The Philippine economy in 2015 and prospects for 2016

Roehlano M. Briones*

Global Context

The Philippine economy is growing faster than the middle-income countries in the region.

The growth rates of the Association of Southeast Asian Nations (ASEAN) member-states, plus Japan, South Korea, and China, hereinafter referred to as ASEAN Plus Three, are shown in Table 1. Cambodia, Lao PDR, and Myanmar have grown the fastest, but the Philippine economy has expanded faster than middle-income Indonesia, Thailand, and Viet Nam. Its pace moderated slightly in 2015 with a growth rate of 5.8 percent. Meanwhile, China’s growth, while still rapid, is much lower than the double-digit rates it registered in the 2000s. Among the ASEAN Plus Three, Japan has been the worst performer; since 2011, its economy has alternately contracted or stagnated, with the contraction in 2014 projected to recover mildly to recession levels in 2015 (World Bank 2016a).
The global economy is exposed to risk from the slowdown in big Asian economies, the decline of commodity prices, and the reversal of US monetary policy.

The latest World Economic Outlook (IMF 2016) identifies the following sources of risk: the slowdown in China, the continued recession in Japan, the decline in petroleum and other commodity prices, and the end of quantitative easing by the US Federal Reserve. Petroleum price has continued its downward slide since May 2015, which was already 42 percent below its level in May 2014 (Figure 1).

Global production from oil-producing countries has continued to exceed demand. Low prices favor oil-importing countries; however, resulting increases in oil consumption and gains in economic growth have been lower than expected.

Meanwhile, the Federal funds rate, which had languished at near zero, rose to 0.25 percent in December 2015. Subsequently, the US dollar has appreciated against many currencies as markets took this as a signal of the end of quantitative easing. Nonetheless, central banks in the developed countries persist in their accommodative stance owing to disappointing economic recovery.

World growth will accelerate slightly in 2016, implying an improved economic environment for the Philippines.

The International Monetary Fund (IMF) forecasts a global growth of 3.6 percent for 2016, which is above its estimate of 3.1 percent for 2015 (IMF 2016). Nascent growth in developed economies is expected to strengthen, while a return to more stable conditions is expected for distressed emerging economies, such as Brazil and Russia, which will more than offset the continued slowdown of China. Meanwhile, World Bank (2016a) forecasts a global growth of 2.9 percent for 2016, up from 2.4 percent estimated for 2015. The World Bank and IMF, thus, expect the same percentage point increase in global growth.

Improvement is premised on firming up of growth in developed economies and stabilization of commodity prices. For East Asia and the Pacific, growth is projected to ease slightly to 6.3 percent, from 6.4 percent in 2015. There will be a modest pickup in ASEAN countries, but this is predicted to be offset by

### Table 1. Growth rates, ASEAN and Plus Three economies, 2010–2014 (%)

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<td>ASEAN</td>
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<td>Indonesia</td>
<td>6.2</td>
<td>6.2</td>
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<tr>
<td>Cambodia</td>
<td>6.0</td>
<td>7.1</td>
<td>7.3</td>
<td>7.5</td>
<td>7.1</td>
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<tr>
<td>Lao PDR</td>
<td>8.5</td>
<td>8.0</td>
<td>8.0</td>
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<tr>
<td>Myanmar</td>
<td>8.2</td>
<td>8.5</td>
<td>8.4</td>
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<tr>
<td>Malaysia</td>
<td>7.4</td>
<td>5.3</td>
<td>5.5</td>
<td>4.7</td>
<td>6.0</td>
<td>5.8</td>
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<tr>
<td>Philippines</td>
<td>7.6</td>
<td>3.7</td>
<td>6.7</td>
<td>7.1</td>
<td>6.1</td>
<td>6.2</td>
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<tr>
<td>Singapore</td>
<td>15.2</td>
<td>6.2</td>
<td>3.4</td>
<td>4.4</td>
<td>2.9</td>
<td>6.4</td>
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<tr>
<td>Thailand</td>
<td>7.5</td>
<td>0.8</td>
<td>7.3</td>
<td>2.8</td>
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<td>3.9</td>
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<tr>
<td>Viet Nam</td>
<td>6.4</td>
<td>6.2</td>
<td>5.2</td>
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| Plus Three countries |      |      |      |      |      |           |
| Japan        | 4.7  | -0.5 | 1.8  | 1.6  | -0.1 | 1.5       |
| South Korea  | 6.5  | 3.7  | 2.3  | 2.9  | 3.3  | 3.7       |
| China        | 10.6 | 9.5  | 7.8  | 7.7  | 7.3  | 8.6       |

Source: World Bank (2016b)

### Figure 1. Price of crude oil and Federal funds rate, monthly, 2014–2015

**Notes:**
1. Crude oil is the average spot price of Brent, Dubai, and West Texas Intermediate, equally weighed.
2. Federal funds rate is effective rate.

Source: World Bank (2016c) for crude oil; Federal Reserve (2016) for Federal funds rate
The national economy

Output performance

Since 2009, the Philippine economy has sustained a remarkable growth acceleration.

Figure 2 shows that the rising growth since 2010 has been extraordinary and it has been sustained. The quinquennial average of 6.2 percent in 2010–2014 was last achieved in the late 1970s. However, this was followed by economic collapse in the early 1980s and protracted stagnation thereafter. The Philippines joined the club of “lost decade” economies in Latin America and sub-Saharan Africa. Recovery since the 1980s had been fitful, until 2010 when it appeared to have become resilient to adverse global trends.

The current growth is accompanied by an improved rate of capital formation.

Growth of capital formation had fallen to just 6 percent in the late 2000s, but has jumped to 9 percent in 2011–2015 (Table 2). In 2015, growth had risen further to 13.6 percent. The rise in capital formation is auspicious given the past performance of investments.

Majuca et al. (2011), in the first edition of the PIDS Economic Policy Monitor, raised alarms over the weakness of capital formation in the Philippines. Their comparison is based on a benchmark rate of 25 percent, observed among neighboring countries that have sustained decades of economic growth; in contrast, the share of investments in gross domestic product (GDP) was down to 18.4 percent in the late 2000s. Currently, the investment share is back to about 20 percent, still below the benchmark yet a significant improvement nonetheless.

Household consumption continues to be the largest component of expenditure, but its share has declined slightly since 2000. It continues to be driven by migrant remittances (now about USD 20 billion), which have continued to expand despite the global economic slowdown.

The GDP share of government consumption has likewise been fairly stable, rising to 11 percent. In 2015, growth rate accelerated to 9.4 percent from an anemic pace of 1.7 percent in

the slowdown of China’s economy. Tightening global finance may exacerbate macroeconomic volatility in the region.

