AN ANALYSIS OF THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2006

CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

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PART 1

MACRO ASSESSMENT OF THE PRESIDENT'S BUDGET

Chapter 1

FRAMEWORK AND ORGANIZATION OF THE REPORT

The P1.053 trillion proposed National Budget for fiscal year 2006 is envisioned by the Executive Branch to be a potent weapon for the permanent upliftment of the large mass of the Filipino people from poverty. It is intended to put into action the 10-point agenda of the President, laid out in the Medium Term Philippine Development Plan, namely: job opportunities and credit, education for the poor, balanced budget, electricity and water supply to towns and barangays, transport and digital networks, decongestion of Metro Manila, development of service and logistics centers in Clark and Subic, automation of electoral process, and successful conclusion of the peace process.

The fiscal problem, however, remains as one of the major challenges facing the government. With the projected deficit of P124.9 billion in 2006, the national government would be running a budgetary deficit for nine consecutive years since 1998. This raises a major issue of whether the government's deficit spending and borrowing program is sustainable.

One way to assess the sustainability of the budget deficit is to consider its consistency with the other macroeconomic targets, such as the real growth rate of GDP or GNP, inflation rate, interest rate and exchange rate. A good starting point to understand this relationship is through the national income accounting identity, which states that the government's budgetary deficit must be financed by domestic private sector savings and/or foreign savings.

Borrowing from the domestic financial markets increases the demand for domestic loanable funds. This puts pressure on interest rate to rise. High interest rate in turn reduces the number of viable projects and discourages private investments. Thus, the budget deficit can

be regarded prudent or sustainable if its implied domestic borrowing requirement will not cause interest rates to rise beyond the targeted interest rate that is consistent with the desired level of private investment.

External borrowing or borrowing from foreign savings can allow the government to run sizeable budget deficits without causing domestic interest rates to rise. The sustainability of external deficit financing can be assessed with regard to the targeted ratio of gross external debt to exports or the desired ratio of foreign reserves to import. By ensuring that the debt-servicing ratios are within the desired levels, the government can maintain its external credit worthiness.

A sustainable fiscal deficit is also defined as one that leads to a declining debt-to-GDP ratio. For this to be realized the government must eventually post a primary surplus, that is a positive balance between government revenues and expenditures excluding interest payments. The primary surplus ensures that current revenues cover at least the part of the interest on current debt resulting in declining debt-to-GDP ratio. The only exception to this requirement is if the growth rate of the economy—and of public revenues—persistently exceeds the real interest rate on public debt, which assumes highly efficient and effective use of resources. In general, however, it is not possible for the rate of economic growth to be consistently higher than the interest rate.

In addition to the promotion of economic stability, the national budget could be an effective instrument for effecting structural changes that enhance efficiency and equity, and promote poverty alleviation. In this regard attention is given to the composition and structure of government revenues and expenditures. The allocation and composition of the budget—by sector, by function, by type and object of expenditure, by agency and by region—and corresponding trends, should reflect the government's priorities. The President's 10-point agenda spells out the government's priorities that should find support in the allocation of the national budget.

Part I of the report is largely devoted to the assessment of the national budget and its implied fiscal targets (i.e. revenue, expenditure, deficit and financing requirements) in terms of consistency to the macroeconomic targets or assumptions. Specifically, Chapter 2 on macroeconomic perspective reviews the underlying macroeconomic assumptions of the national budget including possible effects of potential downside risks factors on the fiscal targets. It also provides alternative fiscal scenarios arising from different sets of macroeconomic projections. Chapter 3 on financing the budget examines in-depth the composition and trends in national government revenues. It analyzes the causes of the decline

in the tax effort and assesses the likelihood of meeting the government's targeted revenues for the current and ensuing fiscal year. The section also provides a brief discussion on the government's priority revenue measures.

Chapter 4 on government expenditures discusses the size, trend and composition of government expenditures. It highlights the squeeze on the budget brought about by the huge debt-servicing requirements. Chapter 5 on deficit spending and government debt presents the magnitude of the deficits and the public sector borrowing requirements for fiscal year 2006 and the recent years. It examines the sustainability of the current fiscal deficit and reviews the medium-term fiscal targets of the government.

Part 2 focuses on budgetary allocation to specific sectors specifically the sectors that are critical to the 10-point agenda of the government namely: infrastructure, agriculture, education, health, and housing. Each chapter presents the strategic importance and current situation of the sector, and the sector's budgetary allocation vis-à-vis past allocation and its resource requirement. The last chapter summarizes the findings and recommendations of the study.

