of funds, which critically affected implementation. In 2005, only PhP374 million was allocated, lower than the 2004 allocation of PhP674 million. It should be noted, however, that a higher budget was allocated in 2004 due to an additional amount of PhP300 million for the scholarships and student financial assistance program. No additional budget was made available in 2005. The number of beneficiaries for 2006 and 2007, however, exceeded the targets with 58,547 and 54,188 students, beneficiaries, respectively. For the S&T scholarships, a total of 18,815 undergraduate and postgraduate (MS and PhD) students were served from 2004 to 2007, representing 66.3 percent of the target total S&T scholars for 2004-2010. The HEDP-FDP cumulatively benefited 1,474 scholars from 2004-2007 or 49.1 percent of the target until 2010. Out of this total, 256 who started in SY 2004-2005 already graduated.

The LEP, whose overall implementation is shared with TESDA, was adopted as another major strategy to increase access to and improve equity in higher education. The issuance of EO 358 in September 2004 facilitated its operationalization starting in 2005 through: (a) strengthening linkages and networking with TESDA; (b) development in 2006 of Philippine National Qualifications Framework (PNQF); (c) mapping of competencies between TVET and HE programs; and (d) consultation, orientation and briefing for HEIs, TESDA and CHED focal persons. As of October 2007, a total of 624 HEIs adopted the ladderized programs covering 1,133 degree programs. A total of 3,029 TVET qualifications were already embedded in the degree programs.

Towards quality and upgrading, about 28 programs requiring licensure examination were revised and updated out of the 42 programs targeted by 2009-2010. Policies, Standards and Guidelines (PSGs) for higher education programs were also revised and updated in coordination with pertinent Technical Panels. For teacher education, the PSG was formulated with DepEd and major stakeholders resulting in the new National Competency-Based Teacher Standards (NCBTS) alongside the adoption of Pre-Service Teacher Education Curriculum. Likewise, international benchmarking for the curricular program offerings in the nursing profession was conducted to make nursing graduates of Philippine HEIs globally competitive.

On values formation in higher education, CHED Memo Order No. 265 series of 2005 was issued enjoining all HEIs to integrate Good Citizenship Values Education in the National Service Training Program (NSTP) curriculum, particularly in the Civic Welfare Training Service (CWTS) and Literacy Training Service (LTS). Moreover, values education was integrated in the Bachelors Degree in Secondary Education (BSE) curriculum as a major subject. The Good Citizenship Values Education inculcates in the youth the core Filipino values enshrined in the Preamble of the Philippine Constitution as the way to be good citizens.

For HEIs with collaborative projects with strategic partners, the Technology Commercialization (TECHCOM) program involving nine SUCs and the University Network with Local Government for Agricultural Development (UNLAD) are continuously being assisted through financial grants. TECHCOM is a high-impact program that aims to strengthen the SUCs' and HEIs' contributions in alleviating poverty, generating employment and increasing food production. From the allocated budget of PhP50 million for 2006, the amount of PhP28.071 million was granted to 38 SUCs for technology transfer and commercialization. UNLAD, on the other hand, seeks to empower the farmers and fisher folks towards global competitiveness through the provision of technologies and relevant information.

Pursuant to the strategies to rationalize the governance and financing of higher education, programs and activities such as SUC Income Generating Projects (IGP), Normative Financing and initial steps towards Regional State University System (RSUS) were implemented. For SUCs' IGPs, however, the 2005 target of 25 percent of all SUCs with viable IGPs was not achieved. Only 24 SUCs or 22 percent with proposals for IGP with cost-recovery were approved for financial assistance. The normative financing formula which uses cost-per-student as basis for allocations for SUCs to deliver quality programs remained applied to 25 percent and 50 percent of SUCs' MOOE for FY 2005 and FY 2006, respectively.

Encouraging actions toward the restructuring of the existing SUCs into a RSUS have been initiated in Region XI with the involvement of all four SUCs in the region. A total of PhP6 million was allocated for the implementation of their complementation programs. A bill on establishing RSUS that would integrate the four existing SUCs in Region XI has been drafted. Assessment of the integration of CHED-supervised Institutions (CSIs) to their host SUCs was also conducted in collaboration with heads of the concerned CSIs and host SUCs to identify implementation gaps and recommend policy options to improve/enhance their overall management, governance and operational efficiency.

Overall, the major challenges in higher education such as promoting access and equity, quality and relevance, among others, remain. Several worthy policies, strategies, programs and projects that are responsive to the identified general and specific challenges were put in place. However, the efficiency and effectiveness of these measures need to be improved to achieve the desired set outcomes.

There is a need for better selection and targeting of recipients of scholarship and other student financial assistance by finetuning, systematizing and institutionalizing the current procedure as well as improving the coordination and facilitation involving partner HEIs. A possible legislation to improve the overall management of all publicly-funded scholarships and other umbrella forms of student financial assistance need to be pursued through an omnibus bill that will: (a) harmonize the governance of all existing postbasic education scholarship (based on merit) and other forms of student financial assistance programs, especially student loans; (b) ensure complementarity between scholarship and student loans; and (c) standardize and rationalize means of targeting and screening.

To rationalize governance and financing in higher education, a more attractive incentive system needs to be put in place to encourage SUCs in intensifying IGPs. Similarly, the normative financing scheme should be fully implemented as basis in determining or approximating the level of subsidy to public HEIs based on per student cost of delivering quality education. This will also simplify the scheme's budgeting or resource allocation process. To serve as a model for the other regions in envisioning to start a 'bandwagon effect' and further rationalize public HEIs, the pioneering Region XI RSUS need to be pursued through legislation and the work of the TWG expanded to process future plan for institutional restructuring.

STRATEGIC FRAMEWORK

Cross-cutting

A well-organized effort and development of structures to promote and maintain quality assurance in all levels of education need to be considered. Such efforts need to be tackled system-wide or in an integrated manner under the auspices of the PTFE and within the framework of cross-cutting educational coordination. Hence, the creation of the National Educational Evaluation and Testing System (NEETS) as the assessment and testing agency for all education levels as envisioned by the EDCOM shall immediately be pursued. This body shall also be the central authority for quality assurance governed by the Philippine National Qualification Framework (PNQF). The NEETS shall also promote external quality assurance for universities and ensure awareness for all institutions in order to instill a quality culture.

Basic Education

While improving government spending on basic education remains a priority, it must be done with deliberate fiscal discipline especially on efficient utilization of the basic education budget. Since increasing the budget does not necessarily translate to expected outcomes, it is imperative that the DepEd continue to effectively and efficiently utilize resources within budget constraints, institutionalize cost-saving measures, and strengthen its overall accountability system. In line with education fiscal reforms, the government shall also hasten efforts to provide basic education through contracting or purchasing of basic education services from qualified private providers. These services include elementary education, early childhood education, and ALS on top of the existing one for secondary education.

It is highly doubtful that the targets in formal education be met by merely relying on conventional education services in schools. Thus, the government must mainstream and scale-up the utilization of validated or tested alternative delivery modes (ADMs) in both internal planning and budgeting process of the DepEd. This is to address the perceived lack of basic education inputs such

as classroom, teachers and textbooks. ADMs also address the needs of children in difficult/different circumstances such as those who are not yet in school, already in school but at risk of dropping out and/or not performing well.

School-Based Management (SBM) as provided for in RA 9155 needs to be pursued as a foremost quality assurance measure to bring together the schools, school heads, teachers, students as well as parents, LGUs and the community-at-large in promoting effective schools. The Child-Friendly School System (CFSS) indicators shall be used in promoting and evaluating SBM performance. The SBM Grant recently implemented by DepEd shall help accelerate improvements in learning outcomes along student participation, completion and achievement. Under SBM, the appointment of well-trained regular school heads especially in schools headed only by officers-in-charge shall be accelerated.

Likewise, EFA and universalizing functional literacy cannot be achieved if the government will rely on school-based education alone. The Philippine EFA 2015 Action Plan recognizes the urgent need to respond to the learning needs of about 11 million youth and adults who have never gone to or cannot attend school, dropped out of school and reverted to illiteracy, or needed basic or advanced skills to find jobs. Hence, the strengthening of the ALS in the country needs to be accelerated under a broad-based multistakeholder policy-making in line with the EFA vision and the BESRA framework to ensure that “minimum learning achievement for functional literacy will be a reality for all Filipinos.” Preschool programs, special programs in English, Science and Math, technical-vocational education component of secondary education, culture, sports and special education in basic education also need to be strengthened.

The government shall also promote efficient and effective learning among children in the public schools. An initial step towards this end is to reduce class size standards. From 50 pupils in a class in 2007, it will become 45 in 2008, 40 in 2009 and 35 in 2010, all on double-shift classes for those schools that will not yet adopt the ADMs.

The fundamental tool to enhance the learning process itself and improve relevance of basic education is the effective use of the mother tongue in the early grades. This will extend to the development and use of appropriate learning resources as well as education assessment and examinations. The nationwide implementation of the BESRA recommendations on both the language of learning and learning of languages shall be complemented by adequate provision of resources for the translation, development, and dissemination of high quality learning materials in the mother tongue.

Apart from reforms in the language of teaching and learning Science, Math, Filipino, English, and other subjects, a comprehensive learning strategy shall be adopted as touchstone of quality improvement and broader outreach of basic education. This learning strategy package will systematize the development, utilization, and production of various types of learning resources, including ICT-based materials, to make them accessible to all and expedite the mainstreaming of ADMs. A total quality assurance and accountability of basic education shall be set in place, including system-wide and classroom-based assessment of learning and reforms in examination practices. The NCAE needs to be utilized as key social indicator of the efficiency of basic education by constructing it, among others, as an exit examination for the whole stretch of basic education and the clients of ALS. While the NCAE is envisioned as a unified national assessment, strong collaboration among the three education agencies (DepEd, CHED and TESDA) is crucial to ensure harmonization of social purposes of the system-wide assessment tool for economy, efficiency and policy consistency.

Collaboration among concerned agencies (i.e., ECCD Council, DepEd, DSWD and LGUs) has to be continued and strengthened to further increase the number of children availing of preschool and day care services, build and upgrade the capacity of service providers, and bolster local stakeholders' participation. Efforts to keep these children in school should be fasttracked through the Food-for-School, National Supplemental Feeding Programs, and *Pantawid Pamilyang Pilipino* Program (4Ps), among others. Efforts toward the adoption of ECE in the teacher education curriculum by teacher education institutions (TEIs) should be sustained.

Programs to address the basic education needs of indigenous peoples (IPs) and Muslims shall continue to be prioritized and refined. Along with the implementation of the different interventions identified in the Roadmap for Muslim Education and preparation of a clear and coherent policy on IP education, the long-term institutional and technical capacity of the DepEd in policy formulation and program implementation on these areas shall be strengthened.

In accordance with EO 570 of 2006, peace education shall be fully mainstreamed in basic education and teacher education. By 2010, all private and public schools as well as duly recognized teacher training institutions throughout the country shall be implementing a peace education curriculum. Capacity-building in conflict resolution through local community leaders shall form part of informal/nonformal peace education.

To guarantee the right of every Filipino to basic education, the policies and programs enumerated in the MTPDP will continue to be pursued. However, alongside the mainstream policies, there is a need to institutionalize and accelerate certain reforms in the Plan that have not been started or scaled up. The MTPDP reiterates the importance of anchoring the basic education efforts on the EFA global movement and the Millennium Development Goals (MDGs).

The full implementation of the 1997 Children's Television Act tapping full potentials of informal education shall be pursued through a well-functioning NCCT Secretariat. The following shall be prioritized: (a) maximizing the role of mass media to strengthen and enhance functional literacy; (b) values formation and development of children and youth from early childhood to postsecondary level (ages 0-18 years); (c) pursuing the formulation of a Comprehensive Media Program for Children; (d) establishing a system of incentives for commercial companies to produce developmentally-appropriate educational programs for children through the National Endowment Fund for Children's Television; and (e) pushing for policy recommendations towards maximizing the educational capacity of government media by improving its content and relevance to the learning needs of children and youth.

On sports development, the most urgent task is the operationalization of the Short-Term Philippine Sports Development Plan 2008-2010 that is anchored on a "Sports for All" framework. This framework goes beyond "elite sports" and promotes grassroots programs with the intention of forming a healthy, vibrant, and disciplined citizenry. Along with the institutionalization of agency sectoral planning processes in the Philippine Sports Commission (PSC), governance reforms shall likewise be pursued. This can result in a revitalized PSC, which would be organizationally responsive to the policies and programs envisioned in the proposed Sports Plan, and would ensure the continuity of programs across administrations, and nurture strong institutional linkages with other stakeholders.

Middle-Level Skills Development

The MTPDP, the National Technical Education and Skills Development Plan (NTESDP), 2005-2009 (formulated in 2005) and the administration's Ten-Point Agenda shall continue to serve as the framework for building the subsector's capacity to pursue quality TVET reforms towards creating a globally competent Filipino workforce.

Promoting TVET as a viable career path has been a formidable challenge. An expanded and more sustainable social marketing of TVET will continuously be pursued in 2008 and beyond. The key TVET strategies that need to be accelerated are: (a) institutionalizing the LEP to provide more opportunities for career and educational advancement to TVET students and workers; (b) broadening access to TVET through more scholarship and student assistance programs; (c) more responsive TVET investments to finance the TVET programs and projects including researches, capability building, scholarship programs and support services; (d) increased partnership with industry as the end-users of trained human resources; and (e) providing quality and relevant skills training to address labor market demand-supply mismatches.

In preparation for the devolution of TESDA's training functions to prospective partners, the government will continuously implement co-management arrangements of TESDA-administered training institutions with the private sector, LGUs and other TVET stakeholders. Also, in support of the proactive job-skills matching paradigm, the strengthening of convergence and procedural integration within the DOLE shall be pursued especially in the exchange of information on overseas employment and local markets for in-demand occupations to immediately address manpower shortage and/or surplus.

All TVET programs offered by both public and private technical-vocational institutions shall be registered under the Unified TVET Program Registration and Accreditation System (UTPRAS). On the other hand, the enactment of the Enterprise-Based Education and Training Act by 2008 will be pursued through more aggressive legislative advocacy to integrate all enterprise-based training programs like on-the-job-training, apprenticeship, dual training system, and similar training modalities with the end view of maximizing resources and creating greater impact in terms of private sector participation.

Higher Education

For the remaining years of the Plan period, the goals identified in the MTPDP shall continue to be pursued. Programs and projects shall be implemented with utmost consideration for efficiency and effectiveness. Efforts supporting the following policies and strategies shall be intensified:

The broadening of the access of economically and socially disadvantaged groups to higher education and rechannelling some public resources directly to students shall promote greater purchasing power and freedom of choice of educational opportunities. This can be done through efficient and effective governance and improved financing schemes like the voucher system, expanded scholarships and other schemes of scholarships. Student loans and other forms of student assistance shall be continuously provided to financially handicapped students. Third year, fourth year and graduating students enrolled in CHED priority courses shall be prioritized and assisted through an accessible interest-free income-contingent loan. A comprehensive and coherent system of assessing availment, governance and financing of scholarship and financial assistance programs shall be established to account for all grants and loan schemes such as the Priority Development Assistance Fund (PDAF) of Congressmen.

In the expansion of alternative learning systems and alternative delivery modes for higher education, models integrating Madaris into the mainstream higher education system shall be formulated based on studies and researches conducted. The Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP) will be expanded and improved to recapture its original vision as an instrument of social justice. Moreover, for a more systematic and mutually agreed-upon quality assurance, policies and guidelines on establishing, monitoring and evaluating Transnational Education arrangements including twinning arrangement, franchising, distance learning and correspondence education shall be formulated and implemented taking into consideration the arrangement most beneficial to the country.

To make higher education curricula more responsive to industry and national development needs and comparable to international standards, the following activities shall be intensified: (a) strengthen the Technical Panels²; (b) conduct international benchmarking of programs; (c) encourage the use of ICT in the enrichment of teaching and learning; and (d) promote industry-academe linkage. Along this line, selection criteria and system of indicators for monitoring Centers of Excellence (COEs)/Centers of Development (CODs) shall be improved.

In line with national strategies to preserve cultural heritage, selected HEIs, shall be encouraged to become “cultural banks” by intensifying cultural research, especially on the ethnolinguistic groups in their area. The accumulated body of knowledge shall be properly stored, analyzed, made accessible, and utilized in the transmission and promotion of the country’s heritage. These shall also be integrated into their respective curricula particularly in the social sciences and the humanities.

The incorporation of values formation in the Program of Instruction (POI) in the NSTP and other relevant subjects shall be monitored. Specifically, the following values shall be integrated: (a) Faith in the Almighty; (b) Respect for Life; (c) Order; (d) Work; (e) Concern for the Family and Future Generations; (f) Love; (g) Freedom; (h) Peace; (i) Truth; (j) Justice; (k) Unity; (l) Equality; (m) Respect for Law and Government; (n) Patriotism; (o) Promotion of the Common Good; and (p) Concern for the Environment.

ODA-Funded Projects

Most of the identified strategies will continue to be operationalized by the following major projects, which are expected to be completed by or before 2010: (a) Secondary Education Development Improvement Project (SEDIP); (b) Philippine-Australia Basic Education Assistance for Mindanao (BEAM) Stage 2; (c) Strengthening the Implementation of Basic Education in the Visayas (STRIVE) Stage 2; (d) Improvement of the Quality of Primary Education in Bicol and CARAGA Regions; (e) Development of Centers of Excellence in Modern Manufacturing Technology (CEMMT); and (f) Higher Education Development Project.

Priority Legislative Agenda

The reforms and policies enumerated above are expected to be strengthened and better institutionalized with the following legislations:

² Technical panels are 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.

An Act Establishing a Multilingual Education and Literacy Policy. The proposed legislation aims to safeguard and institutionalize a fundamental education policy on the medium of learning and language learning, which constitutes the foundation of the so-called basic learning needs. In particular, the proposed law will mandate the use of the mother tongue as the primary medium of learning especially in the early years. This is anchored on and supported by empirical data generated worldwide that prove the multilingual approach to be a more effective tool for teaching and learning and hence upgrades the quality and relevance of basic education;

An Act Amending the Licensure Examination for Teacher Law. The proposed amendatory legislation seeks to: (a) provide a three-stage licensure and qualification system and authentic/performance-based and NCBTS-based examination; (b) reform the criteria for appointment/membership in the Licensure Examination for Teachers (LET); and (c) limit the number of times LET can be taken;

An Act Strengthening the Education Service Contracting Scheme for Basic Education. The pending legislation will support basic education reforms comprehensively amending the GASTPE Law. Alongside other purchaseable services, the legislation will now provide for the outsourcing of instructional services for early childhood education, elementary education and alternative learning system, on top of the existing one for secondary education;

Amendment of RA 4670 (Magna Carta of Public School Teachers). The proposed legislation will promote the balancing of teachers' enjoyment of rights and privileges with responsibility and accountability and address the issues confronting the general welfare of teachers such as the provision of additional compensation, hardship allowance and salary increments. This will also address the perennial problem on teacher deployment;

Amendment of RA 7880 (Fair and Equitable Allocation of DECS Budget for Capital Outlay). In the proposed legislation, the DepEd shall have the flexibility to periodically adjust or modify the allocation to meet the requirement for the establishment and maintenance of school buildings and facilities based on the most recent school mapping and color coding of the Basic Education Information System (BEIS). For three years, the annual DepEd budget for Capital Outlay shall be allocated, as follows: (a) 60 percent to be allocated pro-rata among the legislative districts with classroom shortages in relation to the total student population of the country; (b) 30 percent according to the student population; and (c) 10 percent as may be determined by DepEd. The Capital Outlay shall be released to the DepEd or to the local government unit, as authorized by the DepEd, and not to DPWH;

Enterprise-based Education and Training Bill. The bill is envisioned to harmonize and rationalize all enterprise-based education and trainings such as dual-training system, apprenticeship, on-the-job training and internship by separating the Apprenticeship Chapter of the Labor Code. It is also expected to improve the TVET training institutions' link with industry with regard to the protection and benefits of the trainees;

Tertiary Education Scholarships and Student Financial Assistance Reforms. To improve the governance and financing of scholarship and student financial assistance programs in the post-basic education levels, it is imperative to pass a law that will: (a) harmonize the governance and administration of all existing publicly-funded scholarship (based on merit) and other forms of student financial assistance programs under one policy framework, especially student loans in all government

agencies; (b) ensure complementarity between scholarship and student loans; and (c) standardize and rationalize means of targeting and screening of beneficiaries;

Amendment of RA 7722 (Higher Education Act of 1994) and RA 8292 (Higher Education Modernization Act of 1997). Amendment of the CHED Charter is envisioned to correct the various organizational weaknesses of CHED as the central agency for the external governance of higher education. Reforms should pursue the Philippine Education Sector Study's (PESS) recommended measure to do away with the conflict of interest between the system of internal and external governance given rise by the CHED chairmanship of the governing boards. Other needed provisions include the move for LGU-created/funded HEIs to form part and parcel of overall governance of higher education to make them conform to national standards and best practices, clear-cut definition of the functions of regional offices and strengthening of the HEDF management;

Legislation on the Typology of HEIs. A typology of HEIs (categorizing institutions) through this legislation will provide higher education policy-making bodies a tool to rationalize higher education institutions in the country by categorizing and classifying institutions and rationalizing resource allocation development programs and interventions for HEIs;

Enactment of Region XI Regional State University System. Restructuring of existing SUCs into Regional University Systems (RUS) as prescribed by various rationalization studies (e.g., PESS) will be actively pursued to improve the operational efficiency and economic rationality of the public higher education system. Beginning with the RUS Pilot Project in Region XI, the law will unite the four SUCs in the said priority region; and

An Act Institutionalizing the Coordination, Development Planning and Monitoring of the Educational System This will convert the existing EO creating the National Coordinating Council for Education (NCCE) and the EO creating the Presidential Coordinating Task Force for Education (PCTFE) into a law by combining the functions of the OPAE and the PCTFE and enabling it to effectively coordinate and harmonize the policies and programs of the three education agencies.