Finally, the Asian Development Bank forecasts developing Asia’s growth in 2016 to hit 6 percent, slightly higher than the 5.8 percent it estimated for 2015 (ADB 2015a). A bright spot is South Asia, where growth is seen to have met the 2015 projection of 6.9 percent, and is forecast to accelerate to 7.3 percent in 2016 due to continued expansion in India.

Table 2. Composition of output by expenditure component, 2001–2015 (%)

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<td><strong>Growth (2000 prices)</strong></td>
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<tr>
<td>Household consumption</td>
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<td>5.6</td>
<td>5.4</td>
<td>6.2</td>
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<tr>
<td>Government consumption</td>
<td>0.4</td>
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<td>6.7</td>
<td>5.0</td>
<td>1.7</td>
<td>9.4</td>
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<tr>
<td>Capital formation</td>
<td>8.0</td>
<td>6.1</td>
<td>9.0</td>
<td>27.7</td>
<td>5.4</td>
<td>13.6</td>
</tr>
<tr>
<td>Exports</td>
<td>4.0</td>
<td>6.0</td>
<td>4.4</td>
<td>-1.0</td>
<td>11.3</td>
<td>5.5</td>
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<tr>
<td>Imports</td>
<td>4.7</td>
<td>4.2</td>
<td>6.0</td>
<td>4.4</td>
<td>8.7</td>
<td>11.9</td>
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<tr>
<td><strong>Shares in current GDP</strong></td>
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<tr>
<td>Household consumption</td>
<td>74.3</td>
<td>73.7</td>
<td>73.4</td>
<td>73.3</td>
<td>72.4</td>
<td>73.7</td>
</tr>
<tr>
<td>Government consumption</td>
<td>10.1</td>
<td>9.4</td>
<td>10.6</td>
<td>10.8</td>
<td>10.4</td>
<td>11.0</td>
</tr>
<tr>
<td>Capital formation</td>
<td>22.6</td>
<td>20.1</td>
<td>20.1</td>
<td>20.0</td>
<td>20.9</td>
<td>20.9</td>
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<tr>
<td>Exports</td>
<td>46.9</td>
<td>38.8</td>
<td>29.5</td>
<td>28.0</td>
<td>28.7</td>
<td>27.9</td>
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<tr>
<td>Imports</td>
<td>53.8</td>
<td>40.2</td>
<td>33.4</td>
<td>32.2</td>
<td>32.4</td>
<td>32.9</td>
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Source: PSA (2014, 2016a)
2014. Imports have continued to exceed exports, whether as a share in GDP or in terms of growth rates.

This does pull down overall GDP growth. The persistent deficit in merchandise trade need not be worrisome as long as it can be sustainably financed (from exports of services and current transfers from abroad), even as imports meet the demand from both consumers (and producers) for wider variety and lower price of goods (inputs).

Production trends point to a favorable pattern of structural transformation.

Majuca et al. (2011) also drew attention to the reliance of past growth on the performance of services. However, since 2011, the composition of GDP in terms of production sector seems to favor the notion of sustained structural change (Figure 3). Industry, which had previously suffered from a shrinking GDP share, has gained in recent years, from 31 percent in 2009 to 33 percent in 2015.

The growth of industry has dramatically accelerated since 2010, averaging 7.3 percent, up from an average of just 4.2 percent in the 2000s. In the previous decade, services grew faster on average than industry; over the past five years, industry became the fastest growing sector. Services still managed to post rapid growth, averaging 6.5 percent since 2010, behind the robust performance of business process outsourcing.

In 2015, the growth of industry continued at 6 percent, though it was constrained by the weakness in exports. In contrast, services managed to grow at 6.7 percent in 2015.

The poor performance of agriculture has perennially been a drag on overall growth. The sector had last achieved a decent growth pace in the 1960s and 1970s at about 4 percent. In the 2000s, it managed to post a respectable 2.9-percent growth rate. However, in 2010–2014, the growth of agriculture fell to its lowest average since the “lost decade”. Had agriculture sustained the pace of growth of the past decade, the economy would have hit its target of 7–8 percent under the Philippine Development Plan 2011–2016 (Table 3).

To summarize: Majuca et al. (2011) had raised concerns over the sustainability of growth given the weakness in capital formation and the concentration of growth in services. However, recent trends show that investments are recovering and industry has been reinvigorated in the last six years. The negative points are the remaining gap in investment-to-GDP ratio and the sharp slowdown of growth in agriculture.

**Macroeconomic policy**

**Fiscal policy**

Government has maintained a sound fiscal balance along a sustainable debt path.

Coming from the Asian financial crisis of the late 1990s, and the tepid growth of the early 2000s, government ran large perennial deficits from 1997 to 2005, as spending-to-GDP ratios far exceeded revenue-to-GDP ratios (Figure 4).

After briefly controlling the fiscal deficit in 2005–2007, the excess of spending over revenues again ballooned in 2009–2011.
Since then, however, the deficit has been largely controlled, as revenues have managed to keep pace with growth in spending. Note that growth in absolute spending is actually quite rapid: from 2010, the national budget was PHP 1.54 trillion; by 2015, it had risen to PHP 2.6 trillion, a 78-percent increase (in nominal terms). However, due to rapid economic growth over the same period, spending as a ratio to GDP has remained at 16–17 percent, compared to 17–19 percent in the late 1990s.

Rapid economic growth in the 1970s was unsustainable as it was "debt-driven". It was fueled by borrowing, mostly from abroad (Balisacan and Hill 2003).

In the late 1990s, the borrowing behavior of the economy again appeared to take an unsustainable path, with a rising debt-to-GDP ratio; since 2003, however, it has begun to taper off. The current rapid growth episode has continued the downward trend in debt-to-GDP to manageable levels of under 30 percent at present. In particular, the foreign component of the debt-to-GDP ratio has plummeted to 16 percent in 2015, down from 35 percent in 2004. Thus, the current growth is far from being "debt-driven".

Government has recently managed to close the gap between programmed and actual spending.

As mentioned above, government consumption spending recovered dramatically in 2015, as government addressed its perennial underspending problem. For instance, the Department of Public Works and Highways achieved only 78-percent fund utilization in 2014, but reached 97-percent utilization in 2015 (by November). Faster disbursements for infrastructure and other capital outlays have boosted overall disbursements by 23 percent, based on year-on-year figures for November 2015 (GPH 2016).

**Monetary policy**

Further signs of stability can be observed in the inflation rate, which was approaching double-digit levels in 2010 (Figure 5), but since then has remained under 5 percent (the official target). This shows that the *Bangko Sentral ng Pilipinas* (BSP) has been largely successful in its primary charter obligation—price stabilization. In doing so, BSP has avoided the tightening of money supply. Meanwhile, base money has been consistently growing as a ratio to GDP. From a low of just 10 percent in 2004, base money has doubled as a ratio to GDP by 2015. This trend is consistent with the observed decline in lending rates, down to
just a little over 5 percent by 2015, half the rate of a decade earlier. Sizable liquidity and low borrowing rates have helped drive faster capital formation since 2010; however, the financial system continues to struggle with mobilizing loanable funds into the real economy.