Chapter 2

MACROECONOMIC PERSPECTIVE UPDATE[1]:
The 2006 Budget Amid Risks and Uncertainty

Amid vulnerabilities, robust and effective reforms are imperative in enhancing the quality of economic growth and the tax effort, which both impact tremendously on the government's revenue and deficit targets. Reforms would boost resource availability that could support the government's commitment to poverty alleviation and sustainable development, only if efficiently allocated and protected from undue leakages. Lower GDP growth performance would result in lower tax take. While uptick in non-tax revenues would contribute in addressing deficit concerns, enhancing the tax effort would still be a better and sustainable option in mitigating the impact of lower growth assumptions.

The President's fiscal budget hinges on macroeconomic assumptions and, in itself, is bound to influence aggregate demand. The national obligation budget[2] proposal of P1.053 trillion for fiscal year 2006 submitted by the President to Congress is roughly 17.2% of projected nominal gross domestic product (GDP)[3] in the same year.

The Executive is targeting tax collections of P874.3 billion (or 14.3% of GDP) to support almost 80% of the proposed disbursement program of P1.093.5 trillion while P94.3 billion from non-tax sources is intended to shore up approximately 8.6% of disbursements. The balance in the disbursement schedule amounting to P124.9 billion (roughly 2.0% of GDP) is expected to be deficit-financed.

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[1] Text revised February 2006. CPBD updated simulations and forecasts as of 31 January 2006 using the national accounts data released by the NSCB on 30 January 2006 (which include Q32005 revisions). Incorporates 2005 annual averages of certain economic indicators.

[2] Obligation basis budgeting accounts for current year's expenditure requirements only. On the other hand, cash budgeting reports expenses as they are paid regardless of the period when the obligation was made.

[3] Based on CPBD nominal 2006 GDP estimate of P6,112.3 billion using the official target of 5.7% real GDP growth and 7.5% low-end inflation assumption in the BESF and by the BSP.

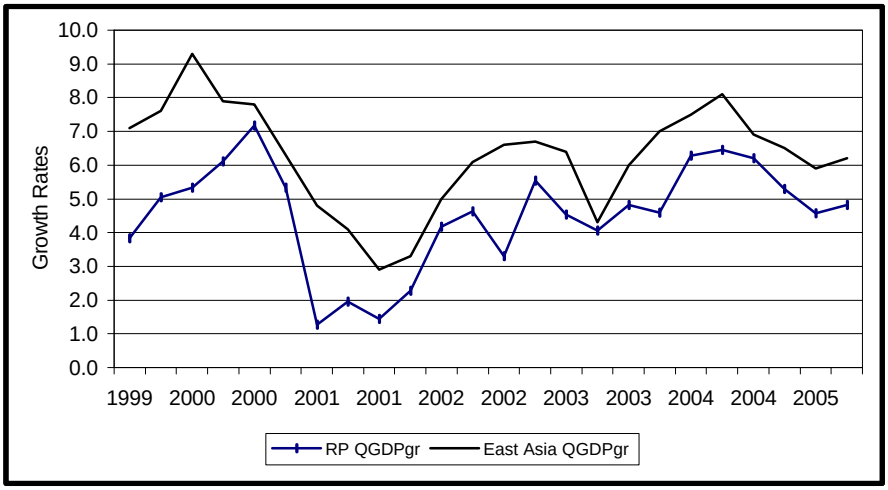
The overall level of expenditures serves as the hard budget constraint that gives rise to trade-offs, imputation of opportunity costs, and valuation of proposals (*Campos 2002*). The efficient allocation of scarce resources is all the more pressing given the range of public priorities and objectives in the midst of competing preferences and claims.

Hence, germane to an analysis of the national expenditure program is a review of the underlying macroeconomic assumptions/targets and expected resource availability, more so amid risks and uncertainty. This has become all the more imperative for an economy that is highly vulnerable to downside risks, political controversies, and "boom-bust-cycles".

MACROECONOMIC OVERVIEW

Economic Performance. The Philippine economy has performed distinctly below[4] East Asia's average growth rates. Nonetheless, it tracked[5] Emerging East Asia's cyclical peak and surpassed expectations in 2004 by growing 6.03%—well above the government's revised high-end target of 5.8%[6].

FIGURE 2.1
QUARTERLY REAL GDP GROWTH
(YEAR-ON-YEAR IN %)



Sources: National Statistical Coordination Board and WB East Asia Update April and November 2005.