Chapter 19

Science, Technology and Innovation

The science and technology (S&T) sector continued pursuing knowledge creation and transferring and promoting technology-based entrepreneurship through various programs and activities. Through the years, it has modestly contributed to the growth of the economy and to the provision of employment to Filipinos. In the remaining years of the Medium-Term Philippine Development Plan (MTPDP) 2004-2010, the sector shall continue to build the country's capacity to increasingly harness what science, technology and innovation offer by implementing the National Innovation Strategy called "Filipinnovation" with a vision to make the Philippines an Asian innovation hub.

ASSESSMENT AND CHALLENGES

Knowledge Creation and Transfer

Through the Department of Science and Technology (DOST), the government adopted a seven-point agenda for S&T development in 2006 in line with the job generation and global competitiveness thrusts of the MTPDP 2004-2010 to maximize the use of limited financial and human resources. The agenda covers: (a) five priority research and development (R&D) areas; (b) technology transfer; (c) high impact programs in the regions; (d) development of S&T human resources; (e) boosting innovation capacity; (f) upgrading of S&T facilities; and (g) policy development and advocacy.

R&D and technology transfer activities focused on five areas identified to have the highest potential impact on poverty alleviation and the attainment of the Millennium Development Goals (MDGs). These are biotechnology, information and communications technology (ICT), environment, alternative energy, and health/medicinal products. In 2007, the DOST allocated PhP590.4 million to R&D projects covering these areas.

Biotechnology researches emphasized agriculture and health while ICT provided rural communities with wider access to information, better delivery of essential information on disaster mitigation, and ensured better performance of computer networks for R&D applications.

Studies on the environment covered water desalination, biosensors, microbial degradation of waste, and clean production technologies, among others. Alternative energy researches focused on alternative feedstocks for biofuels, testing of fuel-saving devices/additives, alternatives to liquefied petroleum gas (LPG), and *Jatropha* sp. while health researches were directed at vaccine development, cancer genetics and herbal medicine.

To increase private sector participation in R&D, contract researches were conducted, and costs were shared by the DOST and private firms. In 2006, a total of 85 contract research projects worth PhP34.8 million were implemented of which 54.3 percent of the total costs was shared by the DOST R&D institutions.

To potentially serve as a model for other technology parks in the country, the National Science Complex and Technology Incubation Park (NSCTIP) was established in a 21.9-hectare area at the

University of the Philippines campus in Diliman, Quezon City through Executive Order (EO) 583 issued on December 8, 2006. The amount of PhP500 million was included in the 2006 supplemental budget for the initial funding of the PhP1.7 billion NSCTIP.

S&T human resource development continued to be implemented in line with the strategy to increase the number of S&T/R&D personnel. Since 2004, the specialized science secondary school program in the Philippine Science High School System (PSHS) has benefited 14,920 students and 3,450 scholar graduates. On the other hand, undergraduate scholarship programs managed by the Science Education Institute (SEI) have benefited 7,677 graduates and 19,481 scholars. Meanwhile, the DOST Councils and SEI supported 1,303 masters and 692 doctorate degree scholars.

MS and PhD scholarships and R&D grants were expanded to support young and budding researchers. With a PhP100 million budget, the DOST launched the Accelerated Science and Technology Human Resources Development Program (ASTHRDP) to provide more graduate scholarship opportunities particularly for R&D personnel. A total of 427 slots were funded in 2007 while 739 slots were funded in the first semester of 2008.

Meanwhile, PhP100 million was released to the Commission on Higher Education (CHED) under the President Gloria Macapagal Arroyo (PGMA) Science and Engineering Graduate Scholarship (SEGS) to fund MS and PhD scholarships of qualified faculty and research staff of higher education institutions. SEGS is aimed at enhancing science and engineering education in the country. A total of 270 SEGS slots was allocated for 2007 and 2008. In addition, CHED continued to provide graduate scholarships and research funding assistance in S&T fields under its Faculty Development Program and Thesis and Dissertation Grants.

The PhP3.0-billion Engineering R&D for Technology (ERDT) Program was launched in 2007. Aimed at developing a critical mass of R&D-capable manpower to promote engineering R&D activities in the country on a significant scale, it involves seven universities nationwide that offer MS and PhD degrees in various engineering fields. For 2008, the ERDT has funded a total of 165 slots for MS and PhD degrees.

S&T services such as testing and calibration services, disaster preparedness and hazard mitigation services, as well as ICT-based services continued to be provided. From 2004 up to the first half of 2007, 52,659 small and medium enterprises (SMEs) availed of testing and calibration services. During the same period, 266 technology fairs and exhibits and 408 S&T fora were conducted to promote these services. The Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) and the Philippine Institute for Volcanology and Seismology (PHIVOLCS) continued to provide timely and accurate information on weather, climate and floods as well as earthquakes and volcano events, respectively. As of 2007, a nationwide network of five radar stations, five weather satellite ground stations, two world area forecast systems (WAFS), 58 weather synoptic stations, 27 agrometeorology stations, three flood forecasting subcenters, 68 hydrometeorology stations, 184 rain gauges, 36 water level gauges, six volcano observatories and 59 seismic stations is operational.

The Philippine Research, Education and Government Information Network (PREGINET) project of the DOST continued to provide ICT-based client services. It has 82 physically connected institutions and 166 partner institutions tied up to four core nodes nationwide. The project has been serving as a platform for R&D networking, national grid computing, e-learning, and deploying innovative online services. Meanwhile, the Development Academy of the Philippines (DAP)

continued to pursue activities related to maximizing the use of the country's ICT infrastructure for knowledge creation and dissemination. It developed online materials that can be readily accessed by its faculty and students, and used to complement classroom learning activities and research work. These materials can also be used to develop online certificate courses in management research and analysis, preparatory economics, and preparatory finance that will be offered by the Academy.

Technology-Based Entrepreneurship

The DOST continued to implement the Small Enterprise Technology Upgrading Program (SETUP), the Techno-*Gabay* Program, and the Technology Innovation for Commercialization (TECHNICOM) Program to promote technology-based entrepreneurship.

The SETUP aims to upgrade the productivity and innovative capacity of SMEs through the provision of S&T services such as technology upgrading and acquisition, packaging and labeling, product development, product standards development and identification, technical consultancy and training, and networking and linking assistance.

The Techno-*Gabay* Program seeks to intensify S&T applications in farming communities all over the country by establishing and maintaining Farmers' Information and Technology Services (FITS) centers in collaboration with local government units (LGUs) and rural-based organizations.

The TECHNICOM program aims to fast-track and promote the transfer of technologies developed by the S&T community through interventions such as commercial prototype development, pilot scale production, intellectual properties (IP) protection, negotiation and licensing.

In 2007, the SETUP provided technology acquisition and upgrading assistance to 811 existing SMEs and helped establish 70 new SMEs. Since 2005, the accomplishments of SETUP have been exceeding its targets (Table 19.1).

Table 19.1
Small Enterprise Technology Upgrading Program Accomplishments
(Actual Versus Target)

PERFORMANCE INDICATOR	2005		2006		2007	
	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL
No. of existing firms assisted	715	727	601	800	628	811
No. of new firms established	58	66	85	105	88	70

Source: Department of Science and Technology

Under the Techno-*Gabay* program, the total number of FITS centers reached 408 as of end-June 2008 (Table 19.2). The FITS centers are designed to provide computer-aided information and training services on farming technologies that have been successfully tested and showcased by selected *Magsasaka Siyentista* (farmer-scientists) in local areas. As of 2007, there were 295 *magsasaka siyentista* all over the country while 40 S&T-based farms focusing on priority commodities have been established.

Table 19.2
Number of FITS Centers

	As of End June 2008
TOTAL NO. OF FITS CENTERS	408
No. of operational FITS Centers maintained	372
No. of New FITS Centers established	36
No. of clients served	41,243

Source: Department of Science and Technology, 2009 Proposed Budget

The DAP, through the DAP-BAR *e-Agrikultura* Project, established six *e-Agrikultura* centers in various provinces in the country. The *e-Agrikultura* (also known as “Agricultural Growth thru Information and Knowledge Networking”) portal was designed to provide technical aid and ready reference on agri-related information and news in an instant. It is one of the components/projects under the Knowledge Networking Towards Enterprising Agricultural Communities or K-Agrinet program, which was approved by the Commission on Information and Communications Technology under the e-Government fund.

Under the TECHNICOM Program, seven technologies were funded for piloting and commercial prototyping from 2007 up to end-June 2008. A total of 55 technologies endorsed by TECHNICOM in 2007 were found to be meritorious after counterchecking the sufficiency of disclosure and the conduct of prior art searches and patentability/registrability studies. Patent/utility model registration applications including specification claims and drawings (as applicable) were prepared and filed with the Intellectual Property Philippines (IPP).

Meanwhile, the Department of Agriculture’s *Ginintuang Masaganang Ani* Program for Fisheries continued to promote mariculture activities in the country. In 2006, the program established three mariculture parks in the provinces of Aurora, Albay, and Davao del Norte. This is on top of the four mariculture parks established in 2005. The program also conducted 5,015 techno-demonstration projects of which 731 projects were cost-shared with LGUs.

Greater productivity in industry, farming communities, and among SMEs continued to be promoted through the Knowledge Emporium being maintained by the National Economic and Development Authority (NEDA). The NEDA Knowledge Emporium has been serving as a one-stop web portal for sharing and exchanging productivity-enhancing technologies and experiences. As of 2007, 580 documented best practices/technologies were posted in the Emporium.

Other S&T Initiatives

The Presidential Coordinating Council on Research and Development (PCC-RD) was created on February 16, 2007 through EO 604. It is tasked to coordinate R&D activities and oversee allocation of R&D budgets to attain a combined private and public funding level for R&D of 0.5 percent of GDP by 2010; establish a system for determining priority R&D areas where public funding shall be directed; institute monitoring and evaluation system for R&D activities that use public funds; and identify measures to encourage private and international funding for R&D.

On April 25, 2007, the President signed Joint Resolution No. 1 creating the Congressional Commission on Science and Technology and Engineering (COMSTE). Formally organized on November 20, 2007, the Commission is tasked to review and assess the state of competitiveness of science and technology, and engineering research and development in the country.

The National Innovation Summit was held on November 26, 2007 through public-private partnership initiated by the DOST, IP Philippines, IBM Philippines, the Asian Institute of Management Policy Center, the Philippine Chamber of Commerce and Industry, and the Ayala Foundation, Inc. It launched the National Innovation Strategy called “Filipinnovation” calling for the active participation of the academe, industries, government, media and civil society to strengthen the country’s national innovation system.

Problems and Gaps

Despite the efforts and initiatives in the S&T community, the contribution of the sector to the economy has remained modest due to a number of problems, as identified by local S&T experts in meetings held to formulate a national innovation strategy. Foremost of these problems is inadequate funding support for the sector, particularly R&D. The country’s R&D expenditure of about 0.14 percent of GDP pales in comparison with those of other Association of Southeast Asian Nations (ASEAN) countries and the benchmark of 1.0 percent set by the United Nations Economic and Social Council (UNESCO) for developing countries. Second is the seemingly uncoordinated effort in, as well as lack of focus of, R&D activities being undertaken by S&T institutions resulting in wasteful duplication and non-optimal use of limited resources. In fact, this situation has led to the creation of the PCCRD in 2007. Third is the inadequate pool of human resources of S&T. Latest available data (2002-2003) show that the country has the lowest number of researchers per million population among the ASEAN countries. Finally, there is the lack of awareness on and/or appreciation of S&T/ R&D as a means to improve productivity and global competitiveness.

STRATEGIC FRAMEWORK

The government has declared that technology shall be the foundation of future economic development. For this purpose, the country shall increasingly harness what science, technology and innovation (STI) offer. These are powerful tools that could be used to make the country globally competitive and to lift the lives of the poor. Capturing the benefits of STI, however, requires building an adequate national capacity to understand, interpret, select, adapt, use, transmit, diffuse, produce and commercialize scientific knowledge and technological innovations. To achieve this, the government shall pursue a national innovation strategy called “Filipinnovation” with a vision to make the Philippines an Asian innovation hub. Its goal is to build a Filipino nation having:

- a competitive and multidisciplinary work force competent in producing value-added knowledge-based services of global standards;
- competitive local firms driven by or borne out of constant innovations brought about by increased R&D; and
- a public policy environment that ensures continuous innovation not only through executive, legislative and judicial initiatives but through local government programs as well.

Building STI capacity depends on policies and practices that create a conducive and consistent environment over a period of time. Thus, “Filipinnovation” shall focus on: (a) strengthening human capital investments for STI; (b) stimulating STI; (c) enhancing management of the STI system; and (d) upgrading the Filipino mindset in S&T. These strategy/policy imperatives are interconnected and shall be coordinated and harmonized to create the required conditions in which STI capacity deepens and consolidates.

Strengthening Human Capital

Strengthening human capital for STI shall be directed towards achieving the following policy objectives: (a) make good quality science education; (b) improve technical, scientific and engineering education; (c) provide opportunities for life-long learning and skills upgrading to a diverse workforce requiring varied levels of STI sophistication; and (d) expand R&D and graduate study.

Improving basic science education and supporting talented Filipinos

Strengthening math and science education at the basic education level is a fundamental part of sound human capital investments for STI.

Improvements in basic education (*Chapter 18: Education*) shall be complemented and strengthened with a well-defined policy to highlight the values of science at the elementary and secondary school levels in order to instill inquiry-directed learning of principles and skills. STI literacy and culture shall be imparted in ways that capture the interest and imagination of young Filipino learners. STI organizations shall play an active role in upgrading math and science teachers and in the production of materials needed for students’ S&T education.

The PSHS System which caters to gifted Filipino children with high aptitude for science and mathematics shall be strengthened and expanded in accordance with the law. More importantly, the private sector shall be encouraged to play a more active and creative role in making STI education opportunities within reach of every Filipino. For instance, the private sector can support the conduct of science competitions to enable young Filipino talents to participate in national and international science competitions, and in encouraging scientists and technologists to visit schools to promote STI to the young.

Improving technical, scientific and engineering education

Crucial to building the country’s STI capacity are strategies that would: (a) increase investments in higher education, especially engineering and science; (b) expand and upgrade the quality of technical and vocational education; and (c) establish an equivalency program facilitating mobility of learners and workers between vocational and technical and academic studies. These will help facilitate the use of new technologies, encourage innovation, and allow technological change to translate into more job opportunities.

The growing role of the private sector in higher education, particularly in the more complex and expensive science and engineering education shall be defined. Industry-academe partnerships and linkages shall be strengthened particularly in sharing information and expertise on changing manpower needs, development of more appropriate curriculum and internship/apprenticeship schemes. Niches of academic institutions shall be identified and matched with the needs and strategic

positioning of local firms and industries. Social networks such as alumni and industry associations shall be tapped to serve as natural conduits to realize and sustain said linkages.

Broadening access to life-long learning and skills upgrading opportunities

Life-long learning is essential in developing various levels of STI sophistication in the country's diverse workforce as well as in meeting individual expectations in varied needs of civil and social aspects of life. To achieve this, life-long learning and skills upgrading shall be made a shared responsibility among concerned individuals, STI institutions, academe, education and training institutions as well as the trade unions.

Efforts to intensify the availability and quality of skills-specific training programs shall be complemented with enhanced training regulations to ensure their relevance and cost effectiveness. The dissemination of information on where the jobs are and on the availability of support services such as training and scholarship opportunities shall be intensified.

Expanding scientific research and graduate study

An explicit national policy to strengthen, support and encourage scientific research and graduate education within universities shall be established as a vital element of building the nation's STI capacity.

The linkages between graduate education and the private sector and publicly-funded university-based research system shall be strengthened. The reforms shall focus on: (a) competitive allocation procedures; (b) transparency and peer review; (c) research evaluation and accountability for results; (d) implementation of national R&D priorities; and (e) the adaptability of the system to changing conditions and new challenges.

Universities shall be encouraged to systematically strengthen their ties with the private business sector to ensure the relevance of their research efforts with regional and international institutions and networks to effectively expand their STI capacities. LGUs shall be encouraged to develop strong partnerships with universities and industry to develop STI capabilities in their areas.

Stimulating STI

Local industries have to be convinced that economic performance is more sustainable when it is founded on the dynamic advantage of flexible production and cost reduction, rather than on the static advantage of low-cost labor. They have to deepen their technological capabilities and services to the point where they can consistently and successfully compete on a global scale. Technology deepening, while traditionally connoted with the industrial sector, shall likewise be pursued in goods and services with "public goods" characteristics such as in agriculture, health care, energy and natural resource management, in both private firms and government institutions. The stimulation of the demand for STI shall be pursued through both indirect and direct policy interventions.

Indirect STI Policy Interventions

Indirect policies are those designed to create a supportive environment for investments in STI undertakings. They are generally the same as those that build the climate for investment, jobs, sustainable growth and empowerment of poor people. Salient among these are:

Basic Macroeconomic Stability. A sound fiscal and monetary environment shall provide the stability and continuity needed for financing and commercialization of STI;

Trade and Foreign Direct Investment. Product market reforms aimed at creating a level playing field and facilitating the entry and exit of firms into new markets, such as the proposed competition policy (*Chapter 1: Trade and Investments*), shall stimulate innovation and commercialization of new technologies. Competitive markets allow for the emergence of innovative firms that demand knowledge. In attracting foreign investments, preference 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;

Financial Policies. Financial market reforms shall allow for the deepening and diversification of credit markets as new technology-based firms emerge. Financial instruments (loans, equity financing, venture capital, etc.) shall be diversified to match the evolving requirements of technological capacity-building efforts;

Entrepreneurship Development. Disincentives to “technological entrepreneurship,” particularly regulations discouraging spinoffs from large firms and universities shall be removed. The barriers to entrepreneurial technology-based projects and obstacles to their transformation into business startups shall be addressed. Along with this, 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;

Intellectual Property Rights (IPR) Protection. IPRs, particularly patents, play an important role in promoting innovative behavior as they influence the returns to innovation and the access to new knowledge. These shall balance the individual interest to control, set the terms of, and profit from the use of an invention with the collective public interest to stimulate technology diffusion and innovation by encouraging the publication and diffusion of new discoveries, to assign rights through due legal process, and to override these rights partially or fully when the public interest so warrants; and

Promotion of Standards. Metrology, standards, testing and certification services help develop the market for new products and services. The network of standard-developing bodies in the country shall be strengthened for a consistent and sustained promotion of standards as quality, productivity, and technology management tools. Promotion of and orientation on international benchmarks and conventions for quality among exporters shall be intensified.

Direct STI Policy Interventions

Direct government interventions for STI are needed to ensure that the amount of knowledge created in the economy is at a socially-optimal level. These include the following:

Promotion of interfirm innovation networks and research collaboration. National and local governments, industries, universities, and research institutes shall be encouraged to form imaginative and vigorous forms of collaboration and partnerships for addressing research areas of potential local benefit and for disseminating information on the benefits of R&D. University-industry linkages shall be strengthened through a diverse set of interactions, particularly the informal person-to-person links that create cultures of information exchange. The ground rules, criteria and procedures shall be put in place to make universities work in close association with industry as well as the national and local governments in addressing the competitiveness, economic growth, and sustainability goals;

Promotion of creation of shared infrastructure and provision of business support services for innovators and budding entrepreneurs. To promote greater interactions among actors in the STI system, the creation of shared infrastructure and the provision of business support services for innovators and nascent entrepreneurs shall be promoted specifically in the form of technology business incubators, technology parks and clusters of knowledge-based industries. A technology business incubator model suited to Philippine conditions shall be developed guided by the best practices from other countries and reflecting the need for long-time horizons for commercial sustainability, careful matching of target markets with the strengths and ambitions of potential firms, and proximity and linkages to research institutes and universities. The provision of business support services shall be private sector-led and demand-driven. The clustering of knowledge-based industries through science and technology parks shall be stimulated;

Provision of tax incentives to private firms engaged in R&D. R&D tax incentives shall be harnessed as an effective instrument for inducing private sector research. The design of the R&D tax incentives through allowable deductions under RA 8424 (Tax Reform Act of 1997) shall be reviewed relative to the policy objective of building STI capacity among private firms, particularly among small firms and public/private research collaborative undertakings that produce greater spillover effects. The R&D tax incentive scheme under the Investment Priorities Plan shall also be enhanced to make the country an attractive site for multinational research; and

Public funding support for innovation commercialization. The existing policy governing public funding support for innovation commercialization shall be reviewed. This is aimed at developing effective and least-distortive financial instruments that will leverage private investment and direct financial support concentrated on early stages of innovative ventures (seed capital, preinvestment appraisal and business support services) designed to encourage the establishment of interfirm innovation networks, research collaboration and partnerships, creation of shared infrastructure and provision of business support services. A viable private venture capital industry shall be promoted.

Enhancing Management of the STI system

Enhancing management of STI shall primarily be aimed at stimulating linkages and collaboration between public and private sector entities in the country's STI system through: (a) clearer STI management framework; (b) prioritization of R&D activities for public funding; (c) provision of appropriate STI data/information for informed policy decisions; and (d) improvements in STI monitoring and evaluation.

Clearer STI Management Framework

Clearer frameworks for private sector involvement in STI capacity building shall be established to specifically define the scope of the public domain and the boundaries of the public-private domains to take maximum advantage of complementarities and reduce overlaps. Governance and regulatory frameworks shall be enhanced to promote high level of openness and public scrutiny and understanding of STI. To encourage innovative behavior, the public sector shall creatively engage the stakeholders in the setting of innovation policies and strategies that will be championed by both public and private sector executives. Government shall ensure that the STI system is diversified and decentralized with balanced concentration of resources in centers of excellence and large-scale dispersed efforts.

Prioritization of R&D activities for Public Funding

Priority setting for public sector financing of R&D shall be strengthened, balancing the need to leverage available local and foreign STI knowledge and the need to pursue R&D on goods or services which are of public/national interest. The award of public-funded R&D projects shall be done through competitive bidding.