**Employment trends**

Aside from income and prices, employment is another key indicator of macroeconomic stability. Unemployment has been declining, down to 6.3 percent from 7.5 percent in 2009. Improved job generation is to be expected from rapid economic growth. Similarly, underemployment has been declining—to 18.5 percent from a peak of 20 percent in 2012 (Figure 6).

However, compared to 2010 levels, underemployment has hardly budged; hence, expansion of quality employment in the country is somewhat disappointing.

The employment structure also reflects, though dimly, the structural trends in GDP (Figure 7). The share of employment in manufacturing has risen by a percentage point, reversing earlier trends of declining employment share.

However, the share of employment in services continues its long-term trend, reaching 55 percent in 2015 (compared to just 43–45% in the late 1990s). The sector that has witnessed a declining share of employment is agriculture, which is now down to 29 percent in 2015 (from 39–40% in the late 1990s).

Job shedding in agriculture is to be expected from the long-term structural transformation of the economy and the "pull" from services and industry. However, the migration of workers out of agriculture may be due equally to "push" factors owing to weak job generation within the sector.

**Prospects**

Accomplishments in the political sphere—namely, political stability, good governance, and institutional change—have supported and reinforced gains from economic policy reform.

Good policies are nothing without good implementation, which, in turn, depends on political stability, quality governance, and institutional change. Majuca et al. (2011) are particularly critical of the dominance of corporate conglomerates in key sectors, which has resulted in a slower and narrower growth trajectory.

However, over the past six years, accomplishments in the political sphere have been impressive. Winning the polls in 2010 through a landslide victory, the chief executive is supported by a strong party coalition in Congress. Restiveness in the military has ended and key legislations for improved governance were passed, such as the Government-Owned or -Controlled Corporations Governance Act of 2011 and the Government Procurement Act of 2002.
PIDS named one of the world’s best think tanks anew

FOR THE FOURTH consecutive year, the Philippine Institute for Development Studies (PIDS) has been recognized as among the world’s top think tanks.

In the 2015 Global Go To Think Tank Report and Policy Advice of the Think Tanks and Civil Societies Program (TTCSP) at the University of Pennsylvania, PIDS was included in the list of best think tanks in seven categories. More than 6,600 think tanks from 198 countries were assessed in this round.

PIDS remained the top social policy think tank in Southeast Asia and was ranked 37th among the top 100 in the world. Other think tanks from Southeast Asia that made it to this category (social policy) were Singapore’s Institute of Southeast Asian Studies (41st) and Institute for Policy Studies (53rd), and Malaysia’s Center for Public Policy Studies (66th). In 2014, PIDS also ranked 37th among 50 nominated think tanks in this category.

PIDS also maintained its rankings as among the top international development think tanks (70th out of 128) and among the top education policy think tanks (33rd out of 65).

Moreover, the Institute has been included in four new categories: best think tanks in Southeast Asia and the Pacific, best government-affiliated think tanks, and think tanks with the best external relations/public engagement program.

The East Asian Development Network (EADN) Secretariat, which PIDS has been running since 2010, also made it to the list of best think tank networks. The EADN, with its network of institutes and centers, sponsors research and capacity-building activities for early career researchers.

The Go To Think Tank Index is a comprehensive ranking of the world’s top think tanks and has been described as the premier database and measure of world think tanks. It aims to increase the profile, performance, and impact of think tanks, and to create a transnational and interdisciplinary network of centers of public policy excellence. A total of 4,677 journalists, policymakers, think tanks, and public and private donors from 143 countries participated in the 2015 ranking process.

Established in 1989, the TTCSP aims to acknowledge the important contributions and emerging global trends of think tanks worldwide. Think tanks are public-policy research analysis and engagement organizations that generate policy-oriented research, analysis, and advice on domestic and international issues, thereby enabling policymakers and the public to make informed decisions about public policy.

PIDS is a state-funded think tank devoted to policy research. Its Board of Trustees is currently chaired by National Economic and Development Authority Director-General and Socioeconomic Planning Secretary Emmanuel Esguerra, with Dr. Alfredo Pascual, Dr. William Padolina, Atty. Raphael Lotilla, and Dr. Gilberto Llanto (PIDS president) as members.

Since its establishment in 1977, PIDS has been engaged in conducting long-term, evidence-based research that serves...
Toward a more competitive Philippine economy: Challenges, reforms, and prospects

A WELL-OILED ECONOMY steers a nation toward achieving its development goals. In recent years, for instance, the Philippine experience—stable growth in gross domestic product, improving banking conditions, increasing business investments, introduction of reforms in development plans and programs—illustrates gains that directly impact various sectors. While the trajectory of the Philippine economy continues to be promising, the sustainability of this growth remains a question. To ensure unceasing growth, the Philippine Institute for Development Studies (PIDS), New Delhi-based Consumer Unity and Trust Society (CUTS) International, and Action for Economic Reforms (AER) agree that relevant competition reforms should be top priority.

This is why PIDS, together with CUTS International and AER, hosted a workshop that dug deep into the competition reforms needed in selected sectors in the Philippines, on March 2, 2016, in Quezon City. The workshop recognized the impact of the “Competition Reforms in Key Markets for Enhancing Social and Economic Welfare in Developing Countries (CREW) Project”, which was launched in 2013 in the Philippines and in three other developing countries (India, Ghana, and Zambia). Over the course of three years, the CREW Project was able to develop an approach to help developing countries systematically assess the impact of competition reforms on consumers and producers in sector-specific areas.

This year’s workshop, which is considered the second and final leg of the CREW Project, focused on the rice and bus transport sectors. Dr. Roehlano Briones and Ms. Hope Gerochi, senior research fellow and research consultant of PIDS, respectively, discussed the impact of the CREW Project and their proposed mechanisms and reforms that address competition concerns on both sectors.

To further assess competitiveness in other sectors and, thus, provide a more holistic angle to the state of competition in the country, representatives from the airline, banking, and retail industries were also invited to present competition-related challenges and reforms in their respective sectors.

CUTS International’s Neha Tomar, meanwhile, presented the framework for competition reform that zeroes in on the steps that policymakers and practitioners may undertake to push forward effective procompetition reforms. Likewise, CUTS-Viet Nam’s Alice Pham shared four cases that highlighted the role that government should play in competition reforms, particularly in promoting policies that favor the small-scale industry.