[4] On a quarterly basis from 1999:3-2005:2, the average difference is 1.7 percentage points while on an annual basis from 1998-2004, the Philippine economy was off East Asia on the average by 1.6 percentage points.
[5] The real GDP quarterly growth rates of the Philippines from 1999:3-2005:2 are highly positively correlated to East Asia's growth rates with a coefficient of 0.80. On an annual basis, the correlation coefficient is 0.96.
[6] This 5.8% target in the BESF was already scaled down from the prior 5.7%-6.3% target range contained in the MTPDP 2001-2004.

In January 2006, the National Statistical Coordination Board released National Accounts data indicating a 5.1% GDP expansion in 2005—roughly off the low-end 5.3% GDP growth target. As of December 2005, even the National Economic Development Authority (NEDA) had already conceded that its GDP growth forecast has been downgraded to 4.8%-5.1%.

Comparative Economic Forecast. Notwithstanding the implementation of reforms in the value added tax, concerns still persist over the Philippine economy's undergoing a phase of "muddling through" in the medium term. Significant domestic and global developments seem to impede the attainment of government's aim of sustainable and higher growth path. Adverse circumstances in global markets and geopolitics, unfavorable weather, risks of calamities and disease, intermittent noise and unfinished business in the political arena, and inadequate reforms would continue to weigh down on the 2006 economic outlook.

The government has nonetheless maintained its 2006 economic growth target range of 5.7%-6.3%, which has already been scaled down as of end-September 2005 from the 6.3%-7.4% target in the MTPDP and the BESF.

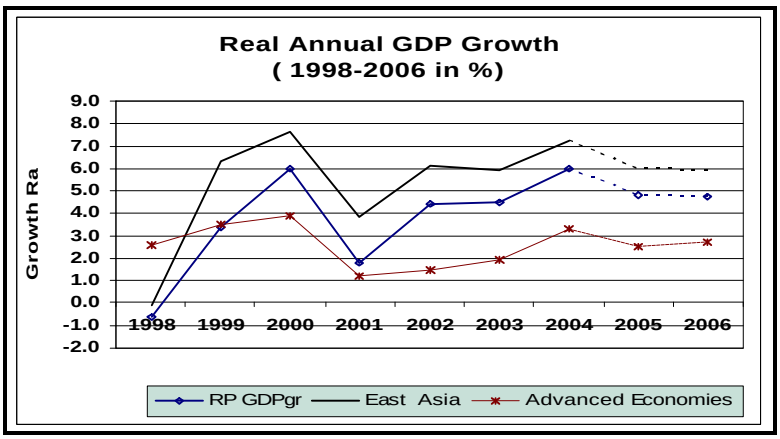
TABLE 2.1
PHILIPPINE GDP GROWTH PROSPECTS (%)

PARTICULARS	2005	2006
NSCB Release *(January 2006)*	**5.13**	
MTPDP / BESF 2005	5.3 – 6.3	6.3 – 7.3
BESF 2006	5.3 – 6.1	6.3 – 7.4
NEDA *(September 2005)*[1]	5.3	5.7 – 6.3
NEDA *(December 2005)*	4.8 – 5.1	
CPBD *(October 2004)*	4.5 – 5.3	
CPBD *(September 2005)*	4.7 – 5.0	4.5 – 5.0
CPBD *(January 2006)*		4.5 – 5.1
Multilateral Institutions		
ADB *(September /December 2005)*	4.7[u]	4.8[u]
IMF *(September 2005)*	4.7[u]	4.8[u]
WB *(November 2005)*	4.8[u]	5.0

[1] *NEDA Presentation before the Committee on Appropriations (26 September 2005)*
Sources: NSCB National Accounts as of January 2006; BESF 2005 & 2006; DOF; ADO Update and IMF World Economic Outlook (Sept. 2005) World Bank East Asia Regional Economic Update (Novemberl 2005); ADB Asian Economic Mointor (December 2005)
Note: u – update

In contrast, the forecasts by the CPBD and other institutions have been more conservative[7]. As of January 2006, the CPBD still reckons 2006 GDP growth to hover between a moderate range of 4.5%-5.1%. Multilateral institutions have likewise been restrained in their 2006 growth scenarios, remaining cautious in their prognoses—with both the International Monetary Fund and the Asian Development Bank expecting 4.8% 2006 GDP growth and the World Bank anticipating a 5.0% expansion.