Provision of STI Inputs for Informed Policy Decisions

The array of pertinent STI data/information shall be increased for better informed policy decisions. Awareness and understanding of STI in legislation shall be increased particularly in areas concerning public health, public safety, disaster preparedness and hazard mitigation, climate change and other national concerns pertinent to STI.

Improving STI Monitoring and Evaluation

The rules of the game of STI resource allocation shall be streamlined to enhance openness, transparency and objectivity through peer review and evaluation procedures, assuring that merit and performance are the criteria for determining how to award discretionary government STI funding. As the monitor and evaluator of a transparent and impartial STI system, the government shall ensure that traditionally excluded groups like ethnic and other under-represented groups have access to STI opportunities. The coordination of STI as a cross-cutting concern across departmental boundaries shall be enhanced.

Upgrading the Filipino Mindset

The culture and values of STI are critical for building a competitive Filipino nation. STI bring imagination and vision to bear across the board – on theoretical speculations as well as on practical problems and critical decisions – allowing people to analyze present (and future) situations, make sounder choices, and invest their resources more wisely. The culture of STI and the open, honest values that they engender are enormously important above and beyond the material benefits that they help produce for human welfare.

Increasing the Role of Media

The nation's media shall be made to assume major responsibility for educating the public on STI-related issues. High-quality coverage of these STI issues requires that the STI community should pay more attention to the media and participate more fully in public discussions and debates. In such interactions, media practitioners shall endeavor to explain technical issues in nontechnical language. Regarding scientific or technical matters on which public-policy choices are to be made, the media shall seek out the best STI sources for their articles and programs. In a similar spirit, reporters and editors shall not artificially generate controversy by seeking out minority positions that appear to highlight the adversarial aspects of STI-related questions, particularly when the STI community has actually achieved broad consensus. Truly controversial questions shall be presented to the public in terms of explaining the scientific, technological and innovation aspects of the dispute without bias or editorializing (except on clearly indicated opinion pages).

A wide array of communications technologies – print, television, radio, cellular telephone, the Internet, among others – shall be utilized to disseminate to the public the results and public policy implications of publicly or privately funded research that addresses national or local needs as well as the sharing of STI success stories.

Promoting open and multidisciplinary collaboration

Open and multidisciplinary collaboration and partnership shall be encouraged as innovation flourishes more under said arrangements. Open sources enable access and sharing among different innovation stakeholders of methods of production, design and other forms of knowledge while open standards ensure that local quality controls are at par with global standards, minimizing trade disputes between importer countries on nontariff measures.

Fostering a culture of entrepreneurship through innovation

The entrepreneurial perspective on innovation is that it is not enough that a new concept or idea is only actualized; it also has to be patronized. Valuing patronage – desiring and working towards being competitive, improving service quality, and increasing profits – is characteristic of an entrepreneurial mindset. Such mindset pushes an innovator to ensure that his or her new product or process appropriately addresses needs and result to social benefits, economic gains, or both.

A national campaign for a culture of entrepreneurship shall be stepped up to include advocacies on improving the research culture, increasing idea generation, multistakeholder partnerships, and business incubation and acceleration efforts.

SUPER REGIONS STRATEGY

The STI infrastructure, particularly the facilities for testing and calibration and packaging services, shall be decentralized to all super regions.

Technology foresight shall be instituted to systematically look into the longer-term future of STI, the economy and society with the aim of identifying the areas of strategic research and the emerging generic technologies likely to yield the greatest economic and social benefits particularly at the regional levels. Results of technology foresight will be used as sound bases for building decentralized STI capacities in all super regions.

Chapter 20

Culture

Considerable gains have been achieved for the different programs and activities for culture. Nevertheless, for the remaining Plan period, much can still be done to ensure that initiatives are rationalized, effective, and produce greater impact. Efforts to create awareness on issues and perspectives on culture – particularly its role in human development and governance - must be pursued more aggressively.

ASSESSMENT AND CHALLENGES

The conservation of built heritage, particularly efforts to maintain the integrity of UNESCO World Heritage Sites (WHS) and declared National Cultural Treasures (NCTs), were sustained. In cooperation with concerned church management and local government units (LGUs), four Philippine Baroque Churches under the WHS list (i.e. San Agustin in Paoay, Ilocos Norte; La Asuncion de la Nuestra Señora in Sta. Maria, Ilocos Sur; Santo Tomas de Villanueva in Miag-ao, Iloilo; and San Agustin in Intramuros, Manila) were restored and preserved.

Other major conservation projects include work on the Las Piñas Bamboo Organ, the Maranao Torogan in Marawi, the Loay Complex in Bohol, and other NCT churches such as San Vicente Ferrer in Dupax, Nueva Vizcaya and San Juan Bautista in Jimenez, Misamis Occidental.

The restoration work on the Manila Metropolitan Theatre has also started. Despite efforts to save the Rice Terraces of the Philippine Cordilleras from further degradation, the conservation of this cultural landscape, which was inscribed in the List of World Heritage in Danger in 2001, remains a serious challenge. On the whole, while positive developments such as a more systematic government conservation program have been seen, the mishandling of a number of heritage sites and properties still persist due to lack of awareness on proper and effective conservation practices.

As for the protection of intangible cultural heritage, the establishment of Schools of Living Traditions (SLTs) has remained a priority. The SLTs are a way to ensure that some of the most important indigenous knowledge, skills, and traditions are passed on from the elders to the young members of the community. Since 2004, 74 SLTs have been established and supported in different communities across the country covering areas such as indigenous music, crafts, dance, and visual arts. As the national government mostly provides the resources for its initial set-up, the primary challenge facing these SLTs is its sustained operations once assistance is stopped. A sustainable model for SLT operations would have to be identified and subsequently employed. In the Province of Ifugao, for example, to promote the Hudhud Chants of the Ifugao, which was proclaimed by UNESCO as one of the Masterpieces of the Oral and Intangible Heritage of Humanity, 19 Hudhud SLTs were organized and integrated into public elementary schools covering seven municipalities. The same is hoped to be done for the Darangen Epic of Lake Lanao, which was also proclaimed as a Masterpiece by UNESCO in 2005.

To pave the way for appropriate policy response on issues of cultural rights and to heighten critical awareness, a National Indigenous Peoples Congress (with the theme, “Appropriating Indigenous Cultures in the Philippines: Festivals and Other Spectacles”) was convened in October

2006. It was held specifically to promote the integrity of cultural symbols and meanings of tangible and intangible traditions of indigenous peoples (IPs). It was attended by government and IP representatives, cultural workers, academics and scholars, media practitioners, and artists, providing a forum for productive interactions, review and assessment of the various modes of appropriation of indigenous cultural materials.

Through the event, policy gaps on the protection of the cultural heritage of 110 recognized indigenous cultural communities in the country, which are estimated to account for more than 12 million of the Philippine population, were identified. One of the most important policy recommendations was the need to clarify and evaluate the role and accountability of the National Commission for Culture and the Arts (NCCA) and the National Commission for Indigenous Peoples (NCIP) on cultural rights, particularly in the area of policy formulation and rights protection.

In line with the Philippine Cultural Education Program (PCEP), activities to systematize and improve cultural education were undertaken. In partnership with nongovernment organizations (NGOs), trainings and workshops on curriculum and instructional materials development for selected teachers were conducted in different parts of the country. These activities focused on improving teaching techniques and approaches to the *Makabayan* subject and developing a better perspective on Filipino culture. Educational programs for government agencies, grassroots cultural workers, and the general public were likewise implemented. Through the National Library network, some 300 public libraries and schools also benefited from the dissemination of more than 152,000 copies of publications and 8,000 electronic materials on culture and arts. The impact of these educational activities must then be thoroughly assessed and followed through accordingly.

Coordinative and technical work on several proposed cultural policies and laws were pursued. In 2007, the National Archives of the Philippines Act (Republic Act No. 9470) was passed by Congress and the Agreement between the Republic of the Philippines and the Holy See on the Cultural Heritage of the Church was finally signed. The proposed National Cultural Heritage Act has yet to be passed. The proposed law aims to protect our national cultural heritage by strengthening the conservation mandate of the NCCA and its affiliated cultural agencies. It also aims to secure the necessary police power for the Commission in deputizing national and local law enforcement agencies to implement stiffer and heavier penalties on violators of the country's cultural heritage. At the international level, the Philippine Senate has yet to concur with the ratification of the following UNESCO agreements: Convention on the Protection and Promotion of the Diversity of Cultural Expressions; Convention for the Safeguarding of Intangible Cultural Heritage; Convention on the Protection of Underwater Heritage; and the Convention on the Retrieval of Cultural Treasures and Heritage, which were illicitly trafficked or imported during war.

Recognizing the huge potential of cultural resources in promoting good governance, 52 Local Culture and Arts Councils in the country were assisted in the planning and implementation of locally-identified projects. This is in line with DILG Circular No. 2002-81, which prescribes the creation of Local Culture and Arts Councils and the integration of the MTPDP for Culture in local development plans. As part of the advocacy on the UN Millennium Development Goals (MDGs), the League of Municipalities of the Philippines (LMP) in cooperation with the NCCA and the United Nations Development Program (UNDP) mounted the Longest Mural on the UN MDGs. The mural was presented during the 2006 UNESCO-International Theater Institute World Congress and Theater Olympics. The event was hosted by the Philippines and had the mobilization of cultural diversity for the attainment of the UN MDGs as thematic focus.

Culture and peace projects ranging from workshops, conferences and lectures to performances, exhibits, festivals and competitions were pursued, especially in Mindanao. In 2005, some 800 youth delegates from Lumad, Christian, and Muslim communities benefited from the Mindanao Youth Peace and Development Advocacy Component of the Mindanao National Initiatives (Mindanao NATIN) Project, which was jointly coordinated by the Office of the Presidential Adviser on the Peace Process (OPAPP), the National Youth Commission (NYC), and the NCCA. Such collaborative linkages on peace activities among national government agencies, LGUs, and grassroots organizations should be maintained and tapped in future undertakings.

Activities to promote greater public access to the arts and artistic expression were sustained under the *Sining Panglahat* outreach program, which seeks to provide artists and performing groups with opportunities to present their work before regional audiences and encourage the participation of the wider public, particularly the less-privileged. About 100 outreach activities, benefiting some 56,500 people, were implemented. In 2005, the KALAH! Cultural Services for the Poor was launched in 28 provinces with the highest incidence of poverty. Activities under the latter were also utilized to advocate important development issues such as poverty alleviation, peace-building, cultural rights, and the UN MDGs.

The growth of the so called “creative industries” was pursued by promoting appreciation for traditional arts and crafts and establishing venues to bridge the gap between the makers and the market. In line with this, for example, active partnership was established with Filipino handicrafts store Tesoro’s on the marketing and sale of the products of the *Gawad sa Manlilikha ng Bayan* (GAMABA) awardees, particularly woven textile products, mats, silvercrafts and other traditional crafts from the communities of the awardees.

STRATEGIC FRAMEWORK

For the remaining Plan period, the Government shall take full advantage of the improvements in social infrastructure supportive of culture and development programs, especially at the local level. Efforts shall continue to be anchored on the strategies identified with focus on the following considerations:

- In mainstreaming culture considerations in development and governance, more effective strategies to reach out to more agencies and surface the relevant cultural issues in the different sectors shall be identified and implemented. As a primary concern, the processing and subsequent implementation of the policy recommendations of the 2006 National IP Congress shall be prioritized;
- Alongside efforts to finally pass the proposed National Cultural Heritage Act, the promotion of sustainable heritage conservation approaches shall be actively pursued in the management of heritage sites and properties. Along this line, the sustainability of SLTs shall also be seriously addressed. Particular attention shall be given in building-up the local communities’ capability to conserve and preserve their cultural resources. This entails a more conscious effort in transferring expertise and knowledge of sound conservation principles to those involved in the actual management of sites and other forms of heritage. This will not only make the process of conservation more efficient but also minimize the incidence of mishandling and application of inappropriate interventions, which pose a serious threat to the integrity of heritage resources and add to the cost of conservation. As a matter of priority,

finding a solution to the problem of conserving the Rice Terraces of the Philippine Cordilleras and other endangered cultural heritage shall be pursued with urgency;

- Improving cultural education – across formal, nonformal, and informal channels – forms part of the delivery of quality education. It shall be aligned with the Philippines’ new definition of functional literacy, which emphasizes cultural literacy and is to be delivered via the three modalities of learning. This shall continue to be advocated to a wider audience of educators and policy makers in light of the growing clamor for education reforms. While interventions in this area are being implemented, these shall also be constantly assessed in terms of impact and responsiveness to the actual needs of educators and learners alike. With the understanding that culture is embedded in language, this behooves both education and language policy to assert the constitutional mandate on the use of Filipino and the different Philippine languages in education; and
- Much economic benefit can be gained from the development of creative industries and tourism in heritage sites and local events. However, emerging issues on commoditization and ethics – which basically involve addressing the tensions that arise between economic profit and protecting cultural rights and the integrity of cultural heritage – is well recognized.

As these activities are pursued in collaboration with industry, trade, and tourism agencies, concerned cultural agencies shall ensure that issues are sufficiently addressed. The educational value of heritage tourism shall also be maximized through the preparation of reliable information on sites and properties, provision of sufficient training to site managers and personnel, and effective communication approaches and materials.

Recognizing the urgency of preserving Filipino traditional arts and crafts through practical and technical education, culture-based industries shall form part of the priority areas in technical vocational education and training (TVET) or middle-level skills development (MLSD).

Chapter 21

Anti-Corruption

Corruption is one of the biggest problems of the government. It comes with a high social cost. It hinders economic growth, exacerbates income inequity and poverty, destroys political legitimacy, impedes democracy, imperils public order and safety, results in government inefficiency, and distorts access to services for the poor. Fighting corruption is thus a major part of the President's poverty alleviation agenda by cutting down on red tape and eradicating corruption in government programs and projects to allow businessmen to create wealth and jobs at the least expense, and the public to access government services speedily without additional facilitation costs. The crusade against corruption include legislative action, administrative measures, and wider collaboration with the public. Considerable improvement has been achieved to enhance integrity, transparency, and accountability in the public sector. However, much remains to be done.

ASSESSMENT AND CHALLENGES

The Medium-Term Philippine Development Plan (MTPDP) 2004-2010 calls for a collective front against graft and corruption. It focuses on punitive and preventive measures to address corruption incidences and vulnerabilities and promoting zero corruption tolerance through societal values formation, with government working closely with civil society and the private sector.

The Plan thus presents legislative proposals to strengthen the legal and institutional frameworks such as the ratification and implementation of the United Nations Convention Against Corruption (UNCAC); and to increase the capacity of the Office of the Ombudsman (OMB) and other anticorruption agencies and stakeholders, and other integrity reform measures in promoting integrity, accountability, and transparency, strengthen internal controls and corruption resistance mechanisms as well as reduce corruption vulnerabilities. These anticorruption initiatives are also aligned with the Millennium Development Goals (MDGs) to eradicate extreme poverty and hunger, achieve universal primary education, ensure environmental sustainability, and develop a global partnership for development.

Legal Framework

The legal framework was strengthened with the ratification of the UNCAC by the Senate on November 17, 2006. The UNCAC covers five main areas: (a) prevention; (b) criminalization; (c) international cooperation; (d) asset recovery; and (e) technical assistance. It seeks to promote and strengthen measures to prevent and combat corruption more efficiently and effectively; promote, facilitate and support international cooperation and technical assistance in the prevention of and fight against corruption including asset recovery; and promote integrity, accountability and proper management of public affairs and public property. The OMB and civil society actively lobbied for the ratification of the UNCAC.

Congress enacted into law Republic Act (RA) No. 9485, otherwise known as the Anti-Red Tape Law. Approved on June 2, 2007, the law seeks to improve efficiency in the delivery of government service to the public by reducing red tape, preventing graft and corruption, and providing

penalties. The Act is consistent with the policy of the State to promote transparency regarding public transactions in all government agencies' that shall include a program for the adoption of simplified procedures to reduce red tape and expedite transactions. A working draft of its implementing rules and regulations (IRR) is still being discussed by the OMB, Civil Service Commission (CSC), Development Academy of the Philippines (DAP) and the Presidential Anti-Graft Commission (PAGC).

Institutional Framework

The institutional framework saw the convergence of the different stakeholders in the anticorruption arena as well as the formation of the Multi-Sectoral Anti-Corruption Council (MSACC) under the National Anti-Corruption Program of Action (NACPA), spearheaded by the OMB. The goal of the NACPA is to integrate and eradicate overlaps in the anticorruption initiatives and projects of the OMB, other government agencies, and civil society groups, using the UNCAC as its framework. It seeks to: (a) serve as an avenue for effective consultations and coordination among key anticorruption players; (b) streamline and strengthen the anticorruption commitments of the government, civil society, and donor community under a comprehensive strategic framework; (c) install an anticorruption performance measurement system; and (d) achieve greater public support and investor confidence through the social marketing of anticorruption success stories.

The MSACC is composed of the OMB as chair, with representatives from anticorruption key players and stakeholders, as members. The Council implements the NACPA through a convergence strategy for collective and coordinated action against corruption along three thematic areas: (a) prosecution, prevention, and promotion, corresponding to the three reform areas of punitive measures; (b) preventive measures; (c) and promotion of zero tolerance to corruption under the MTPDP.

The sectors under the MSACC include the executive (Office of the President); legislative (Senate and House of Representatives); and judicial (Supreme Court and *Sandiganbayan*) branches; constitutional bodies (OMB and Commission on Audit); local government (*Liga ng mga Barangay*); government financial institutions (*Bangko Sentral ng Pilipinas*); youth (National Youth Commission); business (Employers' Confederation of the Philippines); civil society (Evelio Javier Foundation, Moral Recovery Officers Foundation and *BISYON* 2020); academe (University of the Philippines-NCPAG), interfaith groups (Imam Council of the Philippines); professional organizations (Philippine Association of Professional Regulatory Board Members); media (*Kapisanan ng mga Brodkaster ng Pilipinas* and TriMedia Professionals Association); and other development partners.

With the effective implementation of measures by the Anti-Money Laundering Council (AMLC) such as strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering, the Philippines was removed from the list of Non-Cooperative Countries and Territories (NCCTs) by the Financial Action Task Force (FATF) in 2005.

Punitive Measures

The first four years of the plan period saw unprecedented efforts from the government, nongovernment institutions, and media in exposing, detailing, and prosecuting cases of grand and petty corruption. More officials in key institutions have been investigated, indicted in court,

dismissed/suspended from the service, or subjected to lifestyle checks than in the previous planning periods combined.

The OMB filed in 2006 before the Sandiganbayan 515 criminal cases involving 158 “big fish” or high-ranking officials, an increase of 89 percent over the previous year. An additional 75 cases were filed with the antigraft court in 2007 against high-ranking officials. Forfeiture proceedings against corrupt officials involving PhP700 million of ill-gotten wealth were filed before the Sandiganbayan in 2005 and PhP486 million in 2006 (this amount would have been higher if not for the prohibition against the filing of forfeiture petitions within one year before a general election and within three months before a special election under RA 1379).

OMB’s annual conviction rate rose from 23 percent in 2004 to 33 percent in 2005, and from 19 percent in 2006 to 55 percent in 2007. In the exercise of its disciplinary authority, the OMB imposed administrative penalties of reprimand, suspension, and dismissal from the service to 468 respondents in 2004, 454 in 2005, 213 in 2006 and 344 in 2007.

On the cumulative conviction rate target under the Millennium Challenge Account-Philippines Threshold Program (MCA-PTP), the OMB met the cumulative target of 40 percent. The OMB has also exceeded the MCA-PTP cumulative target of 25 officials (from January 2005 to September 2008) charged by the Revenue Integrity Protection Service of the Department of Finance (DOF-RIPS) when it suspended 38 revenue officials.

Task Force Green Lane was also instituted to expedite resolution of lifestyle check cases filed by the DOF-RIPS and the Field Investigation Office (FIO) of the OMB and other cases that may be assigned to it. As a result, six Bureau of Customs (BOC) officials charged by RIPS in connection with the smuggling of luxury vehicles in the Subic Bay Free Port were suspended by the OMB upon recommendation of the Task Force. The Subic Bay Metropolitan Authority (SBMA) also stopped importers from withdrawing at least 2,970 used passenger vehicles out of the Freeport in line with the Supreme Court’s final ruling on banning the importation of used motor vehicles into Philippine territory outside the Subic Bay Freeport.

With smuggling as a growing concern and to protect legitimate businesses and local industries, the President constituted the Presidential Anti-Smuggling Group (PASG), by virtue of Executive Order (EO) No. 624. It has the power and function to apprehend, seize, investigate and prosecute acts involving smuggling, unlawful importation, and other similar violations particularly of the Tariff and Customs Code of the Philippines. The PASG shall be assisted by a special team of prosecutors from the Department of Justice (DOJ) to expedite criminal and other cases of violations on customs and other related laws and regulations. In 2007, the BOC started using x-ray machines to limit human intervention in the examination of container vans.

As part of the capacity building of OMB, 200 field investigators and 48 additional prosecutors were hired and trained in 2005. Capability-building activities included case buildup workshops, cross-cutting/joint trainings for prosecutors, administrative adjudicators, preliminary investigators and fact-finding investigators on substantive law-lifestyle check, legal writing, and multidisciplinary investigative techniques (more than 200 fact finding investigators trained). A legal sourcebook (CD format) on anticorruption laws and jurisprudence was also developed. A system for monitoring of cases pending with the Sandiganbayan was also set up at the Office of the Special Prosecutor (OSP).

The OMB through its FIO and the fact-finding bureaus' area/sectoral offices have been conducting investigations on lifestyles of public officials and employees as a strategy to fight corruption. It initiated 464 lifestyle checks in 2006, 311 in 2007, and 693 during the first half of 2008. The probes resulted in the filing of 39 criminal and/or administrative cases against public officials and employees who failed the lifestyle check in 2006, 77 cases in 2007, and 20 cases for the first half of 2008. Lifestyle check hotlines (tel. no. 927-4102 and telefax No. 927-2404) were also launched as a dedicated channel for reporting leads on ill-gotten wealth of public officials.