Competition in the Philippines

The competitiveness of the Philippine economy is expected to improve, following the passage of the Philippine Competition Act of 2015 and the robust support of different sectors in the competition agenda.

According to Dr. Rafaelita Aldaba, assistant secretary at the Department of Trade and Industry, the passage of the competition law will further boost competition, which, in turn, will benefit both producers and consumers. Through the establishment of an institutional framework, Aldaba noted that a strong competition agenda, particularly in the logistics and transport sectors, will help revive the manufacturing industry. She also underscored the importance of addressing the problems in the export and services industries that negatively affect the country’s competitiveness.

“Liberalization is one of the necessary ingredients to enhance competition. Now that we have a Competition Commission, we can work together in pursuing necessary reforms for the country to participate in free trade agreements like the Trans-Pacific Partnership,” Aldaba explained.

Meanwhile, for Dr. Stella Quimbo, commissioner of the newly formed
Philippine Competition Commission (PCC), competition reform in the country is “far from over” despite the advances in legislation. Notwithstanding the fact that it took more than 20 years to pass the Philippine Competition Act, Quimbo believes that it is an opportune time to implement the measures indicated by the law.

“The passage of the Philippine Competition Act builds on the momentum of past reforms and provides a key element of a national competition policy. By this law, anticompetitive agreements, abuse of dominant position, and anticompetitive mergers and acquisitions are now prohibited and penalized,” Quimbo noted.

Quimbo added that enhancing the efficiency of markets through competition leads to two things: (1) further growth by promoting entrepreneurial spirit and encouraging private investment and innovations, and (2) sufficiently low prices and high-quality goods for consumers. “The spirit behind the law is not a narrow concept,” Quimbo explained. She expounded that the PCC was not established to increase consumer surplus or ensure that profits are not abnormally huge. Rather, she explained that the PCC will push for the broad idea of sustained economic growth and development.

“[This is possible] through a vibrant business sector with a broader base of ownership and whose benefits are shared by all, through job creation, and by ensuring access to basic commodities,” Quimbo added.

The PCC is also in a good position to introduce business processes that have proven to be useful in other settings but which the government or regulators have not yet widely adopted. On her speech, Quimbo referred to evidence-based decisionmaking as a tool to fulfill the mandate of the PCC.

“Evidence-based decisionmaking is perhaps the best way to ensure that regulators are, in the long run, effective. Effective regulation entails making sound and fair decisions—without a hint of bias nor capture. We envision that our work will not be informed merely by mere anecdotes, just-so stories, or hearsay. We will rule based on indicators; measurement; corroborated facts; and unwavering adherence to justice, fairness, and the rule of law,” Quimbo maintained.

Lastly, Quimbo expressed that the goals of the PCC are, in a sense, “lofty”. She said that it will require a whole village to build a competitive economy where the public is aware of the whole notion of competition, and how it can profoundly affect people’s lives.

She expressed hope that PIDS and other research organizations will continue to generate high-quality research “that are either industry or sector specific or that would feed into the broader questions on how to craft a national competition policy.”

Prospects for the rice and bus transport sectors

In assessing the state of competition in the rice sector, the PIDS research team led by Briones, who also serves as project director of CREW in the Philippines, looked into the major reforms introduced by the government, considering the imminent abolition of the quantitative restriction (QR) on rice importation.

According to Briones, the removal of the QR on rice will result in a massive fall in the domestic price of rice. Consequently, he suggested that it is imperative to provide farmers a measure for income support. The research team, therefore, is pushing for an adjustment package for farmers once the QR is abolished in 2017. This particular package should be a transfer scheme over and above the
existing production support provided by the government.

“The inevitable transition to a more open rice trade regime should be accompanied by safety nets for smallholders suffering from intensified competition from imports. We have evaluated a compensatory transfer scheme combined with a 35-percent tariff equivalent as a possible support scheme once the special treatment is removed,” Briones explained.

Meanwhile, in terms of the bus transport sector, Gerochi looked at options for consolidating buses to decongest the Epifanio De Los Santos Avenue or EDSA, which is clearly the busiest thoroughfare in Metro Manila. She cited regulations that have been put in place yet weakly implemented. For instance, to control the frequency of buses that pass along EDSA, an organized bus route scheme is being employed by the Metro Manila Development Authority. However, Gerochi observed that the dispatching of buses is not consistently implemented.

Gerochi recommended, among others, to: (1) impose an entry barrier that requires scale, such as improvement of bus quality and technology-based specifications; (2) address capacity issues in regulation (e.g., rationale for determining fares, database of franchises not linked to database of drivers); (3) compel bus operators to compete for the right to provide services for a particular bus route through competitive tendering; and (4) convert buses into bus rapid transit (BRT) systems.

During the open forum, Land Transportation Franchising and Regulatory Board (LTFRB) Chairman Winston Ginez said that if the BRT is implemented, buses will be gone in EDSA. Ginez admitted, however, that with the current state of transportation in EDSA, pushing for the BRT will be difficult. “But somebody should be brave enough to do this,” he later asserted.

However, Dr. Adoracion Navarro, senior research fellow at PIDS, argued that the BRT will only address the services along EDSA. She mentioned that there are also secondary routes that are being served by jeepneys. She therefore suggested to think about redesigning the route system and to initiate a legislative reform in public utility.

Gerochi concluded that consolidation needs to be coupled with other reforms to produce gains. For instance, capacities must be built among the staff of the Department of Transportation and Communications and LTFRB in terms of planning, enforcement, and evidence-based regulatory policymaking. Lastly, she mentioned that the government should weigh the risks of regulatory failures by learning from the experience of other countries and encouraging a stronger commitment to reforms.

Assessing the airline, banking, and retail trade industries

Competition reforms in the airline industry produced some positive
impacts. According to Professor Cherry Lyn Rodolfo, president of the Research Education and Institutional Development Foundation, these include: (1) the liberalization of air service agreements, which allowed Cebu Pacific to enter the Hong Kong and Singapore markets; (2) the passage of Pocket Open Skies, which opened up secondary gateways to international flights in 2011; and (3) the recent ratification of the Association of Southeast Asian Nations (ASEAN) Open Skies, which allows airlines from all ASEAN member-states to fly freely throughout the region.

Despite these reforms, Rodolfo noted that the Philippines is “still not at the same level of growth as Indonesia in terms of passenger-carrying capacity of airlines”. She added that to improve competition, both structural and strategic barriers must be addressed. These barriers include congestion at the Ninoy Aquino International Airport (NAIA), poor infrastructure in provincial airports, and travel agent commissions.

To resolve these, Rodolfo recommended the following reforms: (1) slot management in NAIA (short term), (2) development of new Manila airport, (3) development of secondary international gateways and principal class 1 and 2 airports (i.e., night-landing facilities, equipment and services, runway extensions), and (4) institutional strengthening of transport regulatory agencies.