FIGURE 2.2



Sources: National Statistical Coordination Board / IMF - World Economic Outlook (September 2005) / World Bank East Asia Regional Update(April 2005) CPBD 2005-2006 midpoint estimates

Cross-Country Comparison. The multilateral institutions are projecting the Philippines to post the lowest growth among the ASEAN-4 in 2006. Indonesia is expected to continue its rebound, growing by about a full percentage point higher than the forecasts for the Philippines. Vietnam is predicted to be on course its 7+% trajectory. China would still be full steam ahead, though relatively cooler than the 9.5% realized in 2004.

Understandably, the East Asian NIEs (Hong Kong, Taiwan, Singapore, and Korea) would likely post lower growth rates than the Philippines. The IMF is projecting the growth rate in Singapore to fall considerably to 3.9% in 2005 from a peak of 8.4% in 2004. In 2005, growth in Taiwan would decelerate by 2.3 percentage points, in Hong Kong by 1.8 percentage points, and in Korea by 0.8 percentage point. In 2006, Korea, Singapore, and Taiwan are forecast to

[7] The CPBD's year-old GDP growth forecast of 4.5%-5.3% for 2005 was updated to a tighter range of 4.7%-5.0%[7] in September 2005. The release by the National Statistical Coordination Board of 2005 3rd quarter national accounts data and updated 2nd quarter figures prompted the CPBD to update its 2005 forecast range as of December 2005 to 4.6%-4.8%[7], but which was not officially released. In January 2006, the NSCB released the revised 3rd quarter 2005 data.

expand the pace of growth to 5.0%, 4.5%, and 4.3%, respectively, while Hong Kong would continue to slow down but still at a comparable 4.5%. (*IMF World Economic Outlook September 2005*)

Altogether, the world's advanced economies are estimated to slow down from the cyclical peak of 3.3% in 2004 to 2.5% in 2005, before a slight upturn of 2.7% in 2006. The U.S. is projected to trail its 2004 growth of 4.2% with 3.5% in 2005 and 3.3% in 2006. From a high of 2.7% in 2004, Japan is predicted to post annual growth rate of 2.0% each in 2005 and 2006. The Euro area is forecast to slow down to 1.2% in 2005 prior to a probable up tick of 1.8% in 2006. (*IMF World Economic Outlook September 2005*)

TABLE 2.2
CROSS-COUNTRY COMPARISON
GDP GROWTH RATES (%), 2004-2006

ECONOMIES	2004	2005			2006		
	Actual	ADB	IMF	WB	ADB	IMF	WB
Philippines	6.0	4.7	4.7	4.8	4.8	4.8	5.0
Indonesia	5.1	5.5	5.8	5.7	5.9	5.8	6.0
Malaysia	7.1	5.1	5.5	5.0	5.3	6.0	5.3
Thailand	6.1	4.5	3.5	4.2	5.0	5.0	5.0
Vietnam	7.7	7.6	7.5	7.5	7.6	7.0	7.5
China	9.5	9.3	9.0	9.3	8.9	8.2	8.7
Korea	4.6	4.0	3.8	3.8	5.0	5.0	4.6
Singapore	8.4	5.2	3.9	4.1	6.0	4.5	4.7
Taiwan	5.7	3.7	3.4	3.6	4.1	4.3	4.1
Hong Kong	8.1	5.4	6.3	5.5	4.3	4.5	4.4
Advanced Economies	3.3		2.5			2.7	
U.S.	4.2	3.6*	3.5	3.5	3.4*	3.3	3.5
Japan	2.7	2.3	2.0	2.3	2.6	2.0	1.8
Euro area	2.0	1.4*	1.2	1.1	1.9*	1.8	1.4

Sources: ADB-ADO Update (September 2005) / ADB Asia Economic Monitor (December 2005) / IMF - World Economic Outlook (September 2005) / World Bank East Asia Regional Update (November 2005)
**Consensus Economic Forecasts December 2005 cited in ADB Asia Economic Monitor*

Factors Affecting the Economic Outlook. Key assumptions are bound to affect the economic outlook upon which hinges the proposed budget for fiscal year 2006.

- ***Inflation.*** General price movements have been quite volatile and averaged 7.6% for the whole of 2005. The original 2005 respective inflation target (4.0%-5.0%) in the BESF 2005 and forecast (5.5%-6.0%) by the CPBD have been breached on account of supply-side constraints, in particular, record spikes in global oil prices. However,

easing oil prices toward the end of 2005, sharp appreciation of the peso, and delayed implementation of E-VAT contributed in muting the anticipated full extent of revised inflation projections.