The OMB, through the OSP, scored a victory with the conviction by the Sandiganbayan in September 2007 of former President Joseph Estrada for the crime of plunder. The decision ordering the forfeiture of his assets amounting to PhP700 million from protection money raised through illegal gambling, embezzled tobacco excise taxes, and commissions from insider trading sends another strong signal that powerful government positions offer no protection on the application of anticorruption laws.

Recognizing that human capital is of vital importance in sustaining the country's development and also consistent with the MDG to achieve universal primary education, the OMB entered into a Memorandum of Agreement (MOA) with the Department of Education (DepEd) in May 2006 and constituted the task force *Sama-samang Pagkilos Laban sa Katiwalian Para sa Kabataan (SAPAK)* to address incidences of corruption in public schools. *SAPAK* investigates irregularities in school building construction, sale of teacher items, overpricing of uniforms, unauthorized collection of fees, and other abuses by principals, teachers, and other school personnel resulting in poor education thereby compromising the children's future. Cases investigated by *SAPAK* resulted in the dismissal of one principal and the suspension of three other principals and 10 teaching/nonteaching personnel.

Another priority area is human trafficking which robs the vulnerable sectors of society – women and children – of their potential and productive contribution to the country's development.¹ Recognizing the fact that government personnel in vulnerable agencies connive with traffickers in the organization and facilitation of international and domestic human trafficking, the OMB mobilized the Tanodbayan Against Government Employees Involved in Trafficking (TArGET) to handle the investigation and prosecution of trafficking-related corruption. Moreover, OMB investigators are undertaking surveillance and intelligence operations against public officers and employees suspected of conniving with trafficking syndicates. Information, education and communication campaign (IEC) drives and continuous dialogues with antitrafficking partners will likewise be carried out to complement the investigative and prosecutorial efforts in trafficking-related corruption.

To facilitate the conduct of lifestyle checks, the Statement of Assets, Liabilities, and Net Worth (SALN) Database System of the OMB covering 2003 to 2005 was established and operationalized in 2006. In 2007, the OMB also completed the computerization of SALN that the office received for the period 1995-2003. The Records Management and Archives Office (RMAO) was also furnished with hard copies of the computerized SALN covering the period 1995 to 2002. The PAGC, also established its own SALN database, personal data sheet, and appointment papers of 5,572 presidential

¹ As highlighted by the US State Department in its last three reports on trafficking in persons since 2005, "corruption and a weak judiciary remain serious impediments to the effective prosecution of traffickers" and the Philippine government should "focus on prosecuting and convicting traffickers and public officials involved in trafficking." The assessment by the US government is strongly echoed by the researches done by local NGOs such as the Visayan Forum in their *Primer on Trafficking in Persons in the Philippines*; the International Justice Mission or IJM in their report on *Combating Child Trafficking for Prostitution in the Philippines*; the End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes or ECPAT in their study of *Child Trafficking in the Philippines for Sexual Purposes*; and in the pioneering study of the United Nations Interregional Crime and Justice Research Institute or the UNICRI and the National Police Commission or the NAPOLCOM on a survey of government experts and law enforcement case files on human trafficking.

appointees from 148 government offices. Meanwhile, the CSC issued Resolution No. 060231, establishing a review and compliance procedure in the filing of SALN on April 17, 2006, and Resolution No. 071814, revising the SALN form to reflect other details required by RA 3019 and RA 6713. The CSC also conducted a workshop on “Examining the SALN for Enhanced Compliance and Increased Effectiveness” on February 14, 2007.

The RIPS conducted lifestyle probes of its personnel in the BIR, BOC, and other attached agencies resulting in the dismissal, suspension, and criminal indictment in court of a number of personnel. On the other hand, the FIO of the OMB filed 35 cases (criminal, administrative and forfeiture) against officials of revenue-generating agencies. OMB and RIPS also conducted a case-buildup workshop to ensure prosecutorial wins. From 2004 to June 2008, the Office of the President, by the recommendation of PAGC, ordered the dismissal of 36 officials; suspension of 11; reprimand of six; and imposition of accessory penalties to two officials.

Following the Solana Covenant on voluntary self-cleansing of government agencies with oversight authorities, the Commission on Audit (COA) cleansed its ranks and dismissed two personnel for the first semester of 2008. From 2004 until March 31, 2008, the COA filed 237 cases of malversation involving PhP319.62 million with the OMB. COA also issued 2,768 Notices of Disallowance amounting to PhP4.17 billion and US\$1.03 million. The Commission also slapped 300 further Notices of Suspensions covering PhP 22.21 billion, and 22 Notices of Charges covering PhP295.74 million. Completion of cash advance documentation also went very well, with the liquidation of 52 percent of the PhP56.26 billion cash advances granted in 2007, and monitored the liquidation of 86 percent of the PhP116.57 billion in 2008. For the first quarter of 2008, accountable officers from various agencies are facing charges for neglecting their duties to properly liquidate cash advances. Charges involving a total amount of PhP281,536.75 were filed in the CSC against officers from two agencies, while charges involving PhP18.74 million were filed in the OMB against officers from nine agencies. Over 57,000 contracts were reviewed including two that involved a total amount of US\$9.9 million. Deficiencies amounting to PhP3.82 billion were detected as a result.

More ill-gotten wealth has been recovered in 2004-2007 than in the previous 13 years of existence of the Presidential Commission on Good Government (PCGG). The PCGG which has authority over sequestered assets, reported that over PhP60.5 billion in cash has been remitted from the Comprehensive Agrarian Reform Program (CARP) and Bureau of Treasury (BTr) during the first four years of the present Plan. However, only about a third or PhP22.1 billion had been remitted in 1987-2003. Surrendered and recovered assets such as real estate properties, shares of stocks, TV networks and radio stations, jewelry and other properties that are up for privatization are valued at another PhP24 billion as of June 2007. Ill-gotten properties under litigation in several civil cases before the Sandiganbayan amount to about PhP200 billion.

Preventive Measures

Enhancement of Systems Integrity. Several measures have been implemented to prevent corruption through systems integrity enhancement. The electronic new government accounting system (e-NGAS), for instance, has been installed in 539 out of 3,301 agencies as of June 2008. Some 42,899 personnel, including those not working in COA have also been trained on the use of the system and over 2,000 have been deployed for the e-NGAS roll-out. E-NGAS version 1.2.1 has been installed in pilot agencies as well as other related operating systems.

Integrity Development Review (IDR), a systematic assessment of the corruption resistance mechanisms and corruption vulnerabilities of an agency, has been conducted in 18 agencies of the national government. This exceeded the 2007 target of 15 agencies through the OMB with the collaboration of other government offices such as COA, DAP, PAGC, and DBM. The IDR is a compendium of diagnostic tools that allow an agency to assess corruption risks and controls as well as to plan anticorruption safeguards. The agencies that underwent this exercise during the Plan period were the BOC, BIR, Department of Public Works and Highways (DPWH), Philippine National Police (PNP), Land Transportation Office (LTO), Department of Environment and Natural Resources (DENR), Philippine Veterans Affairs Office (PVAO), Armed Forces of the Philippines-Philippine Navy (AFP-PN), Department of Health (DOH), Department of Agrarian Reform (DAR), Light Rail Transit Authority (LRTA), Land Registration Authority (LRA), Bureau of Corrections (BuCor), Bureau of Fire and Protection (BFP), National Irrigation Authority (NIA), Department of Budget and Management-Procurement Service (DBM-PS), Department of Education (DepEd), and the OMB. Moreover, 600 middle managers from these agencies were trained on the institutionalization of mentoring activities on risk management, among others. A mentoring manual is also being developed.

An interesting development resulting from the IDR project is the dynamic government-CSO partnership, particularly at the DOH where the National Movement for Free Elections (NAMFREL) developed and printed user-friendly handbooks on the procurement and delivery of medicines in public hospitals nationwide. The handbook seeks to promote transparency in the procurement process to ensure value-for-money procurement and ensure delivery and distribution of medicines to remote areas, thereby helping the country achieve the MDGs on reducing child mortality, improving maternal health and combatting HIV/AIDS, malaria and other major diseases.

A similar project was rolled out by the OMB at the Ninoy Aquino International Airport (NAIA). Thus, the corruption vulnerabilities of the air cargo handling system at NAIA was studied to enhance the integrity infrastructures supporting air cargo operations at the airport, thereby increasing government revenues and investments as well as improving global competitiveness.

The Resident Ombudsman program of the OMB shall focus on systems reforms-based corruption prevention programs. Around 500 organic/nonorganic resident ombudsmen have been assigned to various national government agencies (NGAs), local government units (LGUs), government-owned and controlled-corporations (GOCCs), government financial institutions (GFIs) and state universities and colleges (SUCs).

The PAGC, on the other hand, was able to cascade the Integrity Development Action Plan (IDAP) to 135 agencies, bureaus, and regional offices. The IDAP is the national anticorruption framework of the executive branch. It is composed of 22 “doable” anticorruption measures clustered into the strategies of: (a) deterrence/investigation and enforcement (making corruption as high-risk, low-reward activity); (b) prevention (systems reforms to minimize opportunities for graft and corruption); (c) education (advocacy to fight the negative perception of the public in the fight against corruption as well as values formation); and (d) strategic partnership (enjoining the support of the public in the fight).

To ensure implementation and to measure the efficiency of the IDAP, the PAGC and representatives from IDAP-participating agencies crafted a set of IDAP indicators using a five-point rating scale. Acknowledging the importance of assessing the impact and effectiveness of anticorruption reforms, the PAGC, in partnership with the United States Agency for International

Development (USAID), developed the Anti-Corruption Scorecard (ACS) that adopts a holistic approach in assessing officials and rank and file employees of the agency; its stakeholders (government and nongovernment); and clients and local surveys. The ACS was piloted in May 2008 at the Bureau of Immigration (BI) and is currently being administered among other IDAP-covered agencies.

The PAGC also initiated a project to strengthen internal audits for effective procurement monitoring and enforcement funded by the World Bank (WB) that ended in June 2008. Outputs include: (a) Report/Survey on the Nationwide Mapping of Internal Audit Activities in the Philippine Government; (b) Quality Assessment Report on Internal Audit Activities of selected government offices; (c) Generic Internal Audit Manual (GIAM), which will be part of the requirements of the WB for their grant/loan-beneficiaries. The GIAM shall be harmonized with the National Government Internal Control Standards (NGICS) so that it could be adopted as GIAM of the Philippine government; and (d) draft customized Internal Audit Manual for National Power Corporation (NPC) and Land Bank of the Philippines (LBP).

Transparency in Government. The COA published in the national newspapers the 2006 consolidated condensed financial statements of national government agencies and GOCCs as well as the financial performance of all LGUs. Annual financial reports and audit reports are also posted in the official COA website.

Procurement Integrity Reforms. The Philippine Government Electronic Procurement System (PhilGEPS) that aims to support a more efficient, convenient, and transparent procurement process was launched on August 28, 2006. By the end of the 2nd quarter of 2008, 87.58 percent of NGAs, 99.49 percent of SUCs, 68.11 percent of GOCCs, and 8.68 percent of LGUs registered with PhilGEPS. Likewise, a total of 6,978 agencies and 29,212 suppliers registered with the system in the same quarter of 2008. The savings generated from the use of the System from 2001 to 2006 was estimated at Php414 million. As early as 2004, PhilGEPS was able to reduce the waiting time for the opening of the sealed bids by more than half in several agencies under the DILG. In the meantime, the Government Procurement Policy Board (GPPB) issued Resolution No. 14-2006 shortening the timelines for the procurement of goods, civil works, and consulting services.

In 2005, the GPPB released the Philippine Bidding Documents (PBDs) Edition II for mandatory use by all government agencies to standardize their bidding documents. The GPPB likewise approved the Generic Procurement Manuals. With these Manuals, procuring entities and officials are now guided by a clear step-by-step tool to help them implement the procurement law. Furthermore, the GPPB has approved several customized procurement manuals specifically crafted for government agencies that have big procurement undertakings including the Departments of Education (DOE), National Defense (DND), and Public Works and Highways (DPWH). In November of 2007, the Local Government Procurement Manual, thru nationwide consultation has also been crafted to make the procurement process in the provinces, cities and municipalities more specific and adaptable to the local setting. Trainings on the use of the PBDs as well as the Generic Procurement Manual have been rolled out. Meanwhile, a Tripartite Code of Conduct for procurement officials, BAC observers, and suppliers/contractors has been drafted.

Operational guidelines on the Bids and Awards Committee (BAC) Observers' Feedback and Complaint Handling Mechanism were also developed by the OMB in partnership with the Procurement Watch, Inc. These guidelines were issued in response to the IRR of RA 9184 giving BAC observers the option to submit observation reports to the Resident Ombudsman's office in

the procuring agency. Likewise in partnership with PWI, the OMB conducted 15 trainings (358 participants) for CSO procurement monitors, observers and trainers.

To enhance transparency in public procurement, the President issued EO 662-A on November 15, 2007 creating the Procurement Transparency Group (PTG). This Group is composed of the GPPB as Head, and PAGC, National Economic and Development Authority (NEDA), DOJ, DBM, DILG, and five civil society organizations (CSOs) designated by the CSO network, as members. The group is tasked to evaluate and monitor procurement activities of NGAs, GOCCs, GFIs, SUCs, and LGUs based on mode of procurement, amount of budget, volume, susceptibility to problems or anomalies and importance of the project to the development growth of the country. The Group is also mandated to strategically deploy trained observers to the BACs and address the issues and concerns gathered by these observers. The IRR of EO 662-A has been approved and took effect on April 14, 2008.

Pursuant to EO 564,² the Pro-Performance System (PPS) was tasked to monitor the Medium-Term Public Investment Program (MTPIP) 2006-2010, especially the State of the Nation Address (SONA) commitments, major infrastructure projects, health and education programs and other projects that the President may identify. The President also issued Administrative Order (AO) No. 210, dated November 22, 2007, directing the PPS and PTG to review the road projects covered by the suspended WB loan; and the PPS and NEDA to undertake regular consultations with foreign funding agencies to minimize, uncover and address anomalies in foreign funded projects.

To help ensure the most cost-efficient project design and avoid the overpricing of infrastructure projects, the NEDA Board Committee on Infrastructure (INFRACOM) approved the guidelines for the Contractors Performance Evaluation System (CPES) for roads, bridges, housing, building, port and harbor, irrigation, and flood control projects while similar draft guidelines for power transmission and distribution projects was prepared by the National Transmission Corporation (TransCo) for review/pilot testing and validation. Amendments to said Guidelines have already been drafted to further improve the Guidelines for each subsector and consolidate them into one general/harmonized CPES Guidelines for Infrastructure. A manual for value engineering (VE) has also been published and 13 SUCs have been accredited to conduct roll-out trainings on VE. A technical assistance from the Australian Government through the Philippine-Australian Partnership for Economic Governance Reforms (PEGR) commenced in June 2008 to provide institution-strengthening and capacity-building activities to NEDA and other oversight agencies to rationalize organizational arrangements and strengthen capacity in value engineering, PPP contract preparation, and performance monitoring of infrastructure projects.

Amendments to the Build-Operate-Transfer (BOT) Law and its IRR were proposed to promote a wider participation of private sector companies in government projects. Public consultations on these amendments were completed in May 2007. Draft guidelines providing the overall framework for joint venture projects were also formulated and subsequently approved in April 2008 by the NEDA Board. To ensure the fair participation of local contractors and consultants in government projects, the IRR of EO 278 was drafted and approved by the NEDA.

Enhancing Efficiency in Service Delivery. The improvement of frontline services to simplify and speed up agency processes is a corruption prevention measure identified under the MTPDP. Capacity-building seminars on delivery of frontline services for OMB personnel and on the establishment of hotline/help desk for the 18 agencies which participated in the IDR exercise were conducted. Some 39 thousand signages of process flows and advocacy messages in the same

² Entitled, "Restructuring the Infrastructure Monitoring System."

agencies were likewise printed and deployed. To facilitate the filing of requests for assistance (RAS), the OMB-RAS hotline service (tel nos. 9262-OMB and 920-3783) and an interactive website were installed.

In line with its public assistance mandate, the OMB conducted four social caravans called “Meet with the Ombudsman” in 2006, five in 2007, and three in the first half of 2008. The social caravans designed to bring government services to people’s doorsteps served a total of 15,545 beneficiaries.

The OMB also established and institutionalized a mediation program that renders meaningful, responsive, and relevant public assistance. As of the first semester of 2008, 556 cases were referred for mediation and 453 of these cases (86 %) were successful resulting in an agreement to settle disputes between parties.

As a preventive anticorruption measure, the Civil Service Commission (CSC) implemented the Public Service Delivery Audit (PASADA), a mechanism to systematically check and evaluate the performance of government’s frontline services, provide commendation for agencies with excellent and efficient services, and assist those needing improvement in order to address inefficiency.

Citizen’s charters, meanwhile, were developed by the DAP for six LGUs such as Laoag, Sorsogon, Digos, Bacolod, Dumaguete, and Iligan cities. A manual on formulating a citizen’s charter was also developed and printed for distribution. The DAP likewise oriented and trained 152 LGU officials on the use of the citizen’s charter toolkit.

The Social Security System (SSS) and the Government Service Insurance System (GSIS) are now receiving positive feedbacks regarding improvements in their operating performance and service quality. On the other hand, a recent survey of the SWS also showed that agencies responsible for the most essential public services such as job creation, education, and health are seen in a positive light by independent business groups.

The National Competitiveness Council composed of the DTI, DOF, DOTC, DepEd, and NEDA, with representatives from the private sector, created the Anti-Red Tape Task Force to monitor improvement in business transactions and costs. One of the identified initiatives of the Task Force is the ongoing e-governance project focusing on the computerization of application and issuance of clearances that is being pilot tested in 50 barangays nationwide.

The Philippine Business Registry Project, an interagency project spearheaded by the DTI aims to eliminate red tape by harmonizing business registration processes among primary agencies involved in business registration. This will be through the development of a web-based registry connected with the databases of DTI, BIR, SEC, Cooperative Development Authority, Intellectual Property Office (IP Philippines), SSS, Philippine Health Insurance Corporation (Philhealth), Home Development Mutual Fund (Pag-IBIG Fund), e-ready Local Government Units (LGUs) and the national government agencies that issue business-related certifications and licenses.

Project implementation will have two phases: Phase I launched in July 2008, enables the online registration of sole proprietorship enterprises by linking the DTI Business Name Registration System (BNRS), BIR e-Reg system for TIN issuance and Business Permit Licensing System (BPLS) of pilot LGUs such as the cities of Kalookan and Mandaluyong. Phase II, on the other hand, is targeted to be implemented by July 2009. This will enable online business registration for partnerships,

corporations and cooperatives as well as connectivity with IP Philippines, SSS, Philhealth, Pag-IBIG and other agencies issuing certifications and licenses such as the Bureau of Food and Drugs (BFAD), Bureau of Fire Protection (BFP), Board of Investments (BOI), Philippine Export Processing Zone Authority (PEZA), Department of Environment and Natural Resources (DENR), among others.

To institutionalize performance excellence in public service through the establishment of productivity enhancing projects/systems, a draft EO has been prepared directing all government agencies and GOCCs to establish Quality Management Systems (QMS) applicable to the Philippines and certifiable with the ISO 9001:2000. LGUs, SUCs, legislative and judicial departments, and constitutional offices are encouraged to develop QMS and pursue certification.

Promotion of Zero Tolerance

Promotion of zero tolerance to corruption in government through societal values formation is one of the anticorruption strategies identified in the MTPDP. To achieve this, various training programs have been conducted through the initiative of the OMB. For instance, seminars on *Ehem!*, in partnership with the Society of Jesus were conducted for 645 personnel involved in procurement in 18 agencies that participated in the IDR exercise. The participants of the seminar include members of the agencies' BAC, BAC Secretariat, Technical Working Group and Inspection Committee.

Public accountability seminars for LGU officials were also conducted by the OMB in Quezon City and the cities of Iloilo, Cebu, Davao and Cagayan de Oro. Similar seminars were also conducted among officers and personnel of the Philippine National Police (PNP) and the Armed Forces of the Philippines (AFP). The OMB also conducted a seminar on anti-red tape and antifixing for key personnel of agencies that attended the IDR. The Career Executive Service Board (CESB), on the other hand, conducted 22 executive leadership program trainings, 17 learning and nurturing programs for CES officials and 30 other accredited trainings.

The PAGC also called for a unified action against graft and corruption during the Regional Development Full Council Meetings of Regional Development Council (RDCs) II, V, VIII, X, XI and XII. Other activities promoting zero tolerance of corruption include the airing of integrity TV shows, infomercials, and the conduct of anticorruption song writing contests as well as multievent competitions with anticorruption themes. Moreover, a regular radio program tackling various corruption issues airs every Tuesday morning on DZRB 738 kHz pursuant to a MOA between OMB and PIA-PBS. OMB-Mindanao also airs a similar radio program in Davao City. The PAGC also launched an intensified advocacy campaign to increase awareness of the public on various initiatives of the government against graft and corruption and at the same time called on the involvement of the public in the fight.

Advocacy activities include airing of infomercials in various television stations and movie houses; production of the TV-series "*Krusada Kontra Korapsyon*" written and directed by Carlo J. Caparas; delivering of spiels in the TV-series "*Dios Ko Mahal Mo Ba Sila?*"; airing of PAGC segment in the "One Morning Show" every Friday, at Channels 4, 9 and 13; distribution of the PAGC newsletter, "The Graftbuster"; conduct of press conferences and distribution of press releases.

Apart from the abovementioned activities, the PAGC Chairman and key officials actively participated in meetings, seminars, and other events organized by different organizations. They also

engaged in radio and TV program interviews to advocate the government's efforts and successes in fighting graft and corruption in the bureaucracy.