“These are issues that we believe we have to contend with and try to address because they are limiting the positive impact that the air transport can make,” concluded Rodolfo.

Meanwhile, Dr. Alvin Ang, professor at the Ateneo De Manila University, noted that the banking sector faces a lot of competition problems, such as having high barriers to entry and exit. He explained that lowering these barriers would generally lead to “greater product differentiation, lower costs of financial intermediation, more access to financial services, and enhancing stability”.

According to Ang, there have been attempts to look at how the banking industry could be competitive. However, he cited data from the Bangko Sentral ng Pilipinas revealing that the top five banks in the country already account for 54 percent of total assets. Moreover, 30 percent of all banks in the country are concentrated in the National Capital Region (NCR), leaving 595 cities and municipalities without a single bank in their area.

To top all these, no Philippine bank has qualified under the Qualified ASEAN Banks, barring the local banking industry from penetrating a larger market. As a result, Philippine banks are among the smallest in the ASEAN region in terms of asset. In fact, according to Ang, the Development Bank of Singapore has a bigger asset than the entire Philippine banking system.

Ang, hence, remarked that it is necessary to undertake reforms to liberalize the financial markets not only to promote the domestic banking industry but also to prepare Philippine banks to participate and compete in the integrated ASEAN regional financial system.

On the part of the retail industry, Dr. Roberto De Vera, professor at the University of Asia and the Pacific, said that competition in the retail sector has a lot to do with location. Just like in the banking sector, retail branches are mostly situated in the NCR.

To address competition issues, De Vera said that there is a need to encourage the development and empowerment of small and medium enterprises (SMEs). He concluded that the government has to link SMEs with the big players in the market.

**Future of competition reforms**

The Philippines is already a latecomer in the field of competition policy. However, through the commitment of the PCC and by harnessing the results of the CREW Project, competition reforms are expected to advance the country’s agenda for sustainable and inclusive growth.

PIDS President Gilberto Llanto highlighted the importance of having robust competition laws and a strong entity (i.e., PCC) to enforce the laws in support of sustained economic growth.

Llanto likewise hoped that policymakers, researchers, and other stakeholders use the insights from the CREW Project in tackling competition issues and in measuring the impact of competition reforms in different sectors.

CUTS Associate Director Rijit Sengupta shared Llanto’s views and affirmed the importance of evidence-based research behind every competition-related change.

“The Philippines has shown great interest and strong intent in solving its competition issues. Thus, the PCC will find no shortage in partners from the academe, industries, regulatory bodies, and civil society to convey the message that competition will be promoted in every level of the economy without fear or favor,” Sengupta concluded. MVPA (with report from GGM and MHB)
Private reforestation should be encouraged—PIDS study

Nongovernment reforestation, or tree planting activities conducted by private landowners, organizations, and citizens, has been declining despite the introduction of the National Greening Program (NGP). Launched in 2011, the NGP is a priority program of the government that aims to rehabilitate the forests and, at the same time, reduce poverty; promote food security, environmental stability, and biodiversity conservation; and enhance climate change mitigation and adaptation.

According to a study by state think tank Philippine Institute for Development Studies (PIDS), nongovernment reforestation contributed only about 2 percent of the total reforested area in 2013. This figure is much lower compared to the 56 percent of total area that private entities and individuals reforested in 2005.

PIDS Senior Research Fellow Danilo Israel, author of the study, noted that nongovernment reforestation contributed a large share in reforestation before the early 2000s. However, at the turn of the millennium, its contributions to reforestation efforts dropped to 20 percent from 39 percent in the 1990s. It continued to decline to 6.94 percent in the early 2011, just as the government launched the NGP.

Nongovernment reforestation occurs through agreements between the government and various nongovernment groups, such as forest agriculture communities, indigenous peoples, and industry entities and private groups. Nongovernment reforestation was driven by programs like community-based forest management agreements, integrated forest management agreements, socialized industrial forest management agreements, tree farm lease agreements, agroforestry farm lease agreements, industrial tree plantation lease agreements, industrial tree plantations, and Presidential Decree 1153 that requires every Filipino citizen to plant one tree every month for five consecutive years.

From the 1960s to the 1990s, the country suffered massive forest cover and biodiversity loss due to unchecked exploitation. Prior to the 1970s, the country has always relied on government programs to manage its forest resources. To mobilize better forestry protection and management, the government passed laws that would grant rights and responsibilities to nongovernment entities and enjoin them to the cause.

A good way to revive the contribution rate of nongovernment reforestation is to work through private landowners, organizations, and citizens. According to Israel, “private reforestation has been the main driver of nongovernment reforestation. However, it faces many obstacles and is generally left out of large-scale government reforestation programs like the NGP.”

Israel recommends that because private reforestation has outperformed other nongovernment reforestation programs in the past, the country’s policymakers should look into optimizing its performance by addressing institutional, production, and marketing issues that stand in the way.

“Harmonization of laws and regulations is a good place to start. Developing a coherent Sustainable Forest Management Act and Comprehensive Land Use Act would reassure private investors that their interests are protected. Right now, part of the institutional issues faced by private reforestation entities is the inconsistencies in relevant laws and policies, the lack of government-assisted programs, and complications related to security of land tenure and contesting land claims,” Israel explained.

Moreover, Israel indicated that government has to give the private sector incentives to expand their reforestation operations. Tree planting is a risky business especially when it comes to prices. Poaching, diseases, and natural calamities pose real threats to private investments. Tree farming in itself might be a hard sell, but Israel argued that “agroforestry and forestry tourism as alternative ventures can be promoted.”

To help address input price risk, government seedling nurseries must be capacitated to provide steady supply
of good quality of seedlings at cheaper prices. More stringent laws against poaching must also be put in place such as having an effective reward system for catching tree poachers and a higher penalty for offenders including sufficiently long prison sentences. Likewise, government should extend crop insurance coverage to tree planting and conduct better antidisease and pest control activities.

Lastly, government should assist tree farmers to market their products through better organization, especially when it comes to entering and engaging the markets here and abroad, and provision of better transport infrastructure.

“Government should help tree farmers organize themselves into marketing cooperatives. This way, they can have better access to international markets for commercial logs and processed wood products. Cooperatives, for example, can also invest in commonly owned equipment and facilities, such as chain saws and trucks, for harvesting and transporting logs to markets by their members,” Israel recommended.

At the same time, road and bridge infrastructure in the rural areas must also be improved to hasten the transportation of tree production inputs and harvested logs from the planting sites to the holding areas and markets.