While inflationary pressures have started to ease, closer scrutiny of the commodity basket has prompted the CPBD to update its 2006 inflation forecast (*cited in an earlier version of this paper*). The effects of E-VAT and lingering tight oil supply worries would still preclude abatement of average inflation to 6.0%-6.8% (*without the 2% E-VAT*). Rather, the imposition by February 2006 of the additional 2% E-VAT on specific commodity groups would instead correspondingly hike forecast inflation to range 7.7%-7.9%.

The BESF documents specify an inflation forecast of 7.5% in 2006. Recent statements from BSP Governor Tetangco indicate an inflation range update of 7.5%-8.2% in 2006.

- ***Dubai Oil Price.*** An assessment of oil prices is critical considering the Philippines' oil dependence, with the oil import bill to GDP having grown from 7.7% in 1995 to 22% in 2004, which pales in comparison with China's 2.3% or the U.S. energy (to include oil) bill of 6.0%, according to Energy Undersecretary Peter Anthony Abaya. Moreover, oil shocks feed inflationary expectations and upset growth prospects.

  In 2005, Dubai Crude FOB, which the country uses as a benchmark, averaged $49.32 per barrel. For 2006, the outlook from the BSP Governor notes that "oil prices are still likely to remain high relative to their historical trend given limited production capacity."

  Apart from capacity constraints, oil prices would continue to remain volatile due to the vagaries of the weather, geopolitical concerns in the oil producing areas, and the anticipated growth in the U.S. and China.

  Expectations of oil price volatility could be gleaned from emerging scenarios (*from the macroeconomic assumptions of the BSP*). In November 2005, the emerging 2006 Dubai price scenario by the BSP was $54.46. A month later, the BSP was already assuming $57.88 per barrel. Moreover, comparative Dubai prices likewise reflect such volatility—while December 2005 prices averaged $53.20 per barrel, January 2006 prices have already averaged sharply at $58.44.

  Hence, the government's 2006 consensus projection of $56.00-$60.00 Dubai price per barrel could be deemed realistic.

TABLE 2.3
FACTORS AFFECTING ECONOMIC OUTLOOK, 2005-2006

PARTICULARS	Actual 2005[a]	BESF 2006	NEDA / BSP[b]	CPBD
Inflation (%)				
2005	7.6	7.9	7.5 / 7.6 - 8.0[S05]	7.5-8.0[S05] / 7.9[N05]
2006		7.5	8.0 - 8.5[S05] / 7.5 - 8.2[J06]	6.3 - 7.5[S05] / 8.4[N05] / 7.7 - 7.9[J06]
Dubai Oil Price ($/Barrel)				
2005	49.32	48.95	49.92 / 50.77[S05]	50.10 - 50.60[S05]
2006		53.64	56.00 - 60.00[S05] / 57.88[J06]	56.00 - 60.00[S05]
91-day Treasury Bill Rate (%)				
2005	6.4	7.5 - 8.5	7.5 - 8.5[S05]	6.5 - 7.0[S05]
2006		7.5 - 8.5	7.5 - 8.5[S05]	6.2 - 8.0[S05]
FOREX Rate (Php: $1)				
2005	55.085	55.00 – 57.00	55.00 - 57.00[S05]	55.25 - 55.75[S05]
2006		55.00 - 57.00	55.00 - 57.00[S05]	55.50- 57.50[S05] / 53.20 - 55.20[J06]

Sources and Notes: [a] – cited in Bangko Sentral ng Pilipinas as of 01/09/06; [b] – BSP and NEDA Presentations before the Committee on Appropriations as of 26 September 2005; [S05] – Forecast as of September 2005; [N05] – Update as of November 2005; [J06] – update as of January 2006

- ***91-Day Treasury Bill Rate.*** The BESF has basically assumed 91-day Treasury bill rates to range 7.5%-8.5% over the period 2005-2006. Recent assessment by the BSP that ample liquidity resulted in the easing of domestic interest rates has been evinced by the trend in 91-day T-bill rates, which began at 7.7% in January 2005 and averaged 6.4% for the whole year.