Part of the strategy to promote zero tolerance to corruption is the institutionalization of value formation in the educational system. Thus, Graft and Corruption Prevention Teaching Exemplars were developed and 200,000 copies were printed for distribution to 44,412 public elementary and high schools nationwide. These exemplars seek to inculcate positive Filipino values among the student-users such as honesty, integrity, professionalism, and simple living. The OMB also entered into a MOA with DepEd on the integration of these teaching exemplars in the revised basic education curriculum. On the other hand, the EDSA People Power Commission/Good Citizenship Movement conducted 30 Regional and regular Trainers Trainings on Good Citizenship Values Formation for National Service Training Program (NSTP) coordinators and values trainers in all regions (except ARMM) attended by a total of 2,618 participants from 900 schools. It has also conducted two Trainers Trainings on Good Citizenship Values Formation Anticorruption Seminar-Workshop to 77 participants from 24 government agencies. It has promoted Good Citizenship Values to youth groups, local officials, government employees, media, local communities and Filipino communities abroad such as Germany. National Congresses on Good Citizenship in 2006 and 2007 was also conducted and attended by groups promoting values nationwide from civil society, government, schools, religious and business sector to align values formation efforts towards good citizenship and nationbuilding. It maintains a website (www.mygoodmove.org) to link all the promoters of good citizenship values nationwide.

To encourage whistleblowing and voluntary reporting, the OMB in partnership with the Ateneo's Center for Social Policy through the Philippine Province of the Society of Jesus launched *Aha! A Citizen's Primer on Whistleblowing*. The primer provides practical guidance and procedures for potential whistleblowers. The OMB also conducted a seminar on Institutionalizing the Whistleblowing Culture for key personnel of agencies that attended the IDR. The PAGC, on the other hand, launched the "0917 TXT-PAGC" (0917 898 7242) campaign in June 2007 to make it easier for whistleblowers to report observed irregularities through text messaging. On the other hand, a bill on Whistleblowers Protection was drafted and submitted to Congress by the OMB. A public advocacy forum was conducted for the passage of the bill in coordination with AIM Hills Governance.

The MSACC successfully concluded four roadshows in Quezon City (August 2007), Davao City (October 2007), Cebu City (March 2008) and Urdaneta City, and Pangasinan (July 2008), respectively, to increase awareness of the public and stakeholders in the fight against corruption.

Strategic Partnerships

To build a united front against corruption, the OMB forged strategic partnerships with other anticorruption groups such as the AMLC, Office of the Solicitor General (OSG) and the DOF-RIPS as well as business groups (Federation of Filipino Chinese Chambers of Commerce, Mactan Chamber of Commerce and the Mindanao Business Council). On the other hand, PAGC formed partnerships with the AMLC, OSG, NBI, PNP-CIDG and 10 other government agencies (DepED, DAR, DENR, DILG, DOH, DOJ, DPWH, BOC, BIR and NLRC) as well as civil society organizations (CSOs) like the Transparency and Accountability Network (TAN) and the Volunteers Against Crime and Corruption (VACC) to assist in their investigation strategy.

For PAGC's prevention and education strategies, partnerships were forged regarding implementation of the national anticorruption plan or the IDAP to 135 government agencies including

regional offices; nine agency-beneficiaries of the PhP1 billion Presidential Anti-Corruption Fund (PDEA, BOC, BIR, PNP, PCVF, NBI, PCUP, NLRC, and BI); CSOs (Citizens' Crime Watch, San Lorenzo Ruiz Lay Formation, Balikatan People's Alliance, Dilaab, Barug Filipino); members of the academe (Development Academy of the Philippines, University of the Philippines-National College of Public Administration); and donor groups (WB and USAID-ROLE).

The OMB also enlisted the active participation of communities as well as students in anticorruption work by accrediting 39 Corruption Prevention Units (CPUs) and 247 Junior Graft Watch Units (JGUs).

Consistent with the MDG to develop a global partnership for development that includes a commitment to good governance, the OMB has been leading the Philippine delegation of anticorruption agencies in various international fora such as the First Conference of State-Parties to the UNCAC (1st COSP-UNCAC), International Association of Anti-Corruption Authorities (IAACA), Asia Pacific Economic Cooperation (APEC), the Asian Development Bank and Organization for Economic Cooperation and Development (ADB-OECD), and the forum on the return of illicit assets of politically exposed persons held in Switzerland. The present Ombudsman Ma. Merceditas N. Gutierrez was elected Vice-President of the Asian Ombudsman Association (AOA) in mid-2007. Along with other Officials and five members of the AOA's Board of Directors, Ombudsman Gutierrez was elected by the General Assembly for a term of four years, but shall remain in office until a new Board of Directors has been elected. The AOA was established to serve as a regional body for promotion of the principles and practice of ombudsmanship.

The OMB is establishing a consortium of Philippine academic institutions to form an integrity institute envisioned to become an Asian Center of Integrity (ACI). It aims to encourage and support anticorruption study and research; sponsor training and educational programs; collect, store and disseminate information and research data; and facilitate exchange of information and experiences among anticorruption agencies in the region.

Civil Society Participation

The civil society is an important stakeholder in the multisectoral program to curb corruption under the principle of shared responsibility. Various CSO partners undertook anticorruption projects to reduce corruption incidences in government. The TAN developed a Lifestyle Check Guide for CSOs and trained local CSOs on existing anticorruption tools through outreach programs in Luzon, Visayas, and Mindanao. It also undertook an advocacy program for the ratification of the UNCAC. The Coalition Against Corruption, on the other hand, developed handbooks/volunteer guides on pork barrel watch and medicine monitoring, and internal revenue allotment (IRA) watch. It also conducted trainings for CSOs on monitoring these projects.

The PWI, in partnership with the OMB, conducted trainings on the procurement process for BAC observers, monitors and trainers. It also developed a tool to measure the efficiency of expenditure in public procurement and spearheaded the appointment watch in the COMELEC and Supreme Court. The SWS, in partnership with the GPPB, conducted a public opinion survey to gauge the effectiveness and impact of procurement reforms. The Concerned Citizens of Abra for Good Governance (CCAGG), on the other hand, is involved in monitoring government's civil work projects. The G-Watch of the Ateneo School of Government has a project called *Bayanihang Eskwela* while the Evelio B. Javier Foundation, Inc., a member of the MSACC, organized a summit for CSO

members as BAC observers and conducted trainings on government procurement.

Effective public-private sector partnership in anticorruption work was demonstrated when fraudulent activities of a bidder for a DepEd project were detected and forthwith cancelled. The G-Watch, a BAC observer-CSO partner of the OMB detected and reported fraudulent bid documents of the winning bidder to the DepEd resident ombudsman. Soon after, the bidding was declared a failure. The procurement activity of the DepEd involved a PhP50 million project for the supply and delivery of fortified noodles, biscuits and milk.

To maintain wider involvement of the civil society and private sector for transparency and accountability at the national and local levels, the OMB entered into a MOA with the Mindanao Business Council with the assistance of *BISYON* 2020. The OMB also collaborated with other business groups (Mactan Chamber of Commerce and the Federation of Filipino-Chinese Chambers of Commerce) on anticorruption initiatives such as the conduct of lifestyle checks, monitoring of procurement, and public contracts implementation.

Participation of POs/CSOs in Public Expenditure Management was encouraged through House of Representatives Resolution No. 120 allowing these POs/CSOs to participate in the deliberations on the annual budget and to present alternative budget initiative.

Challenges

On the whole, the accomplishments exceeded the MTPDP's targets. The achievements, however, are individual in context. Despite the individual successes, there appears to be little public confidence in the government's capacity to combat corruption as reflected in the Philippines' ranking/rating in international perception surveys on corruption from 2004 to 2007 in Table 21.1.

Table 21.1
Philippines Rating in International Perception Surveys 2004-2007

SURVEY INDICATOR/FIRM	2004	2005	2006	2007
Corruption Perception Index (CPI)/Transparency International (TI) ^{a/}	2.6	2.5	2.5	2.5
Country Ranking in Corruption/Political and Economic Risk Consultancy, Hong Kong (PERC)	4th	2nd	3rd	1 st
Control of Corruption Percentile/World Bank Governance Indicators	35.9	N.A.	27.2	N.A.

^{a/} The higher the CPI score (Max. of 10) & the lower the Country Rank (Best=1), the less corruption and vice versa: low CPI scores with high Country Ranks indicate more corruption.

There are various efforts to combat corruption but the gains are reported on an individual basis. There also appears a lack of a common or synergistic set of actions in this area, resulting in overlapping of efforts by different actors and stakeholders in fighting corruption. Most projects or initiatives dependent on development partners for funding and the lack of coordinated action may result in resources not being distributed equally to various projects or initiatives. The reported

successes thereby fail to create the desired impact as well as generate sufficient attention to affect the ratings/rankings of the Philippines in various surveys.

It appears that the integrity reform initiatives embodied in the MTPDP are concerned primarily with executive agencies and instrumentalities. There is a need to expand these corruption control programs to other branches of government, the LGUs, and the private sector in line with the UNCAC.

Pursuing the anticorruption legislative agenda has always been a challenge. The bills on Whistleblower's Protection, Right of Information, and amendments to RA 6770 (Ombudsman Act) are yet to be enacted into law. The implementation of various anticorruption projects and integrity reform measures, meanwhile, requires sufficient funding. Key players need to strategize the implementation of these projects and initiatives to address this concern.

STRATEGIC FRAMEWORK

The remaining years of the Plan will be devoted to more determined moves to rid the nation of the most despicable aspects of institution-driven corruption and mismanagement.

The OMB, PAGC, COA, CSC, and other government agencies with the collaboration of CSO/NGO actors and stakeholders, will continue to carry out the strategies identified in the MTPDP, with modifications on targets reflective of accomplishments and developments in the first four years of the Plan under the following thematic areas of the NACPA, using UNCAC as framework:

Prosecution measures include: (a) aggressive investigation and prosecution of erring government officials before the Sandiganbayan and the regular courts; (b) disciplinary action against abusive officials; (c) conduct of lifestyle, asset, and integrity checks; (d) forfeiture of ill-gotten wealth; (e) capacity building of the OMB, PAGC, COA, and other anticorruption agencies and CSOs in the investigation and prosecution of corrupt officials; and (f) effective enforcement of anticorruption laws, with the end in view of making corruption a high risk, low reward activity;

Prevention measures include: (a) pursuing amendments to the anticorruption laws and the passage of pertinent new laws against corruption; (b) review and assessment of integrity systems, corruption resistance mechanisms, internal controls, corruption vulnerabilities, and corruption risks; (c) empowering key players in corruption prevention; (d) active involvement and participation of people's organizations (POs)/CSOs/NGOs and assistance of development partners in the fight against corruption; and (e) the introduction of policy and accountability reforms; and

Promotion measures include: (a) promotion of integrity, accountability, and transparency in government and the private sector, including the conduct of seminars on value formation, social marketing of anticorruption successes and stories; and (b) the conduct of various advocacy programs to promote zero tolerance of corruption.

More lifestyle checks will be conducted not only against high ranking officials of national government agencies but also in LGUs, GFIs, SUCs, and GOCCs. The lifestyle checks among the personnel of the BIR, BOC and other attached agencies of the DOF will be more vigorously pursued by DOF-RIPS and more efficiently in order to reduce the time required to complete the probes and increase the success rates in terms of convictions in court or application of punitive measures.

Activities among the different agencies conducting lifestyle checks will be closely coordinated. SALN Databases shall be expanded to cover all agencies and units in government to facilitate the conduct of asset probe.

The conduct of IDR and assessment of integrity systems will be expanded to cover other agencies of the national government and pilot LGUs. The recommendations of the IDR contained in the individual action plans of the 18 agencies that participated in the review will be implemented and other areas or processes will also be reviewed and assessed. The IDR tool will be calibrated and rolled out to LGUs, GOCCs and other agencies with highly specialized functions. Similarly, the IDAP will be expanded to cover more agencies. The efficiency of the implementation of the IDAP in these agencies will be measured using the anticorruption scorecard.

In view of the ratification of the UNCAC, the MSACC, under the chairmanship of the OMB, will push for the passage of laws implementing the Convention. The MSACC will also advocate for the passage of the bills on Whistleblower's Protection, Right to Information, and amendments to RAs 6770 (Ombudsman Act) and 1379 to provide a percentage of the value of forfeited properties from cases prosecuted by the Ombudsman to be earmarked for the Office of the Ombudsman. The MSACC will also support proposed legislations rationalizing the compensation, benefits and other privileges and incentives for the members of the Office of the Ombudsman as well as exempting the BIR and BOC from the Salary Standardization Law.

The institutional frameworks will also be strengthened and the integrity of systems in government agencies will be enhanced, particularly, in the area of procurement. The internal audits of various agencies will be strengthened for effective procurement monitoring and enforcement. The e-NGAS will be installed in more government agencies while the PhilGEPS will be adopted by more GOCCs and LGUs. The use of standardized bidding documents and the Generic Procurement Manual will also be expanded to ensure compliance with RA 9184.

An expanded program to promote integrity, accountability, and transparency will be put in place under the framework of the NACPA-UNCAC. The program includes: (a) conduct of public accountability seminars in government agencies and units; (b) use of anticorruption teaching exemplars in public elementary and secondary schools; (c) information dissemination campaigns using the media; and (d) conduct of roadshows to showcase anti-corruption success stories and involve the community in the fight against corruption.

In line with the UNCAC, the integrity reform initiatives contained in the MTPDP shall be expanded to other executive agencies/instrumentalities, other branches of government, LGUs, and the private sector.

More strategic partnerships will be forged. The OMB strongly supports the intensified drive against smuggling and shall collaborate with the PASG, BOC and other anti-smuggling authorities in the investigation and prosecution of public officials conniving with smugglers. Moreover, the collaboration of more civil society organizations and support of development partners will be elicited to mobilize resources in corruption prevention.

The present sectoral membership of the MSACC under the NACPA shall be expanded to cover other sectors for a more comprehensive and coordinated action against corruption. A single document National Integrity Plan (NIP) that defines the country's anticorruption agenda within the framework of the NACPA, will be developed to serve as a roadmap for the remaining years of

the Plan and beyond. The NIP will serve as a common reference for all anticorruption stakeholders including development partners to minimize overlapping of efforts and enhance resource sharing and complementation among government agencies and the private sector for a collective action. A Monitoring and Evaluation Unit under the MSACC will be established and operationalized to track the implementation progress of various anticorruption projects and initiatives under the NACPA.

SUPER REGIONS STRATEGY

In line with the national government's strategy to provide economic activity and livelihood in the regions, the Investment Promotions Units Network composed of 29 government agencies involved in frontline services signed a Memorandum of Understanding in April 2007 to act within 72 hours on all investment related complaints, if possible, but not more than five or ten days as the case may be, as prescribed by the Anti-Red Tape Law. Network members will work hand-in-hand with DTI's one-stop-shop for local and foreign investors in the super regions.

The Network includes the OMB that is finalizing the operational guidelines for the Investment Ombudsman (IO). Once issued, the IO guidelines will provide IO features and services in the OMB's regional offices in Luzon (Calamba, Laguna), Visayas (Iloilo) and Mindanao (Cagayan de Oro), and other regional offices that will be put up in strategic locations in the future. The IO will act not only in addressing investor/investment related complaints but also in improving business transaction costs and flows, important factors for the sustainability of small and medium enterprises (SMEs), among others. The IO will also enhance the country's national competitiveness in cooperation with the Network.

While economic prosperity is advocated by the government, this is always founded on sustainable development. Thus, the OMB regionalized the functions of its Environmental Ombudsman for faithful observance of environmental regulations as well as act on complaints involving violations of pertinent laws, consistent with the MDG to ensure environmental sustainability.

Chapter 22

Bureaucratic Reforms

Achieving the country's development agenda of reducing the incidence of poverty, sustaining economic growth, and encouraging private investments require the effective and efficient delivery of public goods and services. Thus, aside from achieving the macroeconomic goals, the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 also aims to reform the institutional design, systems, capacities and integrity of government institutions to make them more efficient and effective providers of public goods and services.

ASSESSMENT AND CHALLENGES

The goal of the MTPDP 2004-2010 is to strengthen the institutional capacity of the government for improved public service delivery, and develop a more effective, ethical and accountable bureaucracy. The following core strategies were laid out to achieve the goal:

- Implement the Rationalization Program;
- Pursue sector or department-wide institutional reforms;
- Pursue the passage of the Reengineering Bill;
- Implement the Organizational Performance Indicators Framework (OPIF);
- Improve the level of professionalism, meritocracy, accountability and competence of the civil service;
- Improve the governance of government-owned and or controlled-corporations (GOCCs) and other government corporate entities (OGCEs); and
- Harness the full potential of information and communications technology (ICT) for faster and efficient delivery of public services.

Since 2004, these reforms have been initiated but they have yet to be fully completed or mainstreamed into the bureaucracy. Some of the reforms needed longer time for consultations and implementation than expected, while others were delayed by changes in government priority/strategy or department/agency leadership. The target legislative measures, on the other hand, had to be filed again due to change in members of Congress in 2007.

Implementation of the Rationalization Program

The Rationalization Program, as mandated by Executive Order (EO) No. 366 dated October 4, 2004, aims to transform the Executive Branch into a more effective and efficient government. It directs all Executive departments/agencies to conduct a strategic review of their operations and organizations, to focus government efforts and resources on its core services and improve the quality and efficiency of public service delivery.

Given the date of issuance of EO 366 and its Implementing Rules and Regulations (IRR), the Program implementation was estimated to be completed in 2006, instead of 2005, as originally planned. However, the implementation has been delayed due to the following factors: (a) requests for extension by departments/agencies in the submission of their Rationalization Plans (RPs) because of the consultative process that had to be undertaken; (b) changes in leadership of some departments/agencies and their respective Change Management Team (CMT), requiring another round of review

of the RP; (c) non-conformity of some RPs with the provisions of EO 366 and its IRRs, and with the Organization and Staffing Standards and Guidelines; and (d) requests by departments/agencies for exemption from the moratorium on the filling of positions/hiring of additional personnel that limited the capacity of the Department of Budget and Management (DBM) to complete the review.

A total of 108 organizations, i.e., 20 departments/department-level offices, 28 other executive offices (OEOs) and 60 GOCCs are expected to conduct a strategic review of their respective operations and organizations, and submit their RPs to the DBM. As of December 31, 2008, 81 of these entities or 75 percent have already submitted their RPs. Table 22.1 shows the status of RP submission and evaluation.

Table 22.1
Status of Submission and Evaluation of Rationalization Plans (RPs)
as of 31 December 2008

	No. of Organizations	No. of RPs Approved	No. of RPs Returned for Revision	No. of RPs Being Evaluated	No. of RPs Not Yet Submitted
Departments	20	3	1	14	2
OEOs	28	17	1	9	1
GOCCs	60	11	4	21	24
Total	108	31	6	44	27

Source: DBM

Out of the 81 RPs submitted, 31 have been approved by the DBM. The RPs of ten attached agencies, which are considered part of a department, have likewise been approved by the DBM. This resulted in the abolition of 7,898 regular positions and 1,189 casual/contractual items, and generation of Personal Services (PS) savings amounting to PhP767 million. Incentives and terminal leave benefits paid to those who opted to retire/be separated from government service amounted to PhP280 million.

Aside from the grant of incentives, the DBM, Civil Service Commission (CSC) and other concerned agencies conducted the following activities starting 2005 to mitigate the impact of the Rationalization Program: (a) orientation of the stakeholders on the objectives and features of the Program; (b) assisted the departments/agencies in preparing their RPs; (c) implementation of the Memorandum of Agreement (MOA) entered into with the Government Service Insurance System (GSIS) and the Home Development Mutual Fund (HDMF) to ensure the timely release of benefits to affected personnel; (d) matching the skills of affected personnel with the requirements of beneficiary agencies; and (e) implementation of the Skills/Livelihood and Investment Program.

In addition to the Rationalization Program, EO 444 was issued on July 5, 2005. It directs the Department of the Interior and Local Government (DILG) to conduct a strategic review of the continuing decentralization and devolution of services and functions of national government to local government units (LGUs). The strategic review aims to identify functions, services, programs, projects, and activities of national government agencies that duplicate or overlap with those of the LGUs, and that could further be devolved or decentralized without undermining their vital/core services and mandates and consistent with the provisions of the Local Government Code (LGC).

The DILG, in coordination with the Departments of Agriculture (DA), Environment and Natural Resources (DENR), Finance (DOF), Health (DOH), and Social Welfare and Development (DSWD) as well as the Leagues of various LGUs, has formulated position papers on the devolution of certain functions and services based on the results of the strategic review.

Implementation of Sector- or Department-Wide Institutional Reforms

Aside from the Rationalization Program, institutional reforms in specific sectors and department/agencies were also drawn up so they could better serve the public. In the agriculture, agrarian reform and natural resources (AARNR) sector, the target reforms are to: (a) fully devolve to LGUs the services that were specified in the LGC, Agriculture and Fisheries and Modernization Act (AFMA) and Fisheries Code; (b) address institutional overlaps across the AARNR service agencies; (c) rationalize the agriculture and natural resources research, development and extension system as provided in the AFMA; (d) push for the integration of agencies involved in land titling; (e) shift the institutional structure and operational protocols of the DA from commodity-specific to functional lines; (f) reduce processing time for major regulatory issuances; and (g) restructure the National Irrigation Administration (NIA).