Private reforestation is one facet of nongovernment reforestation, founded on the principle of engaging citizens and nongovernment groups to care for, protect, and help manage the country’s remaining forest resources. It is to the government’s interest to give its private partners more opportunities to participate and enhance conservation efforts. MHB

A successful reforestation program entails a strong partnership between government and different stakeholders of a community, such as the private sector and people’s organizations. (Photo by Rappler)

PROPOSALS TO AMEND the personal income tax schedule appear to be well-justified. However, these proposals should include measures that will allow government to recover the revenue loss from lower income taxes.

Dr. Rosario Manasan, senior research fellow of state think tank Philippine Institute for Development Studies (PIDS), said at a seminar sponsored by the Philippine Senate, that government should look for new revenue measures to compensate for the projected revenue loss that will arise as a result of the implementation of any of the various proposals to restructure the personal income tax.

Currently, there are several income tax reform proposals pending in both houses of Congress. All of them, according to Manasan, have the same objective of addressing the phenomenon of bracket creep, which results from “non-indexation to inflation of personal income tax brackets”. Simply put, bracket creep occurs when employees’ income increases over time as a result of inflation. This pushes them to pay higher taxes, but their purchasing power remains the same. The Philippines has not adjusted its personal income tax system since 1998.
Manasan also noted that the proposals all attempt to reduce the country’s high personal income tax rate relative to its neighbors in the Association of Southeast Asian Nations (ASEAN). In particular, the Philippines’ top marginal personal income tax rate of 32 percent is higher than that of all the ASEAN member-states with the exception of Thailand and Viet Nam.

The proposals to amend the personal income tax law assessed in the PIDS study were Senator Recto’s Senate Bill 716, Senator Aquino’s Senate Bill 1942, Senator Angara’s Senate Bill 2149, Rep. Quimbo’s House Bill 4829, and Rep. Colmenares and Rep. Zarate’s House Bill 5401. Similar proposals have been raised by the private sector, most notably the Tax Management Association of the Philippines (TMAP).

According to Manasan, Recto’s SB 716 and Quimbo’s HB 4829 will reform the personal income tax system by adjusting the tax brackets according to changes in consumer price index between 1998 and 2015. Meanwhile, Aquino’s SB 1942 will exempt incomes below PHP 60,000 and raise the top bracket income threshold to PHP 12 million.

Angara’s SB 2149 will affect changes in tax rates in phases over a span of three years, reducing the bottom marginal tax rate from 15 percent to 10 percent and the top marginal tax rate from 32 percent to 25 percent. Under this proposal, all incomes below PHP 20,000 will also be exempted from taxation. Colmenares and Zarate’s HB 5401 exempts income below PHP 396,000 and raises the top threshold to PHP 2 million.

Manasan noted that all of the proposals to amend the personal income tax schedule are clearly progressive given that the associated effective tax rates computed for various taxable income levels rises as the corresponding taxable income increases. However, she pointed out that some proposals are less progressive, particularly Angara’s SB 2149 and Quimbo’s HB 4829.

Manasan’s analysis shows that the tax liability in Angara’s bill actually increases for those in the lower bracket during the first two years of its implementation while Quimbo’s bill increases tax for non-wage taxpayers below the PHP 500,000 mark.

“As for losses in government revenue, the costliest bills are Quimbo’s HB 4829 and Colmenares and Zarate’s HB 5401, which is estimated at PHP 130 billion and PHP 232 billion, respectively. In contrast, Recto’s SB 716 will result in a revenue loss of around PHP 52 billion for the government, while Angara’s SB 2149 will cost the government PHP 10 billion in the first year and PHP 61 billion in lost revenues for the third and final year,” Manasan explained.

PIDS’ fiscal expert noted that whichever proposal passes into legislation, government revenue will suffer. One way for government to recover the revenue loss is to increase the value-added tax (VAT) rate.

For instance, Manasan pointed out that a one-percentage point increase in the VAT rate is enough to recover approximately PHP 26.25 billion loss in revenue from other taxes such as the personal income tax. However, she noted that raising the VAT rate would nullify the increased purchasing power resulting from the modification in the personal income tax rate schedule, especially among the poorer segment of the population.

“Increasing the VAT will only recover revenue loss to a certain point, assuming that the increase in disposable income is fully spent. Moreover, the poorest will remain the hardest hit if the price of goods increases proportional to the VAT,” Manasan underscored.

Another option, she said, is to levy an excise tax on sugar-sweetened beverages, which, based on the computation of the Department of Finance, will give government an additional PHP 30 billion yearly.

Alternatively, government can apply an additional variable excise tax rate on petroleum products or increase the road user’s tax and motor vehicle user charge. According to Manasan, both measures will have a positive impact on the environment through reduced pollution and congestion.

Meanwhile, former TMAP President Rina Manuel remarked at the lecture that the estimated billions in losses will be a “real price to pay”.

Apart from compensatory measures, Manuel thinks that taxation could be largely improved by (1) improving the collection system and (2) establishing a “specialized taxpayer program” for the self-employed and for the professionals.

As the presidential election looms, tax reform has increasingly become a critical election issue. Tax reform is overdue, and experts opine that a comprehensive tax reform should be a top priority for the presidential candidates.

“I think our candidates should make a stand on this issue so that voters know what they are voting for.” Manasan concluded.
PIDS honors top economic bureaucrats

STATE THINK TANK Philippine Institute for Development Studies (PIDS) marked a changing of the guards with a simultaneous testimonial dinner for outgoing Board of Trustees Chairman Arsenio Balisacan and a warm welcome for Emmanuel Esguerra as new PIDS Chairman of the Board, Socioeconomic Planning Secretary, and Director-General of the National Economic and Development Authority (NEDA).

In attendance were PIDS forefathers—former NEDA Director-General and the Institute’s founding father Gerardo Sicat and former Prime Minister Cesar Virata. Former PIDS OIC-Vice President and Assistant Secretary Rafaelita Aldaba of the Department of Trade and Industry was also present, alongside the roster of PIDS research fellows, colleagues, and staff.

Balisacan will assume leadership of the recently established Philippine Competition Commission. PIDS President Dr. Gilberto Llanto honored his former boss and expressed gratitude on behalf of the Institute for all of Balisacan’s contribution to PIDS’ profile.

“The under his policy direction and vision, the PIDS was able to explore new grounds in policy research and constitute itself as a preeminent research institution doing impact evaluation,” said Llanto.

The core of PIDS work—to conduct process and impact evaluations, and to produce sound policy advice—relied on the substantial funding that Balisacan championed to secure.

But more than that, Llanto said, Balisacan helped give PIDS the reputation it is due. “He brought PIDS work to the attention of the president himself who became appreciative of the contribution of policy research to good decisionmaking,” noted Llanto.

Llanto described Balisacan, who is a marathoner in his own time, as a man who represents all the qualities it takes to win a race: persistent, task-oriented, conscientious, demonstrative, sociable, and has the human tendency to never be satisfied.