  Former DOF Undersecretary Romeo Bernardo noted that domestic interest rates have bucked forecasts, declining in spite of rising inflation and global interest rates. The better-than-expected fiscal performance (in terms of the deficit bottom line) compared to program may also have contributed in tempering domestic interest rates. The BSP Governor announced that interest rates would likely remain stable at current levels during 2006 on account of improving fiscal performance, ample liquidity, moderate credit growth, and prospects of better sovereign credit rating. However, he also reiterated that the "BSP will deny any breeding ground for any incipient inflationary pressures especially coming from the demand side."

  As such, the exercise by the BSP of its policy tools would determine interest rate outcomes. Nonetheless, in 2006, the CPBD expects benign rates at 6.2%, while the possibility of 8.0% hangs with a more aggressive inflation-targeting BSP and rising global rates.

- ***Foreign Exchange Rate.*** A P55.00-P57.00 peso-dollar exchange rate has been assumed in the BESF for the years 2005-2006. The government met its 2005 target with the peso averaging P55.085 to the dollar in 2005.

  Notwithstanding unmet expectations in the export sector, the peso has sharply appreciated in November and December 2005 owing to the influx of OFW remittances, tentative softening of crude prices, lackluster import growth, and the perception of confidence in the economy with the implementation of the much anticipated E-VAT.

  The Executive has so far maintained its forecast exchange rate for 2006, though most analysts have revised their outlook toward a strengthening of the peso. Incorporating the peso appreciation at the end of 2005, the CPBD adjusted simulation indeed points to an exchange rate probably hovering in the P53.20-P55.20 range in 2006.

  However, inflows in OFW remittances may soften, that after the spike a deceleration could be in the offing. Further, unfinished business in the domestic political arena and brewing global geopolitical concerns may render the exchange rate more volatile than expected.

ECONOMIC GROWTH AND SECTORAL ANALYSIS

Growth Estimates and Sectoral Assumptions. The CPBD estimates economic growth in 2006 to hover within the 4.5%-5.1%. The projections were derived using combination of forecasting, sectoral analysis, and programming techniques.

- ***Agriculture.*** Among other causes, the cyclical El Nino phenomenon dampened the sector's growth to 2.0% in 2005 from 4.9% in 2004.

  The NEDA presentation as of September 2005 cited 4.6% as the growth target for agriculture in 2006. A subsequent NEDA communication indicated 4.0% as the low-end target for 2006. The CPBD estimates that the sector would follow the 4.0% average trend over the period 2002-2004, although the base effect may yet turn out to be supportive of government's relatively upbeat prognosis.

TABLE 2.4
SECTORAL GROWTH ASSUMPTIONS
(GDP BY INDUSTRIAL ORIGIN)

PARTICULARS	ACTUAL 2005	MTPDP	NEDA/DBCC	CPBD
Real GDP Growth Rate				
2005	**5.1**	5.3 - 6.3	5.3 / 4.8 - 5.1[u]	4.7 - 5.0[S05]
2006		6.3 - 7.3	5.7	4.5 - 5.1[J06]
Agriculture, Fishery & Forestry				
2005	**2.0**	4.2 - 5.2	3.0	2.0 - 2.3[S05]
2006		4.2 - 5.2	4.0[c] / 4.6[p]	3.3 - 4.4[J06]
Industry				
2005	**5.3**	5.4 - 6.4	4.5[c] / 4.6[p]	4.2 - 4.4[S05]
2006		7.2 - 8.2	5.1[c] / 6.0[p]	3.9 – 5.0[J06]
Services				
2005	**6.3**	5.7 - 6.6	6.5[p] / 6.6[c]	6.2 - 6.5[S05]
2006		6.5 – 7.5	6.7[c] / 7.0[p]	5.3-6.1[J06]

c – NEDA communication / p – NEDA presentation / u – NEDA update as of 12/2005 – Revised sectoral growth rates that conform with the 2005 4.8%-5.1% NEDA forecast update have not been released to date.
*Sources: MTPDP / BESF / NEDA *Emerging Forecast – from NEDA Presentation before the Committee on Appropriations and NEDA communication to CPBD. Note that no official levels have been issued according to the NEDA. onetheless, we are constrained to report the emerging growth rates though they may not be final, and even if differences are noticeable*

- ***Industry.*** In 2004, the industry sector got a boost from construction and manufacturing, accruing in part from robust domestic consumption, the cyclical peak in the advanced economies, and the upturn in the high tech cycle.

  Notwithstanding adverse global circumstances like spikes in crude oil prices, electronics downturn, and disasters, as well as internal political noise, the industry sector was able to post a surprising 5.3% growth in 2005 on account of mining and quarrying and sustained growth in manufacturing.