These targets, especially those concerning the organization and operation of AARNR agencies, as well as the devolution of AARNR services, were addressed through the Rationalization Program and the strategic review under EO 444. Aside from these, DA, DAR and DENR converged in the development of agribusiness lands now covering 1.36 million hectares. To consolidate the RDE system, DA, DENR and the Department of Science and Technology (DOST) councils closely collaborated on matters concerning technology transfer and agroforestry priorities, respectively. The passage of the Land Administration Reform Act was pursued to integrate land titling services. The DA also shifted to more market-oriented interventions through its Diversified Farm Income and Market Development Program. In 2008, priority was accorded to the fertilizers; irrigation and other infrastructure program; expansion; research and development (R&D) and capacity building; loans; dryers and other postharvest/post production facilities; and seeds and other genetic materials or so called (FIELDS) Program to enhance the profitability of stakeholders. To reduce the processing time of regulatory issuances, the DA launched the Electronic Sanitary and Phytosanitary Certification System (ESPCS), a web-based application for permits and certifications. NIA, on the other hand, pursued the implementation of the Irrigation Management Transfer (IMT) contracts with Irrigators' Associations (IAs). So far, 774 IAs covering an area of 193,188 hectares have IMT contracts. The NIA RP has been approved by the DBM on April 8, 2008.

In the infrastructure sector, the target reforms are to: (a) strengthen the regulatory capacity of the National Water Resources Board (NWRB), Energy Regulatory Commission (ERC) and Toll Regulatory Board (TRB); (b) separate infrastructure ownership, operation, maintenance and regulation in the rail and air sectors; (c) rationalize the functions of infrastructure-related agencies; and (d) amend the Electric Power Industry Reform Act (EPIRA). These targets have been achieved, except for the reform in the rail sector and the amendments to the EPIRA.

As targeted, the NWRB completed the following capability-building programs in 2006: (a) Integrated Quality Management Development Program; (b) Long-Term Training on Hydrogeology; (c) Institutional Strengthening for the Adoption of the Integrated Water Resources Management using River Basin Approach; and (d) Institutional Training for Effective Economic Regulation.

For its part, the ERC promulgated its Rules of Practice and Procedure through Resolution No. 38, which updated and expanded the Rules of Practice Governing Hearing Before the ERC. Issued on June 22, 2006, said Resolution is composed of 24 rules that expedite, with least expose, every proceeding, consistent with the EPIRA and its IRR and recent Supreme Court pronouncements. The ERC also unveiled its regulatory agenda for 2007 and adopted the Hoshin Kanri Planning Methodology to further focus its efforts on areas where strategic changes are needed. Hoshin Kanri is a method devised to capture and cement strategic goals as well as to give insights about the future and develop the means to bring these into reality.

Through EO 644, issued on July 30, 2007, the TRB was transferred from the Department of Transportation and Communications (DOTC) to the Department of Public Works and Highways (DPWH) to enhance the efficiency and effectiveness of infrastructure programs. Reforms in the rail and power sectors were pursued through the proposed National Railways Act and amendments to the EPIRA that are pending in Congress.

Meanwhile, the target to establish the Civil Aviation Authority of the Philippines in view of international aviation safety standards was achieved through Republic Act (RA) 9497 which was signed into law on March 4, 2008. It provides for the creation of the Civil Aviation Authority of the Philippines, a regulatory body attached to the DOTC with quasi-legislative and quasi-judicial powers. It shall have jurisdiction over the restructuring of the civil aviation system, and the promotion, development and regulation of the technical, operational, safety, and aviation security functions.

In the ICT sector, the targets were to create the Department of Information and Communications Technology (DICT) and strengthen the institutional capacity of the National Telecommunications Commission (NTC) by 2005. These were not achieved. The DICT Bill and NTC Reorganization Bill are pending in Congress.

In the housing sector, the targets were to establish the Department of Housing and Urban Development (DHUD) and the Local Housing Boards (LHBs), and pursue the passage of the Social Housing Finance Corporation (SHFC) Act. Legislative measures to establish the DHUD and LHBs were filed and being deliberated upon in Congress. The SHFC, on the other hand, was created through EO 272 issued on January 20, 2004 as the lead agency for the financing of social housing programs.

In the tourism sector, the targets were to reorganize the Department of Tourism (DOT) and its attached agencies and establish the Tourism Enterprise Zone Authority (TEZA). So far, the DOT has formulated and submitted its RP to the DBM. It also created market teams to coordinate the marketing and promotions activities of the DOT and its attached agencies. The establishment of TEZA was incorporated in the Tourism Policy Act which is pending in Congress.

In the area of cooperative development, the targets were to: (a) amend the Cooperative Code and the Cooperative Development Authority (CDA) Charter; (b) formulate rules and regulations for the supervision and examination of credit cooperatives; and (c) build the capability of CDA in regulating credit cooperatives. The amendments to the Cooperative Code was approved by the Bicameral Conference Committee on November 18, 2008. The Manual of Rules and Regulations (MORR) for Savings and Credit Cooperatives (SCC) was approved by President Arroyo on October 16, 2007. The draft Manual for Supervision and Examination of Cooperatives with Savings and Credit Services, on the other hand, was finalized by a technical working group on January 9, 2009. To further build the regulatory capacity of the CDA, it conducted the Basic Training Course on Supervision and Regulation of Cooperatives with Savings and Credits Services on May 2007 for

members of the CDA Board and staff. It also conducted the Corporate Governance Seminar for the CDA Board.

Passage of the Reengineering Bill

Reengineering would allow for deeper institutional reforms across the Executive Branch through the merger/abolition of departments or the creation of new ones. During the 13th Congress, a consolidated version of the Reengineering Bill has passed the House Committees on Government Reorganization and Appropriations. In the 14th Congress, a similar Bill has been filed in the Senate and was referred to the Committees on Civil Service and Government Reorganization, and Finance.

Given the focus of the government on the completion of the Rationalization Program, it would in the meantime support the sector or department-wide institutional reforms rather than pursue government-wide reengineering.

Implementation of the Organizational Performance Indicators Framework (OPIF)

The OPIF seeks to focus government efforts and resources on clearer outputs and objectives, and enhance the accountability of government agencies by identifying key quality and quantity performance indicators. The target of the MTPDP 2004-2010 was to implement the OPIF in all departments and agencies by 2005.

As of 2007, the OPIF has been rolled out to 20 departments and was used in the preparation of their 2007 budget. These departments have established their logical framework, major final outputs (MFOs) and corresponding performance indicators (PIs) which were compiled and submitted to Congress. In the preparation of the FY 2008 budget, the OPIF was cascaded to the bureaus and attached agencies of the 20 departments as well as to all OEOs under the Office of the President (OP). Their logical frameworks were included in the OPIF document entitled “FY 2008 Performance Budget of Departments/Agencies” which was submitted to Congress in support of the 2008 budget.

In the preparation of the 2009 budget, the OPIF was implemented by all departments/agencies of the Executive Branch, including State Universities and Colleges (SUCs) and the Autonomous Region in Muslim Mindanao (ARMM).

Improving the Quality of the Civil Service

The reforms to improve the quality of the civil service consist of: (a) rationalizing the government compensation and incentive framework; (b) improving merit-based recruitment, performance evaluation and promotion; (c) strengthening the oversight and implementation of civil service policies; and (d) strengthening the civil service and career executive service legal frameworks. While the target was to have the reforms in place by 2005, these were delayed due to the change in Congress and the need for longer time to design and implement the reforms.

One of the key targets was to rationalize the government position classification and compensation system, taking into account the core government functions, market considerations, technological advancements and performance indicators. Hence, the Salary Standardization Law III endorsed by the DBM has been filed and is under deliberation in the House of Representatives. Another target was to rationalize the retirement benefits of government workers. Thus, the DBM reviewed the legal and regulatory framework of existing retirement and pension laws.

To improve merit-based recruitment, performance evaluation and promotion in the civil service, the targets were to implement an ethics-based assessment test, a personnel performance management system and the Human Resource Information System Strategic Plan (HRISSP). In line with these targets, the Ethics-Oriented Personality Test (EOPT) was developed and pilot tested in selected departments/agencies and LGUs. It has also been administered to candidates for Career Executive Officer Eligibility. The Performance Management System (PMS) was also developed and rolled out to selected departments/agencies. The HRISSP was implemented through the design, development and implementation of the Personnel Information Database System.

To strengthen the oversight and implementation of civil service policies, the target was to conduct a capability-building program for Human Resource Management Officers (HRMOs). This was carried out through the development of the Competency-Based Training for HRMOs which contains modules on recruitment, retention, recognition/rewards and retirement.

To strengthen the civil service and career executive service legal frameworks, the targets were to pursue the passage of the Civil Service Code and the bill establishing the career executive system. Both bills were pursued during the 13th and 14th Congress.

Improving the Governance of GOCCs/OGCEs

The target for this strategy was to issue an EO strengthening the oversight of departments over GOCCs/OGCEs within their jurisdiction. This was to enhance the accountability of both GOCCs/OGCEs and supervising departments, as well as to strengthen the overall supervision of the Office of the President (OP) over these entities.

In view of the ongoing rationalization of the operations and organizations of GOCCs/OGCEs, the mode by which to carry out this strategy has been modified. The government would instead enforce performance contracts with the specific GOCCs/OGCEs after their rationalization has been completed.

Harnessing the Full Potential of ICT for Faster and Efficient Delivery of Public Services

To enhance public access to government information and services, the target of the MTPDP 2004-2010 was to put critical government services online and enable LGUs to apply ICT to local services by 2010. In response to these targets, the government has established the *e-Serbisyo* and *e-Bayad* portals which are now both operational. These enable the people to avail themselves of critical government services online.

The e-LGU Project and the LGU Information Portal were also carried out to assist the LGUs in harnessing ICT for local service delivery. The e-LGU Project was implemented to build the capability of LGUs to apply ICT to local governance. As of December 2008, 99 percent of LGUs have developed their own websites and 109 community e-Centers (CeCs) have been established in 109 LGUs. On the other hand, the LGU Information Portal serves as a gateway of information and e-services of LGUs and DILG.

In line with these efforts, the other targets were to establish interoperability standards for the public sector; professionalize the ICT positions in the bureaucracy; and, strengthen the implementation and management of government ICT projects. The 2008-2010 Strategic Roadmap for

the Philippine CeC Program was launched in April 2008, with the goal of establishing a CeC in every municipality by 2010. Moreover, to professionalize the government ICT positions, the Commission on Information and Communications Technology (CICT) formulated the National ICT Competency Standard (NICS) for ICT Specialists in government, CeC knowledge workers, application developers and network professionals. The CICT also shepherded the evaluation, selection and monitoring of priority ICT projects of the government, particularly those implemented through the e-Government Fund. In 2008, 15 projects were endorsed to DBM for funding amounting to PhP1.05 billion.

The target laws and policies to support and sustain these efforts were the Cyber Crime Prevention Law, Freedom of Access to Information Act and the National Cyber Security Plan. The latter was approved by the President in 2005, while the target legislative measures were filed and are still under deliberation in Congress.

The MTPDP 2004-2010 also aims to institutionalize productivity frameworks in the bureaucracy by 2010. So far, 27 agencies have received the International Organization for Standardization (ISO) 9001 Quality Management Standards (QMS) certification. These are:

- Civil Aeronautics Board (CAB);
- Agricultural Training Institute and Bureau of Plant Industry under the DA;
- DOLE-Bureau of Labor and Employment Statistics and Regional Office (RO) VI;
- DOST ROs VI and VII;
- DTI ROs III, IV and XI;
- Land Transportation Office (LTO);
- Metals Industry Research and Development Center;
- Metropolitan Manila Development Authority (MMDA);
- National Maritime Polytechnic;
- NTC-North Luzon Operations and Maintenance, and Utility Management Department;
- Philippine Council for Agriculture, Forestry and Natural Resources Research and Development (PCARRD);
- Philippine Council for Industry and Energy Research and Development (PCIERD);
- Philippine Carabao Center;
- Crime Laboratory under the PNP;
- Philippine Overseas Employment Administration (POEA);
- Bangko Sentral ng Pilipinas (BSP) - Office of Special Investigation, Passport Operations, and Security Investigation and Transport Department;
- Development Academy of the Philippines (DAP);
- National Kidney and Transplant Institute (NKTi);
- Land Bank of the Philippines (LBP)-Trust Banking Group, and Wholesale Lending Department;
- National Electrification Administration (NEA);
- National Food Authority (NFA);
- National Power Corporation (NPC);
- Philippine Economic Zone Authority (PEZA);
- Subic Bay Metropolitan Authority (SBMA);
- National Transmission Corporation (TRANSCO);
- Clark Development Corporation (CDC); and
- City Governments of Makati, Muntinlupa, Puerto Princesa, and Angeles and San Fernando (Pampanga).

The following agencies are working towards their ISO certification: DOH – Bureau of Health Facilities and Services; DOTC; Office of the Government Corporate Counsel; LBP Expansion Program; National Home Mortgage Finance Corporation (NHFMC); Philippine General Hospital (PGH); and Social Security System (SSS).

The institutionalization of QMS was further pursued through the issuance of EO 605 that directs all departments/agencies of the Executive Branch to adopt the ISO 9001:2000 QMS as part of the implementation of the Government Quality Management Program. This is to ensure the consistent production and delivery of public goods and services through quality processes. In this regard, the Government Quality Management Committee has developed and disseminated the Government Quality Management Systems Standards (GQMSS) to guide the departments/agencies in the adoption of relevant ISO QMS and standards.

The government also pursued the institutionalization of the Philippine Quality Award (PQA) in the bureaucracy. The PQA is the highest level of national recognition for organizations that excel in quality and productivity. The following organizations have adopted the PQA as framework for organizational transformation: city governments of Makati and Marikina, NAPOCOR, NEDA RO 1, NKTi, National Statistics Office (NSO), PCARRD, POEA, SSS, and TRANSCO.

Other Bureaucratic Reforms

The government also pursued measures to reduce red tape in all government agencies thereby reducing transaction costs as well as improve competitiveness. RA 9485 or the Anti-Red Tape Act was signed into law on June 2, 2007, while the Anti-Red Tape Task Force was established through EO 557. A related reform was the formulation of citizen's charter in the cities of Bacolod, Digos, Dumaguete, Iligan, Laoag and Sorsogon to enhance transparency and accountability in the delivery of public services. (*Chapter 21: Anti-Corruption*)

STRATEGIC FRAMEWORK

The MTPDP remains committed to its goal to strengthen the institutional capacity of the government for improved public service delivery, and develop a more effective, ethical and accountable bureaucracy. In view of the past accomplishments and challenges in pursuit of this goal, the priority strategies for 2009 to 2010 are the following:

- Complete the Rationalization Program;
- Pursue sector or department-wide institutional reforms;
- Fully implement the OPIF;
- Institutionalize productivity enhancing measures in departments/agencies, especially in frontline agencies;
- Improve the level of professionalism, meritocracy, accountability and competence of the civil service;
- Improve the governance of GOCCs/OGCEs; and
- Harness the full potential of information and communications technology (ICT) for faster and efficient delivery of public services.

Building on past gains and developments as well as responding to emerging challenges and opportunities, the target activities and outputs for the remaining Plan period will focus on the completion or institutionalization of the desired bureaucratic reforms.

Completion of the Rationalization Program

The Executive Branch will complete the strategic review of its operations and organization, as well as the implementation of the approved RPs by the first semester of 2009. Capability-building programs for retained personnel will also be developed and implemented, and impact mitigation measures for affected personnel will be continued.

With regard to the results of the strategic review under EO 444, policy reforms in support of decentralization and devolution will be formulated and carried out.

Implementation of Sector or Department Wide Institutional Reforms

Sector or department wide reforms that are beyond the scope of the Rationalization Program will continue to be pursued through legislative measures or customized capability-building programs. These include reforms in the agriculture, infrastructure, ICT, housing and tourism sectors, as well as in the area of cooperative development.

Full Implementation of the OPIF

To further ingrain efficiency and accountability in public service delivery, the efforts of the DBM in expanding the implementation of the OPIF will be continued. The OPIF-based budget will be implemented in all departments/agencies of the Executive Branch, ARMM, SUCs and group of agencies with fiscal autonomy.

Institutionalization of Productivity Enhancing Measures in Departments/Agencies

Productivity and performance excellence will be fostered in the production and delivery of public goods and services through the adoption of the ISO 9001:2000 QMS and PQA in government organizations. The GQMSS will be continually advocated and implemented in departments/agencies to facilitate the use of ISO 9001:2000 especially in frontline services. The PQA will also be continually advocated and adopted as a framework for organizational transformation.

Improving the Quality of Civil Service

The government will continue to advocate for the passage of legislative measures that would rationalize the government position classification and compensation system, and the retirement laws. Other bills that will be pursued are the Civil Service Code and the establishment of the career executive system.

In line with efforts to enhance productivity in the public sector, the government will continue to develop and implement simple and effective tools for merit-based recruitment, performance evaluation and promotion in the civil service. The capability of the HRMOs will be enhanced so they could more effectively carry out civil service policies.

Improving the Governance of GOCCs/OGCEs

Performance contracts that are specific to the mandates and targets of GOCCs/OGCEs will be established and enforced to ensure their operational and financial efficiency.

Harnessing the Full Potential of ICT for Faster and Efficient Delivery of Public Services

The *e-Serbisyo* and *e-Bayad* portals and the LGUIP will continue to serve as gateways for government information and services. At the local level, LGUs will be enabled to do online transactions. At the national level, CIOs will be appointed in all departments/agencies and trained based on the NICS. Common applications and standards for departments/agencies will also be developed. The e-Government Fund will continuously be institutionalized to finance priority ICT projects of the government. To secure the online environment, the National Cyber Security Plan will also be implemented and the National Public Key Infrastructure will be established. To sustain these reforms, the passage of the Cyber Crime Prevention Act, Convergence Law and Freedom of Access to Information Act will be pursued.

SUPER REGIONS STRATEGY

In line with the efforts of the government and the private sector to jointly develop the Cyber Corridor across the super regions, ICT will be harnessed to improve the delivery of and access to public services. The key bureaucratic reforms earlier mentioned include the development of portals for public information and services, and building the capability of national and local government institutions and the public on the development, use and maintenance of ICT-based systems. There are also target legislative measures to ensure public access to and security from electronic transactions. These reforms are expected to enhance the transparency and efficiency of, as well as increase access to, public information and services.

Chapter 23

Defense Against Threats to National Security

The Philippines has continued to face diverse sources of instability and challenges from both its internal and external security environment that have adversely affected the country's security and stability.

The Communist Party of the Philippines-New People's Army-National Democratic Front (CPP-NPA-NDF) continues to pose a politico-military threat and remains the main internal security concern. Similarly, the Southern Philippines Secessionist Groups (SPSGs), the Abu Sayyaf Group (ASG), and Jemaah Islamiyah (JI) and other terrorist groups are also likely to strive to intensify their parliamentary struggle and mass recruitment work.

As the defense establishment fulfills its mandate, it shall transform itself into a highly mission-capable, strong and responsive defense organization through the implementation of the Philippine Defense Reform (PDR) Program. The PDR introduces comprehensive, institutional and systemic reforms to enable the defense establishment to efficiently and effectively perform the following seven defense mission areas:

- Internal Security;
- Territorial Defense;
- Disaster Risk Management and Response;
- Support to National Development;
- International Defense and Security Engagement;
- Humanitarian Assistance and Peacekeeping Operations; and
- Force Level Command and Control Training and Support.

ASSESSMENT AND CHALLENGES

The defense establishment has been effective in guarding against external and internal threats to national peace and security and providing support for social and economic development. The Armed Forces of the Philippines (AFP), in particular, is mandated to uphold the sovereignty, support the Constitution and defend the Philippine territory against all enemies, foreign and domestic; promote and advance the national aims, goals, interests and policies; and plan and organize, maintain, develop and deploy its regular and citizen reserve forces for national security.

Assessment and AFP Operational Accomplishments

Internal Security

The country is faced with various threats to internal security coming from the CPP/NPA/NDF, the SPSGs such as the Moro Islamic Liberation Front (MILF) and break-away factions of the Moro National Liberation Front (MNLF), and terrorist organizations like ASG and JI. These threat groups consistently demonstrated their capability to sustain their movements. They have established linkages with international allied groups for financial and logistical support. Likewise, they conducted guerilla

operations and terrorist activities to create an atmosphere of insecurity. The CPP/NPA/NDF displayed resiliency in its ability to conduct agitation and propaganda and at the same time advance the armed struggle to a higher level.

The enhanced National Internal Security Plan (eNISP) provides the basis for the AFP's internal security strategy in addressing the various threats to national security. The eNISP provides the general framework and policy guidelines for coordinating, integrating and accelerating the overall government holistic response to insurgency nationwide. **Under this framework, the AFP conducts military operations with the primary aim of eliminating the insurgents' armed components, and at the same time implementing the AFP's role in support of national development.**

Internal Security Operational Accomplishments

Against the Communist Terrorist Movement (CTM). As of 2007, the troop strength of the CPP-NPA NDF has been reduced to 5,760. This strength is the lowest level for the CTM for the past 20 years since their resurgence in 1987 and breaching the 6,020 mark in their lowest strength level recorded in 1995. Despite the optimistic projection of the Unified Commands, the rate of dismantled guerilla fronts has fallen short of achieving the target goals but they are still on track in meeting their targets.

Against the Moro Islamic Liberation Front (MILF). The AFP has **controlled the territorial expansion of the MILF. For the period under review, there was a net decrease of 140 members in MILF strength from 11,778 in 2006 to 11,638 in 2007.** The ongoing negotiations resulted in the decrease in armed engagements while the peace mechanisms to include the efforts of the International Monitoring Team (IMT) resolved isolated cases of armed engagements.

The AFP's operations coupled with other government initiatives compelled the MILF to abide by the peace process and have drastically reduced the number of armed incidents with the group. Likewise, existing peace mechanisms immediately resolved isolated cases of armed engagements, ensuring the prospects of a continuing peace accord with the group.

Against the Abu Sayyaf Group (ASG). The AFP initiatives reaped significant accomplishments in terms of decreasing ASG strength by 69 terrorists or a 15 percent net reduction as of June 2008, thus placing their manpower strength to just 383 terrorists from 452 terrorists in 2006. However, there was a net increase of four percent in their firearms due to combat losses of the AFP and the number of affected barangays increased by one. In addition, AFP operations caused the neutralization of several top personalities, among them were Jainal Antel a.k.a Abu Solaiman and Jumdam Jamalul a.k.a. Black Killer. In general, the AFP was relatively successful in further reducing the capabilities of the ASG.