Llanto called Balisacan’s service record “a life worth emulating”, and thanked him for steering policy conversations and decisions for the greater good.

In Balisacan’s place, Emmanuel Esguerra will assume the leadership roles for NEDA and PIDS. Esguerra has served as deputy director-general of NEDA since 2012. He championed the Asia-Pacific Economic Community Services Cooperation Framework at last year’s APEC summit in Manila, and the integration of inclusiveness through increased investments in infrastructure and human capital development.

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leadership was appointed into the Supreme Court and various Constitutional bodies, such as Commission on Audit, Civil Service Commission, and Office of the Ombudsman. Able and serious-minded professionals were placed in key executive positions, with their policy pronouncements typically enjoying the support of the chief executive. Sweeping reforms were made on the budgeting process and the performance-based incentive system for the bureaucracy. Over a broad range of measures, governance in the Philippines has improved, based on the World Bank (2016d) set of indicators. For all the governance dimensions, the percentile rank for the Philippines has increased since 2010 as shown below (number in parentheses displays the gain in rankings):

- Control of corruption: 40 (17)
- Government effectiveness: 62 (7)
- Political stability: 23 (18)
- Regulatory quality: 52 (45)
- Rule of law: 43 (9)
- Voice and accountability: 53 (5)

The Competition Act was finally passed in 2015. This law enacts a national competition policy and establishes an independent quasi-judicial body—the Philippine Competition Commission (PCC). The commission is mandated to cover all commercial economic activities and exercise vast powers for investigating, divesting, reorganizing, fining, and prosecuting companies for anticompetitive practices. The PCC promises to lead in countervailing the power of the elite, which has lorded over the nation’s economy and politics.

As head of NEDA, Esguerra aims to steer the socioeconomic planning agency’s focus toward further inclusiveness and resilience, and to incorporate the sustainable development goals and the Philippine Development Plan into the country’s socioeconomic activities.

PIDS Board Member Romeo Bernardo assured that the future of NEDA and PIDS is in good hands under the leadership of Esguerra.

“In NEDA and PIDS have been blessed with a succession of such scholars and practitioners since the time of Dr. Sicat,” said Bernardo, attributing the virtues of ‘philosopher kings’ to his lifelong friend.

“I know Secretary Manny will steer both NEDA and PIDS from strength to strength as Secretary Arsi and President Gilbert have done,” said Bernardo

In his own words, Esguerra admitted that the work will certainly be challenging. “With your help and with a unified vision of what we aspire for as a nation in terms of inclusive development, I’m sure we shall be able to pull it through.” MHB
The key source of uncertainty in the medium term is the change in leadership in May.

The election of 2010 was a turning point in the economy’s development trajectory. The trajectory approaches another turning point with the upcoming election. Policy flip-flops had hounded past administrations and discouraged investments. Money politics and voter immaturity may unfortunately reverse the recent reforms. Nonetheless, the Philippine electorate should not be underestimated. After all, they were responsible for electing this outgoing batch of leaders.

Global risks notwithstanding, the outlook for 2016 is a moderate improvement over the 2015 outcomes.

In the short term, the most obvious source of risk are the global economic conditions, which, as mentioned earlier, include the growth slowdown in the region (particularly in China, followed by Japan), the moderation of monetary policy in the US, and the continuing fall in commodity prices (especially oil). However, the Philippines has weathered such headwinds before by adhering to sound domestic fundamentals.

In the short term, there is no reason to expect sudden departures from the current trends. For 2016, GDP growth may be expected to remain in the 6.0- to 6.5-percent range. Inflation is projected to hover at under 5 percent and unemployment at about 6 percent.

References


Policy Notes 2016-02
**PhilHealth Coverage in the Informal Sector: Identifying Determinants of Enrollment**  
_by Denis Valerie Silfverberg_

One of the schemes of the Philippine Health Insurance Corporation (PhilHealth) is the Individually Paying Program (IPP)—the voluntary component of the country’s social health insurance. Those enrolled in the IPP scheme are individuals who opt to pay for their own membership. They generally include the self-employed, self-earning, and those in occupations without a formal employer-employee relationship, such as the informal sector. This Policy Note aims to identify the determinants of enrollment into the IPP. Identifying predisposing factors will allow for better and more efficient targeting of the sectors of the population that are otherwise difficult to capture.

Policy Notes 2016-03
**Nongovernment Reforestation in the Philippines: Ways Forward**  
_by Danilo C. Israel_

Nongovernment reforestation is defined as reforestation done through tenure instruments, citizenry, and private lands. This Policy Note aims to identify contemporary issues and problems related to nongovernment reforestation and recommends specific actions that can be undertaken to address them. Private reforestation is found to perform the best among the different types of nongovernment reforestation, and may be the preferred approach to nongovernment reforestation in the future. This type of reforestation, however, has problems and issues that may prevent it from reaching its full potential. One of these issues is the constant change and inconsistency of relevant laws and policies. To address this, the study recommends the passing of a well-developed Sustainable Forest Management Act that will harmonize existing laws to make them more consistent.

Policy Notes 2016-04
**Assessment of the COMPACK Program**  
_by Dennis Batangan_

This study is an assessment of the Complete Treatment Pack (COMPACK) Program that aims to ensure that the poorest of the poor are assured access to medicines for common diseases in the country. The main objective of the program is to realize decreased health-care cost. One positive effect of the program is the shortening of delivery time of medicines. The program, however, is affected by mismatch in the type and timing of the medicines supplied to local government units (LGUs), and poor consultation with the LGUs on their medicine requirements resulting in the oversupply of some medicines and undersupply of other items. To improve the implementation of the program, this Policy Note recommends the integration of the COMPACK Program with LGU development plans and to continue addressing the unstable and incorrect supply of medicines.

Policy Notes 2016-05
**How Effective Has the Generics Act Been?**  
_by John Q. Wong, J. Richelcyn M. Baclay, Richelle G. Duque, Patricia Margarita S. Roque, Grace Kathleen T. Serrano, Jenina Olivia A. Tumlas, Aisha-Aziza A. Ronsing, and Kim Cochon_

The Philippine government passed the Generics Act of 1988 to ensure that inexpensive and effective drugs are made available to all Filipinos. The law aims to supply and promote low-priced quality medicines as alternatives to the widely consumed but more expensive originator brands by requiring physicians to include in their prescriptions both the generic and brand names of the medicines. This Policy Note presents the results of a survey assessing the compliance of physicians and drugstores with the provisions of the law. The survey showed higher compliance among physicians than among drugstores and consumers. Among consumers, low awareness of the law was found, while drugstores demonstrated low compliance with the provision mandating them to display generic menu cards and offer generic alternatives. One of the recommendations is to change the mindset of consumers through continuous education drives that will reach the most important cluster of the population.