  A target 6.0% growth for the industry sector in 2006 was cited by the NEDA in its presentation before the Committee on Appropriations. Another NEDA document points to an emerging low-end forecast of 5.1% for the sector in 2006.

The CPBD reckons the industry sector performance to revert to its regular course and expand within the interval 3.9%-5.0% in 2006. Various factors are seen to impact on industry subsectors. Concerns over competitiveness, softening of private consumption, and changing global demand patterns are bound to affect manufacturing. Volatile growth performance would continue to characterize mining—which accounts for roughly 5.8% of the industry sector and is turning out to be a bright spot. Issues on utility costs and pricing, as well as privatization/concessions are likely to impact on the

performance of the electricity, gas, and water subsectors for sometime. Growth in construction, which has started to decelerate year-on-year in 2005, would benefit immensely from anticipated increased public infrastructure spending.

- ***Services.*** Year-on-year quarterly growth in the service sector decelerated in the first three quarters of 2005 but almost all sub-sectors rebounded in the 4th quarter. Finance, which expanded 15.4% annually, surpassed the performance of erstwhile growth driver transport, communications, and storage.

  In 2006, the government is looking forward to a 7.0% stellar performance of the service sector to propel growth. However, the 7.1% peak in the sector's growth occurred in 2004, when the economy rode the crest of the global cycle. In the years 2002-2005, services grew 6.1% on the average. If such average performance could serve as a gauge, the CPBD projects at most 6.1% growth for the service sector in 2006.

  Competition in value added services in telecommunications, such as VOIP (voice-over-internet protocol), is presumed to contribute to growth. Financing services may be dampened by increases in monetary policy rates, owing to prevailing inflationary pressures. Though new malls were planned to boost retail trade, softening of overall personal consumption would be more likely due to price expectations and perceptions of possible instability that could arise from unresolved issues in the political arena. Transport services may bear the brunt of continuing tight oil markets.

GROWTH ASSUMPTIONS BY EXPENDITURE SHARES

- ***Personal Consumption.*** After robust consumption reaching as high as 5.8% in 2004, accounting for almost 79% of gross domestic product, and driving economic growth, the CPBD gathers that personal consumption expenditure is still bound to soften in 2006 with expected growth range of 4.6%-5.0%.

- ***Government Consumption.*** Quarterly year-on-year growth in government consumption has been usually erratic with a surprising 15.7% expansion in second quarter of 2005 and a subsequent 4.2% decline in the fourth quarter. Hence, a 2.7% annual growth in government expenditure was posted in 2005. The CPBD surmises that increased spending by local government units, coupled with the maintenance and operating expenditures of the national government will continue to prop up government consumption in 2006, ranging from 3.3%-5.3%.

TABLE 2.5
2006 SECTORAL GROWTH ASSUMPTIONS
(GDP BY EXPENDITURE SHARES)

PARTICULARS	Actual	MTPDP Targets	CPBD Estimates[S05]	MTPDP Targets	CPBD Update[J06]
	2005	2005		2006	
Personal Consumption	**4.9**	4.7 - 5.3	4.8 - 5.2	5.0 - 6.0	4.6 - 5.0
Government Consumption	**2.7**	3.4 - 3.9	3.7 - 5.8	3.4 - 4.4	3.3 - 5.3
Capital Formation	**-4.3**	6.6 - 6.8	(2.5) - 0.6	11.4 - 13.2	4.0 - 6.2
Exports	**2.3**	8.2 - 9.2	1.6 - 3.1	13.0 - 14.0	4.5 - 6.4
Imports	**1.8**	11.7 - 12.7	(1.0) - 1.8	14.5 - 15.5	2.5 - 4.1
Gross Domestic Product	**5.1**	5.3 - 6.3	4.7 - 5.0	6.3 - 7.3	4.5 - 5.1
Net Factor Income from Abroad	**13.8**	8.0 - 8.2	4.4 - 8.4	8.9 - 9.9	5.1 - 8.7
Gross National Product	**5.7**	5.5 - 6.4	4.7 - 5.2	6.5 - 7.5	4.5 - 5.7

Sources: Actual 2005 from National Accounts of the Philippines January 2006; MTPDP targets from MTPDP 2004-2010. Notes: MTPDP targets may have already been revised in view of the emerging 5.7% GDP growth assumption for 2006, but the new rates by expenditure shares have not yet been released and that no official levels have been issued as these still have to be approved by the DBCC, according to the NEDA. Estimates[S05] – refer to CPBD estimates as of September 2005 while Update[J06] – refers to CPBD updates as of January 2006.