During the period under review, the ASG used modern technology to solicit financial support by plugging-in its long-dead commanders in the popular "YouTube" Internet video portal but failed to generate the needed support. In the video interview, the ASG terrorists expressed exhaustion at being chased by military forces and admitted their **loss of capability in launching large-scale attacks.** The AFP has been relatively successful in preventing the ASG's resurgence, punctuated by the rare incident of major violence in the **first semester of 2007. Nonetheless, intensified efforts are needed to completely neutralize the ASG leadership.**

Coast Watch South

The Coast Watch South (CWS) project was developed and implemented to enhance maritime security in southern Philippine waters to address current and emerging security threats and safeguard national interest. The concept was developed by the Philippine Navy in coordination with other government agencies involved in maritime security. The CWS will enhance AFP's ability to monitor the transit of people in the Celebes, Sulu and Sulawesi seas. Australia is continuously helping the Philippines in developing the CWS project for the country's maritime security/maritime surveillance capabilities.

A centralized command and control facility is being developed to serve as the hub of operations of all agencies involved in this project. This facility shall have the capability for maintaining databases that are accessible through a secured communication system linking the whole coast watch system architecture.

Legal Offensive

Military commanders have been directed to implement the Inter-Agency Legal Action Group (IALAG) at the regional and provincial levels. This will ensure coordinated effort in the filing of appropriate criminal charges against OB-listed ranking CTM personalities. It will also strengthen legal offensives by documenting evidences, help in assisting witnesses and liaising with the DOJ regional offices to organize formidable panel of prosecutors in high profile cases.

Territorial Defense

The defense establishment designed an external defense strategy that includes, among others, the leveraging of alliances and the use of the country's military capabilities and resources. A Unilateral External Defense Plan was formulated to repel foreign enemy aggression from within and outside the Philippine territory through the use of all conventional and unconventional forces as well as the mobilization of reserve forces.

Separate plans were developed to assert the country's territorial rights over Scarborough Shoal, its outlying areas and the exclusive economic zone. The AFP is ready to protect RP-held islands/islets and deny claimant countries from expanding their activities and foothold on the Kalayaan Group of Islands. The AFP carried out territorial sovereignty air sorties, maritime patrol missions and limited electronic surveillance to keep up with these plans.

In guarding against economically harmful foreign intrusions, a total of 54 incidents were recorded in 2006 wherein PhP542 million worth of smuggled goods were confiscated by the AFP. Likewise, 51 fishing boats with PhP31 million worth of fish catch and fishing paraphernalia were held for illegal fishing. Additionally, 139,484 board feet of lumber and lumber products worth PhP55 million were confiscated and 24 sacks of ammonium nitrate, a substance used for manufacturing explosives, were recovered.

Naval Intelligence gathered and processed 1,327 Summaries of Information (SOIs) on foreign intrusions/illegal poaching by fishermen from the People's Republic of China, Taiwan ROC, Hong Kong (China), Malaysia, Vietnam and Indonesia entering the waters of Palawan, Batanes and southern Philippines in 2006. Likewise, 48 aerial photo reconnaissance/sovereignty patrols in Philippine waters were conducted.

On naval operations, 8,589 missions were conducted by Naval Forces of the AFP during the period in support of Internal Security Operations (ISO), specifically in transporting troops during the conduct of operations, naval blockade and maritime interdiction. The Naval forces also conducted 27 patrol missions and two sealift missions while the Naval Air assets logged a total of 12 air missions where seven foreign vessels were apprehended with 56 persons and 509 significant information obtained.

Disaster Risk Management and Emergency Response

Disaster Response

The National Disaster Coordinating Council (NDCC) crafted the Four-Point Action Plan on Disaster Preparedness to enhance its disaster response capability. It identifies NDCC's priority programs, **namely:**

- *Improvement of the forecasting capabilities of PAGASA and PHIVOLCS.* This program is supervised and coordinated by DOST. Both agencies conducted specialized training programs and formal education for their respective staffs under the sponsorship of foreign organizations and the Philippine government, **and strengthened their linkages and networking with foreign forecasting institutions;**
- *Launching of the Public Information Campaign on Disaster Preparedness dubbed as "Safe Ka Ba?"*. Through information education and communication (IEC) campaign materials such as posters, flyers, radio and TV commercials, instructional video, and pastoral letters were produced by the NDCC to reach out to the remotest barangays for its advocacy campaign on disaster preparedness. The Council also conducted safety drills and simulated exercises in selected areas;
- *Capacity building for LGUs.* This aims to enhance the knowledge and know-how of the local chief executives on the rudiments of disaster management; **and**
- *Collaborative Partnership Program.* This program aims to strengthen NDCC linkages with government and private sector as its organized partner in relief and rehabilitation.

The NDCC coordinated with the Local Disaster Coordinating Councils (LDCCs) and Regional Disaster Coordinating Councils (RDCCs) in issuing advisories. This ensures further dissemination of warning bulletins and precautionary measures in areas affected by destructive cyclones to make the people prepared when disastrous typhoons occur. Likewise, warning information and flood advisories were disseminated to all municipalities affected by destructive tropical storms.

Disaster Relief and Administration

The AFP's disaster relief operations in various communities during disasters. In 2007, the AFP Disaster Response Task Force (AFPDRTF) conducted 262 search and rescue operations, 145 relief operations, 97 rehabilitation/clearing operations, 93 transport operations and 27 aerial reconnaissance operations. Several air and naval resources as well as 9,655 AFP personnel, were used for these operations. A total of 78,203 persons were evacuated, rescued or transported during the occurrence of destructive typhoons.

The Office of Civil Defense-National Disaster and Coordinating Council (OCD-NDCC), for its part, facilitated emergency response to the destructive typhoons in 2007. A total of 51,999 sacks of rice assistance were released. The Calamity Fund/Quick Response Fund (CF/QRF) worth PhP1.99 million and financial assistance for casualty victims (dead and injured) amounting to PhP10.2 million, as well as relief and rehabilitation assistance amounting to PhP334 million, were also received by NDCC from other member-agencies for distribution.

Civil Protection and Preparedness

A Civil Protection and Preparedness program was launched by OCD. It aims to inform, educate, and train the various stakeholders on civil defense and assistance measures to enhance their competencies and capabilities in responding to and mitigating the effects of disasters and other emergencies.

The NDCC through OCD also conducted simultaneous nationwide Earthquake Drills participated in by both public and private schools. The Nationwide Water Search and Rescue (WASAR) Training of local government and volunteer rescue groups also implemented the 5-year Program for Enhancement of Emergency Response (PEER) in collaboration with the Miami-Dade Fire Rescue Department (MDFRD) and the Office of United States Foreign Disaster Assistance (OFDA) of USAID. This program aims to improve the performance of Medical First Responders (MFR) and Collapsed Structure Search and Rescue (CSSR) personnel and agencies in India, Nepal, Indonesia and the Philippines.

Support to Nation Building

The following programs were implemented by the AFP as part of its convergence efforts in addressing armed conflicts in consonance with the government's Ten-Point Agenda:

The Kalayaan Barangays Program (KBP)

The AFPNDSC, through its Corps of Engineers, completed 377 out of the 501 KBP projects approved in 2005, or 75 percent accomplishment in terms of school buildings, water systems and farm-to-market roads, among others. As of July 15, 2008, the AFP has completed 230 school buildings, 112 water supply and 41 farm-to-market roads. The projected infrastructure project of the program is envisioned to benefit 600 barangays each year until 2010.

During 2005 to 2007, the AFP participated in 31,589 nongovernment organization (NGO)-led community development activities, conducted 13,530 Medical Civic Action Programs (MEDCAPS), supported 3,225 Engineering Civic Action Programs (ENGCAPS), and conducted 1,277 environmental protection activities in support of community development.

The Office of the Presidential Adviser on the Peace Process (OPAPP) continues to **undertake** and prioritize the livelihood, employment projects and social services for the identified conflict-affected barangays. These civil affairs' developmental and sociological activities have high impact in gaining public support.

The Department of National Defense (DND)-AFP *Balik-Baril* Project (BBP)

The *Balik-Baril* Project under the Civil Military Operations of the AFP aims to get rebels to abandon their armed struggle against the government, return to the fold of the law, surrender their firearms, validate their legitimacy and give them monetary incentives which is part of other government grants and benefits, through the different authorized Commands and Units of the AFP.

As of June 2007, the AFP processed a total of 52,562 rebel returnees (RRs) who turned in a total of 26,419 firearms and 3,580 explosives.

From 2005 to 2007, the AFP continued its effort to win the hearts and minds of the people by enhancing its working relations and coordination with NGOs and people's organizations (POs). About 376 POs were assisted and **4,483 meetings initiated by NGOs and POs were attended by AFP officers** thereby improving relations with NGOs and POs at the local and national levels.

With strengthened relationship with LGUs and local government agencies (LGAs), the AFP participated in **284 monthly meetings of Peace and Order Councils (POC) and Disaster Coordinating Councils (DCC)** in the municipal and provincial level meetings. LGA offices were visited and 1,250 interagency coordination meetings were conducted. The AFP also participated in 188 government poverty reduction/alleviation programs (*i.e. KALAHI*).

The DND Defense Planning Guidance for the period 2007/2008-2013 provides credence to the birth of the AFPNDSC. The guidance emphasized AFP's developmental role in internal security operations and support to Civil Military Operations (CMO) and **Strategic Communications to improve** the KBP and the socioeconomic component of *Kapit-Bisig* to help attain the President's timeline to end insurgency by 2010.

International Defense & Security Engagement

The DND-AFP remains engaged with counterparts from the Asia-Pacific region to enhance the country's self-defense capabilities and ability to operate with partner militaries. Cooperation with allies and partners continues to enhance defense and military skills, competencies and capabilities of DND-AFP personnel. The interoperability with regional militaries especially for disasters and humanitarian assistance is enhanced by generating economic and other types of support from allied countries.

Defense and strategic dialogues with the US, Australia, South Korea, Brunei, Indonesia and China built confidence, trust and understanding among these respective defense sectors. Through these dialogues, improvements are expected in areas on PDR, counter-terrorism, maritime security and peacekeeping operations.

The RP-US Security Engagement Board, which is the latest military-to-military platform between AFP and USPACOM has allowed the Philippines to pursue activities that will address terrorism, disaster, pandemic, and transnational crimes.

The DND-AFP generated training grants and equipment assistance amounting to US\$15 million under the US Fund 1206 and worked out the provision of US\$500,000 peacekeeping/capability assistance under the Global Peace Operations (GPO).

The DND-AFP also negotiated the new framework for defense cooperation through the following:

- RP-Australia status of Visiting Forces Agreement;
- RP-Brunei status of Forces Agreement (SOFA);
- RP-Malaysia SOFA; and
- RP-Singapore SOFA.

Humanitarian Assistance & Peacekeeping Operations

The AFP complied with its peacekeeping obligations by sending personnel to various missions of the United Nations and European Union missions to serve as either as Philippine contingent, military observers, PKF staff, staff stress counseling officers, military training advisers and/or members of Monitoring Missions.

Per UN records, the Philippine Government contributed a total of 665 personnel to the UN peacekeeping operations. The Philippine contribution consisted of 327 troops (military contingent), 326 personnel from the PNP on police duties, while 13 others served as military observers. As of December 31, 2007, 352 AFP personnel consisting of 54 military officers and 298 enlisted personnel had been sent to UN missions. These contributions ranked the Philippines as 27th among the troop-contributing countries to UN operations supporting UN missions, ninth among Asian country contributors, and second to Indonesia among Southeast Asian countries.

Force Level Command and Control Training and Support

DND Central Level Administration and Support

- *National Defense Security Policy Advice.* The Defense Department formulated the Defense Strategic Policy Framework (DSPF), the first comprehensive statement on the Department's strategic international and defense policies. The Framework defines the nature of the said policies to achieve the Department's constitutional duty of serving and protecting the Filipino people. This Framework links defense to a wider realm of national security policy and strategy. It is one of the key products of the Multi-Year Capability Planning System (MYCaPS) that provides direction to the formulation of the Defense Capability Development Framework to address future capability needs and medium-term capability upgrade.
- *Defense Policy.* The Defense Policy was crafted to define the direction on the use of the country's defense resources as a whole to ensure national security and protecting vital interests. It is concerned with strategic direction for defense capability development to determine the size, shape and force mix of the AFP within a given force development construct. This is one of the policies that provide the broad direction for the formulation of the operational policy.

The Defense Planning Guidance (DPG) for 2009-2014 was approved by the Secretary of National Defense as an authoritative statement of defense policy and strategy, and translates the 18-year Capability Development [a Long-Term Capability Planning System (LTCaPS) product], into a set of medium-term (six years) capability intentions and quantitative capability targets. The DPG also set out the medium-term financial limits for each major defense program namely: Program 1 -

Philippine Army; Program 2 - Philippine Air Force; Program 3 - Philippine Navy; Program 4 - GHQ, Unified Commands & AFPWSSUs; and Program 5 - DND Proper.

- *Defense Strategic Management.* The Medium-Term Capability Planning Systems (MTCaPS) is continuously implemented in the Defense department with a six-year planning (one presidential term) period. This system makes use of the options developed during the LTCaPS in the development and prioritization of requirements that will address immediate capability gaps and shortfalls under realistic financial constraints. A review and evaluation of the performance of the programs is carried out twice a year.
- *International Policy and Defense Relations.* The Defense International Policy was developed to provide the strategic direction to bilateral and multilateral defense engagement with strategic partners including regional and international organizations to promote the aims of the state overseas.

The Defense Department conducted 8 bilateral and 12 multilateral meetings for 2007, which served to promote DND advocacies on PDR, Civil Military Operations (CMO) as well as the need for inter-operability in the region for search and rescue, and pandemics, among others.

- *Human Rights Cases and Extra Judicial Killings.* In support of the DND-AFP policies to uphold human rights, the AFP Human Rights Office (AFPHRO) was established in February 2007 as a special office under the Chief of Staff of the AFP that will focus on human rights and the national implementation of the International Humanitarian Law (IHL). An advocacy on the Rule on the *Writ of Amparo* promulgated by the Supreme Court on October 11, 2007 to suppress extra-judicial killings and disappearances was also conducted.

Additionally, the DND-AFP supported the Philippine ratification of the 1977 Protocol in addition to the 1949 Geneva Convention on the protection of victims of international armed conflict (Protocol I). For the period covered, a total of 451 AFP personnel attended 18 various trainings and seminars on Law of Armed Conflict related to HR and IHL. This was jointly organized by the International Committee of the Red Cross (ICRC) which aims to prepare these personnel as instructors and lecturers of HR and IHL subjects.

The AFPHRO also coordinated with other agencies and monitors and pursued 14 cases of violations of HR against 24 military personnel while 240 HR complaints were filed against the CTM.

Armed Forces of the Philippines

- *Personnel Administration.* The following are the salient accomplishments in support of AFP personnel development: (a) Introduction of the Combat Incentive Pay (CIP) which recognizes the sacrifices of military personnel in combat operations; (b) Initiation of the cleansing of the list of military pensioners, which are expected to save government funds; (c) Introduction of the concept of absentee voting; (d) Improvement of the promotion system; (e) Decrease in the shortfall in military housing; and (f) Improvement of the surgical capability of major military treatment facilities.

- *Doctrine Development.* The revitalization of the AFP Doctrine Development Center (AFPDDC) was facilitated through AFP GHQ Staff Memo No. 02, dated February 20, 2007, entitled General and Specific Functions and Organization. A total of 36 manuals is up for promulgation or publication and 49 manuals for review and evaluation. To date, a total of 141 AFP doctrine-manuals were at various levels of development while 54 doctrine-manuals are undergoing research and formulation by their respective doctrine developers.
- *Reserve Force Development.* For the period under review, the Reserve Affairs Administration successfully conducted conferences, workshops and visits/inspections to enhance personnel capabilities. The computerization and mustering activities for the Reserve Officers and EP for the Reserve Manpower Development were also conducted with the procurement of 1,189 Reservist Officers and the incorporation of 18,022 officers and EP into the Ready Reserve Units and 98,932 Officers and EP into Standby Reserve Units. Likewise, individual training of ROTC cadets was strongly pursued.
- *Logistics Management.* The DND-AFP implemented the automation of Petroleum Oil Lubricants (POL) issuance; increased the outsourcing activities; and explored the logistics practice that is adaptive to the rapidly changing environment. Under this area, the AFP developed the following programs: (a) Revitalization of the Self-Reliant Defense Posture (SRDP) Program in order to develop the AFP's defense capability; (b) Advancement of the Philippine Defense Reform logistics initiatives, such as the creation of the AFP Munitions Control Center; (c) Enhancement of International Logistics Cooperation with allies and regional neighbors; (d) Professionalization of logistics as an occupational specialty and as a dynamic organization; and (e) Formulation of Policy on Infrastructure Projects including Inter-Agency Transferred Funds (IATF) projects.
- *Communications-electronics systems.* To ensure its operational readiness, the AFP set up previously unused communications facilities to link AFP units deployed in remote areas. The AFP upgraded and revised its information systems involving major services. It also conducted various trainings to enhance the competencies of personnel on signal communications and information systems.
- *AFP Modernization.* The President approved the list of projects under Phase 1 of the AFP Capability Upgrade Program (CUP) Reprioritized List amounting to PhP11.2 billion. The AFP CUP was implemented within the framework of RA 9184 (Government Procurement Reform Act), with projected residual funds of approximately PhP1.2 billion from the acquisition strategies implemented, primarily through public bidding.

The AFP CUP upgraded AFP's firepower, mobility and communication capabilities. Several projects under the AFP CUP have been implemented, such as: the Squad Automatic Weapon (SAW) Acquisition Project; 1¼-ton Troop Carrier Acquisition Project; 20-Watts Man-Pack Handheld Radio Acquisition Project; and 5-Watts Handheld Radio Acquisition Project.

As of December 31, 2007, projects under Phase 1 were under different stages of acquisition including some partial deliveries. Two projects under the AFP CUP Reprioritized List completed and delivered were: (a) Philippine Air Force (PAF) UH-1H Refurbishment 2 (EDA items) - six aircrafts worth PhP442.700 million delivered on May 15, 2007; and (b) Philippine Navy (PN) V-150 LARSU Upgrade 1 - 12 units worth PhP170.821 million delivered on March 19, 2007.

Another significant development during the year was the release of PhP5.2 billion Special Allotment Release Order (SARO) for the acquisition of brand new helicopters for the PAF (specifically the Light Utility and Night Attack helicopters). The CSAFP approved the Circular of Requirements and Project Management Plan of these projects in September 2007.

In addition, the Capability Development Board started the deliberation of projects under Phase 2, in anticipation of the release of the PhP5 billion allocation under the General Appropriations Act (GAA).

- *Philippine Defense Reform*

The comprehensive programs under the Philippine Defense Reform (PDR) improved the capability of the defense establishment to respond to current and emerging national security threats. The PDR seeks to institutionalize long-term systemic changes within the DND and the AFP. It complements the AFP CUP by providing long-term viability of acquired capabilities. The following are the accomplishments in each of the 10 PDR Programs:

Program 1 (Multi-Year Defense Planning System) - The Defense System of Management is now operational, optimizing the limited resources in attaining the defense objectives and prioritized mission areas. The Defense Planning Guidance (DPG) 2009-2014 was approved and issued, incorporating the lesson learned from the second cycle of the DPG 2007-2012 for more coherent and responsive DND/AFP Planning, Programming, and Budgeting System (PPBS).

Program 2 (Improvement of Intelligence, Operations and Training Capacity) - The Philippine Army (PA) began to address its training backlog under the enhanced Battalion Retraining Program. The PA battalions are being filled up with personnel and their equipment refurbished. There are three “quick win” projects under this program, namely: (a) Battalion of Excellence Program (PA Retraining Program and Squad Leaders Training); (b) Intelligence Upgrade/Modernization Plan (Intelligence as primary Armed Forces Occupational Specialty and Area Research Centers); and (c) Health Service System. PAF is in the process of acquiring equipment for field hospitals and is developing its aeromedical evacuation capability and finalizing medical equipment to be procured through financial management system (FMS);

Program 3 (Improvement of Logistics Capacity) – To improve the Armed Forces’ logistics capacity, the Integrated Logistics Management System is laying down the foundation for the Supply Management Information System (SMIS). Additionally, through the PDR, AFP Operational Readiness rates were improved from 45 percent to 68 percent on the following platforms: M35 trucks, C-130 transport planes and UH-1 H helicopters. Also, there is an improved Inventory Control to speed up the issuance and delivery of supplies in the frontlines;

Program 4 (Professional Development Program) – To continually enhance the Force Structure Development of the AFP, the following initiatives were accomplished: (a) approval of the Table of Organization and Equipment (TOE) for Infantry Battalions and Marine Rifle Battalions in support of the Battalion of Excellence Program; (b) implementation of Attrition Regulations to support the Battalion Upgrade Program, (c) drafting of Force Structure Development Standard Operating Procedures to define the process of force structure development; and (d) review of the Personnel Management’s 15-Year Strategic Plan to align with PDR efforts;

Program 5 (Personnel Management System) – The Program Management Committee was created by the DND/AFP together with various “quick-win” projects, namely: Transition Assistance Project (TAP); Phased Recall of Military Personnel, Discipline, Law and Order Clearance System, Training Utilization Project; and the Comprehensive Information Campaign on Resolved and Ongoing Cases;

Program 6 (Multi-Year Capability Upgrade Program) – The AFP has devoted the first year of the six-year AFPCUP plan to support ISO requirements. The administrative processing for projects lined up under this tier is presently undertaken;

Program 7 (Optimization of Defense Budget and Improvement of Management Controls) – The reengineering and reorganization of the Defense Financial Management System is ongoing. This includes the automation of the system to ensure real-time reporting of DND-wide financial transactions. To complement this, the budget of the DND-AFP is being prepared in line with the Defense Resource Management System (DRMS);

Program 8 (Centrally-Managed Defense Acquisition System) – Reforms in the procurement system were implemented to promote transparency, efficiency, and accountability. To ensure greater transparency in the procurement process, a Memorandum of Agreement (MOA) was concluded between the DND and the Coalition Against Corruption, Makati Business Club, Bishops-Businessmen Conference and the Philippine Bar Association. The procurement process in the AFP and the civilian bureaus was decentralized for greater efficiency. The Generic Procurement Manual and Standard Bidding Documents and Forms was pilot-tested in the DND and AFP. In the last quarter of 2007, the Government Procurement Policy Board (GPPB) approved the Customized Procurement Manual of the DND and the AFP;

Program 9 (Developing Strategic Communication Capability) – In order to develop this capability in the DND/AFP, a Program Management Committee has been created. The Civil-Military Operations (CMO) Road Map is being developed within the context of strategic communication. Furthermore, in line with this, the following activities were carried out:

- Peacekeeping through the Kalayaan Barangay Program;
- Construction/rehabilitation of the Halls of Justice in conflict areas in Mindanao;
- Incorporating a socioeconomic component of the *Kapit Bisig* Framework;
- Support to GRP-MILF peace negotiations; and
- DND-AFP *Balik-Baril* Project;

Program 10 (Information Management Development Program) – A defense-wide integrated system was established to enhance the information management program of AFP. This includes a Command and Control System and a common information infrastructure. The Interim Nationwide Data Communication Infrastructure and Integrated DND Exchange is the “quick-win” project under this program.