Policy Notes 2016-07
**Making Digital Dividends Inclusive**  
_by Jose Ramon G. Albert, Ramonette B. Serafica, and Beverly T. Lumbera_

The Philippines, with its new economic growth trajectory, requires reliable, accessible, and affordable infrastructure in information and communications technology (ICT). To maximize digital dividends or the development effects of these technologies, policies need to be formulated and implemented. This Policy Note gives a brief history of the Internet in the Philippines, examines trends in various ICT statistics, discusses issues confronting the ICT sector, and provides policy recommendations to make digital dividends more inclusive. To address these, the government needs to regulate the interconnectivity of networks, build better ICT infrastructures, and expand ICT services to include other sectors for development.

Discussion Paper 2016-01
**Inadequate N Application of Rice Farmers in the Philippines: Problems, Causes, Solutions**  
_by Roehlano M. Briones_

Inadequate application of nitrogen (N) fertilizer has been identified by the Food Staples Sufficiency Program as a major constraint in achieving rice self-sufficiency. The available literature on fertilizer application in the Philippines tends to find inadequate N application under the agronomic and economic criteria. Explanations for the gap may be grouped under the following sets of factors: external constraints, attitude toward risk, and internal constraints. Different explanations imply
Investing in Human Capital for Inclusive Growth: Focus on Higher Education  
by Dante B. Canlas

What should the Philippines do to transform into a high middle-income economy and ensure that the benefits from such a transformation are within reach of every Filipino? Investment in human capital, especially in higher education, is one instrument that can serve the twin goals of boosting economic growth and attaining inclusive growth. Currently, the Philippines is confronted with a low proportion of enrollees and graduates in higher and scientific education. It needs to raise its stock of labor with higher and scientific education amid the rising demand for skilled workers and widening gaps in lifetime earnings between college and high school graduates. Several policies are indicated. Priority, however, must be accorded to instituting loan programs for higher education, accelerating rationalization of the state university and college sector by establishing regional university systems and centers of excellence, and devising grant programs for content standards for subjects and courses and formulating standardized tests for measuring and monitoring compliance with those standards applied to both public and private institutions of higher learning.

Growing Inclusive Businesses in the Philippines: The Role of Government Policies and Programs  
by Roehlano M. Briones

Inclusive business (IB) is a private sector approach to providing goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the pyramid by making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers. There is keen interest in IBs, both in the public and private spheres, as a strategy for inclusive growth. The Department of Trade and Industry is setting up an accreditation system to certify business models as IB, based on an evaluation tool, initially for three priority sectors: agribusiness, housing, and tourism. This paper analyzes the economic and development potential of IBs, and describes existing programs and policies of the government in terms of openness to IB. It then makes several recommendations for short-term IB promotion, as well as long-term measures to support IB in the Philippines.

Results of an Impact Evaluation Study on DepED’s School-Based Feeding Program  
by Ana Maria L. Tabunda, Jose Ramon G. Albert, and Imelda Angeles-Agdeppa

The link between malnutrition and poor health among elementary school children and absenteeism, early dropout and poor classroom performance, as well as the effectiveness of school-based nutrition and health interventions in improving school performance are well-established in the literature. Thus, the Department of Education has been conducting conditional food transfer programs since 1997. This paper presents the findings from the impact evaluation of the school year 2013–2014 implementation of the program. This is a follow-up on the process evaluation conducted by the PIDS. The findings indicate that, except for inaccurate measurement of nutrition status variables and improper documentation of the program in all its three phases (prefeeding, feeding, and postfeeding), the program was generally implemented well by the beneficiary schools, and welcomed not only by program beneficiaries and their parents but also by many of the school heads and teachers of the beneficiary pupils.

Discussion Paper 2016-05

Discussion Paper 2016-06

Discussion Paper 2016-07

Discussion Paper 2016-02

Discussion Paper 2016-03

The National System of Technical Vocational Education and Training in the Philippines: Review and Reform Ideas  
by Aniceto C. Orbeta Jr. and Emmanuel Esquerra

The role of the National System of Technical Vocational Education and Training (NSTVET) is critical in skill upgrading and development. The rapidly changing technology highlights this need even more. This paper reviews the state of Philippine NSTVET, and identifies and discusses reform ideas. It does so by doing three things, namely, (1) provide a description of the characteristics of an improved NSTVET described in recent sectoral reviews, (2) provide a description of the characteristics and analysis of the performance of the existing Philippine NSTVET, and (3) provide recommendations to improve the system. Among the recommendations provided in the study are: (1) TESDA should focus more on regulation and information provision, (2) greater emphasis on enterprise-based training, (3) make training continuously relevant to industry needs, (4) greater performance orientation in access to public training funds, (5) improved targeting and sufficiency of financial assistance for TVET, (6) ensure quality in community-based training, (7) improve data generation and dissemination, (8) improve capacity for monitoring and evaluation, and (9) improve the image of TVET.
Thus, as the country undergoes another critical juncture, one could not help but feel anxious of what the country will become after May 2016. Briones cautions readers that the impending change in leadership is a key source of uncertainty. After all, political actors dictate the nature of economic institutions. As emphasized by Daron Acemoğlu and James Robinson, authors of Why Nations Fail, neither geography nor culture nor religion determine the economic prosperity of nations; it is politics. Lamentably, in the Philippines, popularity and patronage politics still prevail. Moreso, the bulk of the electorate has not reached a sufficient level of maturity and discernment necessary to use their democratic rights wisely.

Nevertheless, one should not ignore the fact that over the years, there have been seeds of reform sown in the bureaucracy by champions, transforming both people and processes steadily. The challenge is how to sustain these reforms and keep the momentum going to prevent a reversal to the old ways. The passage of the Competition Law last year is a legislative milestone in the country’s decades-long journey to pass an antitrust bill. Other legislations worth noting are the Sin Tax Reform Act, Enhanced Basic Education Act of 2013, Reproductive Health Law, and National Health Insurance Act of 2013. These are clearly good policies. But effective implementation, regular monitoring, and proper evaluation of programs and projects that translate the policies are crucial, and these are areas that government has to do better.

PIDS continues to assist government by providing impartial policy insights drawn from rigorous research. This issue features three of its recently completed studies/projects and some of their main findings and policy recommendations. First is a research project that looked into the competitiveness and key reform areas in the rice and bus transport sectors. The studies from this project highly complement the work of the newly formed Philippine Competition Commission, which is being headed by former Socioeconomic Planning Secretary and ex-PIDS Board of Trustees Chairperson Arsenio Balisacan. Second is the Institute’s evaluation of the National Greening Program. Third is the analysis of Dr. Rosario Manasan—PIDS’ fiscal expert—of the proposals by some legislators to amend the personal income tax law.