Government Arsenal (GA)

The GA manufactured ten million rounds of assorted small arms ammunition, which is 38.64 percent of the AFP’s combined requirement for 5.56mm and 7.62mm produced by the same manufacturing line.

Philippine Veterans Affairs Office (PVAO)

PVAO paid PhP1.98 billion in unpaid pensions, benefiting 14,792 pensioners. This reduced the amount of arrears from PhP5.3 billion as of 2006 to PhP3.3 billion as of November 30, 2007. Other arrears will be paid by yearend of 2008 as approved by the Department of Budget and Management (DBM) and the Senate, chargeable against additional budget for the payment of all outstanding pensions.

Education and Training

- *AFP.* Training in the AFP is geared towards improving unit cohesion and personnel competencies for the accomplishment of other mission areas. For the period covered, the AFP conducted 39 Battalion/ Company Retraining participations by 6,951 personnel. Also, 1,191 Unit and Collective In-Service Trainings were conducted and attended by 49,178 participants.

Meanwhile, 4,282 AFP personnel participated in the Mutual Defense Treaty/Security Engagement Board (SEB)-related activities. Likewise, in terms of individual/in-service training activities conducted in support to ISO, there were 450 training activities completed and attended by 11,157 participants.

- *National Defense College of the Philippines (NDCP)*

National Defense Education – The NDCP trains and develops the skills and competencies of potential national defense leaders, civilian officials of different agencies and instrumentalities of the Government, and selected executives of the private sector to formulate national security policies, and high command and staff duty.

Master in National Security Administration (MNSA) Program – A primary activity of the NDCP is the conduct of the MNSA course offered every year. A total of 32 to 36 students finished the MNSA course every year at the NDCP.

GOALS, STRATEGIES AND ACTION PLANS

Goals

Societal Goal - To uphold sovereignty and territorial integrity, support socioeconomic development to promote National Security

In coordination with other departments and agencies, the DND shall assist in maintaining a secure environment for social and economic development. It will support the government's efforts toward the attainment of economic development and social cohesion. The DND will likewise support the government's peace process to promote national harmony and stability.

Sectoral Goal – To achieve a peaceful, secure and stable internal and external environment

The security sector seeks to contain and reduce, if not prevent, the emergence of internal and external security threats to the Philippines (i.e., terrorism, politico-military threats posed by the

communist and secessionist insurgency movements and ultra-rightist groups), transnational concerns and threats, and miscalculations and uncertainties in the Asia-Pacific region and, ultimately, to improve conditions for national development and progress.

DND Organizational Goals

- To free the country from insurgency, secessionism, and other armed threats to national security through a “whole of government” or interagency approach;
- To secure the nation from direct-armed aggression or invasion;
- To strengthen Security Alliances and Partnerships in the Asia-Pacific region towards a stable and peaceful international environment;
- To upgrade defense-wide capability;
- To protect lives and preserve properties in times of war, disasters, and other national emergencies; and
- To support the peace process and assist in socio-economic development.

Program Goals

Capability Development Programs:

- Land Force Program - Develop land force capability
- Air Force Program - Enhance air force capability
- Naval Force Program - Develop naval force capability
- Joint C2, Training and Support Program – Develop capability for management of joint operations
- DND Level Central Administration and Support Program – (a) Defense System of Management (DSOM); (b) Formulate strategic policy and defense resource management; (c) Develop disaster risk management and response; (d) Enhance national security education
- AFP Modernization - Upgrade AFP’s facilities, improve capabilities, and eventually modernize the Armed Forces

Strategies

Defense Policy

Planning Defense Capabilities

Defense planning is largely about developing military capabilities and options for the medium and long-term. Among the fundamental elements of such planning is the consideration of the strategic environment and the mandates for defense and security.

Defense planning has the following general guidelines:

- Promote cost-effectiveness, efficiency and transparency in the utilization of existing resources and where possible, reallocate funds to address current capability gaps and major shortfalls;

- Demonstrate DND needs in terms of capabilities that can be developed at an affordable/given cost;
- Clarify the logic of DND proposals in terms of capabilities and costs to gain key stakeholders' support for budget requirements; and
- Ensure that DND proposals are financially affordable.

The Defense Department is focused on creating defense capabilities to achieve fully mission-capable armed forces that could accomplish their missions and tasks across the defense mission areas. The strategy for creating defense capabilities follows the ends-ways-means approach. The defense resource (means) is a product of a strategy-driven, capability-based planning and performance-based budgeting. This represents a shift from the previous paradigm of threat-based planning and input-based budgeting.

The new paradigm in defense planning means that capabilities required for the different defense mission areas (ends) are first determined. In this respect, Doctrine, Organization, Training, Materials (equipment and maintenance), Personnel, Leadership and Education, and Facilities (DOTMPLF) represent individual measures of readiness (ways) which are enhanced and upgraded to address the different defense mission areas. Subsequently, defense resources (means) allocated in the individual defense programs are determined to match the ends. Budget development, which is constrained by the DBM budget ceiling for the particular budget period, is performance-based.

Defense MYCaPS

The Defense Department continues to implement the transition from MYCaPS to DSOM. The Defense MYCaPS or DSOM is the DND's overarching system that links capability development strategy to planning, programming, budgeting, execution and performance review. It is an interactive and collaborative system which envisions a capability-based force development construct to achieve defense strategic goals.

MYCaPS aims to: (a) ensure that future costs of today's decisions are understood (making hard decisions today for future benefits); (b) strengthen effective control of the civil authority over the defense establishment; and (c) establish and institutionalize systems for long-term and medium-term capability planning, budgeting and defense acquisition, within financial limits and constraints.

The following are the five component systems of DSOM:

- *The Defense Strategic Planning System (DSPS)* – develops strategic assessments and plans that address current and emerging threats and future concerns in each defense mission area;
- *The Defense Capability Assessment and Planning System (DCAPS)* – provides the basis for developing detailed capability plans that support the approved strategic plans and conducting operationally-oriented mission area assessments;
- *The Defense Acquisition System (DAS)* – provides a coherent framework for conducting and managing the DND-AFP acquisition efforts and developing financially realistic acquisition plans that meet identified capability needs and requirements in a timely, cost-efficient, and sustainable manner;

- *The Defense Resource Management System (DRMS)* – provides a systematic basis for allocating limited resources among competing priorities across the spectrum of defense activities; and
- *Financial Management System (FMS)* – provides financial forecast support for planning and programming activities and allocates funds for material and nonmaterial capability solutions. It is the Department-level management system.

MYCaPS was initially developed in early 2002 and has been pilot-tested since 2004. MYCaPS will transition into an end-state interactive and collaborative defense capability system of management systems that should be in place by yearend 2008. At present, the MYCaPS is transitioning to Defense System of Management (DSOM) with a timetable from 2008 to 2011 (Phase 1).

Action Plans (DND Major Thrusts)

To effectively fulfill DND's mandate and further enhance military capability, the following major thrusts shall be given primary focus:

- Implementing Philippine Defense Reform;
- Enhancing Risk Management Capability;
- Addressing Terrorism and other Security Threats;
- Upholding Human Rights Welfare and Development Programs for DND-AFP Personnel and Veterans; and
- Multilateral / Bilateral Defense and Military Ties.

Implementing Philippine Defense Reform. The DND is committed and focused on the implementation of PDR as the overall framework to reengineer its defense systems and retool its personnel.

Reengineering the systems entails introducing improvements in planning, programming, budgeting, logistics, procurement, human resource management, information, communication, operations and finance, among other critical functional areas. The PDR will further provide a continuing evaluation and sustainment for the systems to be ever responsive to the changing situations.

On the other hand, retooling the personnel means professionalizing the workforce by establishing effective staff development programs, updating personnel management systems such as recruitment, promotions and performance appraisals, as well as increasing training and education capacity of the organization in order to improve the core competencies and specializations.

PDR also aims to promote cost-effectiveness and efficiency and to attain and sustain a long-term balance within the financial limits among the following: (a) Forces and Personnel embodied in the structure; (b) Equipment, Systems and Facilities incorporated as multi-year Investment; and (c) Training, Operations, Stocks, Facilities, Utilization and Sustainment as part of readiness and operations.

These improvements are embodied in the plans of PDR Programs and High Priority Projects of the DND and the AFP. These documents ensure that the progress can be tracked and directed by the

implementers of the programs and projects. Furthermore, these establish the process of reforms which can be replicated in the future.

With the SND as the Chairman of the PDR Board and with the assistance of the Office of Defense Reform, all the programs and projects will be fully implemented in March 2009.

Enhancing Disaster Risk Management Capability. The focus is now on Disaster Risk Management which includes the following, namely: preparedness, mitigation, response and rehabilitation. The concept is more holistic and involves the cooperation and participation of different NGOs and building up the capabilities of the LGUs which are the frontline agencies tasked to deal with disasters.

Addressing Terrorism and other Security Threats. The AFP is facing a threat that is directly ideological and political in nature, thus, requiring new counter measures. To reflect the realities in the field, the SND directed the revision of the Defense Planning Guidance (DPG).

Upholding Human Rights. Extrajudicial killings must be addressed legally and necessary evidences are needed to enable investigation and prosecution to proceed. The AFP is constrained by stricter legal norms, legal rules and regulations with regards to the methods and the manner by which the military conducts its operations. The defense agency will comply with all the legal requirements as it performs its mission.

Welfare and Development Programs for DND-AFP Personnel and Veterans. As part of the defense reforms, the military will continue to enhance AFP doctrines and develop its human resources through training and education for a more effective fighting force. Additional collateral pay for combat duty is also implemented as well as capability enhancement of the military treatment facilities. Likewise, the DND has instituted the career paths of civilian personnel for their personal and professional advancement by implementing the rationalization schemes required by the DBM. For the veterans, the PVAO was able to pay a substantial part of their debts and complemented by the revalidation of the qualified pensioners.

Multilateral/ Bilateral Defense and Military Ties. The DND will continue to pursue bilateral ties to further promote confidence-building mechanisms for greater cooperation and understanding between and among neighboring countries in the South China Sea, in the Pacific, and in the southern border.

Chapter 24

A Responsive Foreign Policy

A Responsive Foreign Policy (RFP) is based on three pillars. The first pillar involves the promotion and attainment of economic security through the expansion of economic diplomacy efforts. The second is the preservation and enhancement of national security. The third is the protection of the rights and promotion of the welfare of Filipinos overseas.

ASSESSMENT AND CHALLENGES

Significant milestones were reached in upholding these three pillars. These achievements had major impacts on the accomplishment of the individual targets set for each pillar.

Under the first pillar, the Department of Foreign Affairs (DFA) established the DFA Economic and Trade Core Negotiating Team (CNT) in 2005. The team is composed of representatives from DFA offices who underwent rigorous training and participated in roundtable discussions on economic negotiations. Under the One Country Team Approach, the CNT spearheads negotiations for strategic economic agreements with bilateral and multilateral partners.

Under the second pillar, efforts to attain peace in southern Philippines were continued. The Philippine initiative for interfaith dialogue was promoted and adopted by the UN General Assembly in 2006, through a resolution entitled “Promotion of Inter-Religious and Inter-Cultural Dialogue, Understanding and Cooperation for Peace”.

Three major projects on specific national security issues were also given focus. The first project is the Counter-Terrorism Capacity Building Project sponsored by the Australian Federal Police and AusAID. The major target for this project was the installation of the Case Management Information System (CMIS) hardware and software in 2005. However, the target year of CMIS implementation was not met due to “failure in harmonizing the Information Sharing Protocol between the PCTC, the National Bureau of Investigation (NBI) and the Philippine National Police (PNP)”. The agencies involved have undertaken measures to address the factors and issues hampering the harmonization of CMIS across the IT platforms of the agencies.

The second project is the RP-United Kingdom Counter-Terrorism Crisis Management Assistance Program. In this project, the Critical Incident Management Simulation Exercise (CIMSE) was conducted for 50 percent of all provincial LGUs. It also set up training teams for crisis management for all law enforcement agencies. An estimated 50 percent of these targets were not met due to budgetary constraints. The Philippine Center on Transnational Crime (PCTC) which was the implementing agency reported that CIMSE was undertaken through a cost-sharing scheme, such that the commitment of LGUs to shoulder part of the expenses for CIMSE is critical for its sustainability.

The third project is the Philippine Border Management Project sponsored by the European Commission (EC) and implemented by the International Organization for Migration (IOM). The project has four modules: Border Management Best Practices Review and Analysis; Integrated Data Migration System and Common Database Development; Technology Applications and Awareness-Raising for Document Integrity; and Education and Training. These targeted five pilot sites: Manila,

Cebu, Zamboanga, Laoag and Davao. To promote the sustainability of project interventions and outputs, an End-of-Project Forum was conducted on December 19, 2008.

The development of institutional capacities for culture was also given focus in the RFP's second pillar with the proposed creation of a Cultural Affairs Office in the DFA. While the creation of a Cultural Affairs Office was placed on hold due to the government's Rationalization Program, the DFA has since strengthened its coordination with the National Commission on Culture and the Arts (NCCA) and other relevant agencies in preparing a strategic cultural diplomacy program for implementation in Foreign Service Posts. The NCCA was also invited to DFA's first Worldwide Policy Consultations with Heads of Post, during which it provided Philippine Ambassadors and Consuls General with guidelines and proposed activities for conducting cultural diplomacy at Post.

For the third pillar, the DFA reported significant achievements in "working with regional and multilateral organizations for the protection and promotion of the welfare of overseas Filipinos". In January 2007, during the Philippine chairmanship of ASEAN, the Philippines successfully pushed for the finalization and signing of an ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers. The DFA also continued to review and update its crisis management mechanisms for emergency situations at Post, and successfully implemented a mass evacuation of Filipinos from Lebanon during the height of the Israel-Hezbollah conflict in 2006.

To better address the needs of DFA and its core clientele, as well as to better promote the welfare of overseas Filipinos, amendments to the following laws was included in the targets: (a) Foreign Service Act; (b) Migrant Workers Act; (c) Passport Law; and (d) Overseas Absentee Voting Law. Although the DFA continues to submit recommendations on the proposed revisions to these laws, these amendments are still under consideration at the Committee Level. There were delays in meeting targets set for the Overseas Absentee Voting (OAV) Law, specifically in the registration of voters, and for the issuance of Machine-Readable Passports (MRPs). Furthermore, only half of the targeted one million overseas voters were registered as of 2007. The DFA coordinated with the Commission on Elections (COMELEC) in the conduct of the pilot testing of Internet voting held in July 2007. An OAV registration center was set up at the POEA main building and started operations from October 17, 2005 to November 2006. A second registration center was set up at the Ninoy Aquino International Airport (NAIA). A massive information campaign, which included media coverage and the distribution of flyers and brochures, was also undertaken to encourage a higher turnout of registration. Meanwhile, the target date for initial rollout of MRPs was set in mid-2005. However, actual issuance began only in 2007.

The Philippines has also been preparing for full accession to "The Hague Convention of 5 October 1961 Abolishing the Requirement of Legalisation for Foreign Public Documents" or the Hague Apostille Convention, in order to facilitate the recognition of Philippine public documents in other countries. Under this Convention, the process of legalization of public documents to be used in countries other than the issuing country is replaced by the issuance of an Apostille Certificate. This arrangement is only valid between states that are members of the Convention.

STRATEGIC FRAMEWORK

The following strategies must be undertaken in the accomplishment of the targets remaining for the chapter, more importantly for those pertaining to the Philippine commitments to international

agreements. First, coordination among the agencies concerned in the chapter targets must be strengthened in order to address the implementation gaps in the projects and draw up mitigation measures in light of recent events and issues of international significance, such as the global financial crisis and climate change. Second, a plan must be prepared regarding a mechanism to address the sustainability or extension of program outputs beyond the year 2010. And third, strengthened cooperation between concerned agencies will be crucial in identifying issues, and its subsequent interventions, that may arise in the next three to five years, which will affect the international community and the Philippines' role in addressing these international issues.

Chapter 25

Constitutional Reforms

The institutionalization of constitutional reforms through an amendment of the 1987 Constitution is deemed the appropriate way to respond to widespread dissatisfaction with the country's politics, political party system and economic policies.

ASSESSMENT AND CHALLENGES

In 2004 until the end of the 13th Congress in 2007, there were proposals to amend the 1987 Constitution. However, these did not result in a favorable outcome due to the unresolved mode of amendment and contrasting public opinions in amending it, among others.

The President has created the Citizen's Consultative Commission (CCC) with the mandate: "Conduct consultations and studies and propose amendments and revisions to the 1987 Constitution, principally the proposals to shift from the presidential-unitary system of government, to refocus economic policies in the Constitution to match the country's vision for global competitiveness, and to review economic policies which tend to hinder the country's global competitiveness and adversely affect the people's welfare."¹

On December 16, 2005, the CCC, composed of representatives from a broad cross-section of Philippine society submitted to the President its report recommending changes to the Charter particularly on the following areas: (a) Form of Government; (b) Structure of the Republic; (c) National Economy and Patrimony; (d) Bill of Rights and Duties; (d) Judiciary; (e) Constitutional Commissions; (f) Local Governments and Autonomous Territories; and (g) General Provisions. Pertinent recommendations of the CCC were: (a) change in the form and structure of government; (b) removal of unnecessary economic restrictions on foreign investors; (c) electoral reforms; (d) political party reforms; (e) nation-building and empowerment of the people; (f) judicial reforms; (g) new political system; and (h) transition of government, i.e., from Presidential to Parliamentary.²

The CCC recommendations coincided with President Arroyo's political and economic reform agenda. With respect to economic reforms, President Arroyo described the 1987 Constitution as a major obstacle to Philippine economic progress and prosperity.

Through the constitutional changes proposed by the CCC, foreign ownership on certain areas of investments will be considered subject to limitations that Parliament may prescribe when the national or public interest dictates. For one, the exploration, development and utilization of natural resources can be undertaken by the Philippine Government solely or be entered into with foreign corporations or entities. For another, lands classified by law as industrial, commercial or residential may be transferred or conveyed to foreign individuals or corporations.

This easing of citizenship restrictions on ownership of corporations and lands is expected to open the doors for greater foreign investments in the country. Foreign investments will generate jobs

¹ Executive Order 453 (August 19, 2005)

² "The Proposed Revision of the 1987 Constitution" by the Consultative Commission

and opportunities for people whose knowledge, skills and expertise need to be honed in globally competitive industries enabling them to compete and be equal with their counterparts in other countries. In the second quarter of 2008, registered and approved foreign direct investments (FDI) reached PhP73.9 billion higher by 23.5 percent than the PhP59.8 billion registered in the same period in 2007. Approved FDI projects for the period are expected to create 54,805 jobs, more than double last year's projected employment of 27,195 jobs.³ The free inflow of investments to the country will help create the proper environment for intensive job generation and rapid economic growth of the Filipinos in the context of globalization.

The Senate of the Philippines, on the other hand, pushed through the laws affecting the issues on constitutional reforms in the electoral system, through: (a) Republic Act (RA) 9639 - Automated Election System; (b) RA 9333 or an Act Fixing the Date of Regular Elections for Elected Officials of the Autonomous Region of Muslim Mindanao (ARMM) pursuant to RA 9054 (Organic Act for the ARMM); and (3) RA 9340 or the synchronized *barangay* and *Sangguniang Kabataan* elections⁴.

While discussion on charter change was momentarily shelved at the close of 13th Congress, a total of 21 new related measures were referred to the HOR-CCA subsequent to the convention of the 14th Congress. These measures principally consist of proposals that either seek to convene Congress into a constituent assembly, call for a constitutional convention, hold a referendum, or to introduce specific amendments to the fundamental law through people's initiative. Said measures, though pending commendation from the CCA, may be useful and advantageous in the crafting and determination of issues regarding constitutional amendments.

In her 2005 State of the Nation Address (SONA), the President declared that "the mode of Charter Change is the exclusive prerogative of Congress."⁵ Whatever the final changes may be, she has made it clear that she wants to achieve the broadest "unified consensus" on the means of and the timetable for constitutional changes. As such, the Administration has been consistent in supporting its economic reform agenda and its strategy to continually work with congress, civil society groups and local government executives to push through the constitutional reforms.

³ Source: NSCB

⁴ Source: The Senate of the Philippines – Committee on Constitutional Amendments

⁵ President Arroyo's State of the Nation Address before Congress, July 25, 2005.