- ***Capital Formation.*** Increased government infrastructure outlay would augur well for capital formation in 2006, after an expected slump in overall investment in 2005.

- ***Exports.*** Adjustment and downswing in the global high tech electronics industry and record world oil prices have adversely affected the economy's exports in 2005. The growing concern is over the country's export competitiveness—especially so amid expensive power rates, a strengthening peso, and a more open global trading arena under the WTO. On a positive note, continued expansion in China (*though at a slower pace within the 8% range*) would still be beneficial to intra-regional trade and a projected slight uptick in the advanced economies in 2006 would enhance export growth.

- ***Imports.*** After a probable lethargic year, imports could spring a rebound in 2006 in support of export expansion, subject to global market conditions.

- ***Net Factor Income from Abroad.*** Remittances from overseas Filipinos would continue to expand, especially with enhanced quality of employment opportunities. However, the pace would decelerate in 2006 compared with 2005.

ECONOMIC AND FISCAL SCENARIOS

Emerging Official Fiscal Assumptions. The Executive's budget submission to Congress is contained in the Budget of Expenditures and Sources of Financing (BESF) 2006. The proposal assumes GDP growth targets of 6.3%-7.4% in 2006, which are but enunciation of the Medium Term Philippine Development Plan. In the last week of September, the assumptions were revised to the emerging low-end 5.7% target for 2006.

The resulting 2006 deficit target of P124.9 billion has so far remained unchanged—what varied are the concomitant effort. With the release of actual 2005 GDP data and the unavailability of official forecast 2006 nominal GDP levels, the CPBD recomputed the various effort (ratios relative to GDP) by estimating 2006 nominal GDP based on official real GDP growth targets (6.3% vs. 5.7%) and inflation assumption (7.5%) while maintaining the announced target collection levels by the Department of Finance.

TABLE 2.6
GROWTH ASSUMPTIONS
AND CONCOMITANT EFFORT (%) - 2006

PARTICULARS	BESF Original 6.3%	BESF Emerging 5.7%	6.3% Growth Recomputed Effort*	5.7% Growth Recomputed Effort*
Tax Effort	14.6	15.1	14.2	14.3
BIR Effort	11.3	11.7	11.0	11.0
Revenue Effort	16.1	16.8	15.8	15.8

*Note: * Sans official target levels, recomputed efforts are CPBO estimates based on nominal GDP levels using official growth and inflation assumptions.*

CPBD Fiscal Scenarios. The CPBD conjured two sets of scenarios. The first compares fiscal estimates arising from CPBD's own low-high GDP growth forecasts of 4.5%-5.1% in 2006 vis-à-vis the BESF updated low-end growth target of 5.7%. The CPBD-recomputed effort targets—14.3% tax effort, 11.0% BIR effort, and 15.8% revenue effort—are then applied on the updated CPBD-computed nominal GDP levels.

Scenario 1.1 – GDP Growth Rate of 4.5% in 2006. The CPBD's low 4.5% economic growth assumption for 2006 is estimated to result in a deficit estimate of P136.3 billion (2.3% of GDP), which is P11.4 billion higher than the official deficit target of P124.9 billion.

Scenario 1.2 – GDP Growth Rates of 5.1% in 2006. Meanwhile, relatively higher growth assumptions by the CPBD of 5.1% in 2006 would most likely generate a deficit of P130.1 billion, an outcome which is 2.1% of GDP and varies from the government's deficit target by P5.2 billion.

TABLE 2.7
ECONOMIC GROWTH AND FISCAL SCENARIOS

PARTICULARS	BESF 2006 Orig-Low	BESF Emerging Update	CPBD SCENARIOS BASED ON: CPBD GDP Growth Rates (Lower than BESF Emerging Update) and Emerging Tax and Revenue Efforts in 2006		CPBD GDP Growth Rates (Lower than BESF Emerging Update) and CPBD Updated Efforts (*update as of Jan. 2006*)	
			CPBD Low 2006	CPBD High 2006	CPBD[u] Low 2006	CPBD[u] High 2006
Real GDP Growth Rate						
2006	6.3	5.7	4.5	5.1	4.5	5.1
Nominal GDP (PB)						
2005	5,379.3	5,379.3	5,379.3	5,379.3	5,379.3	5,379.3
2006	6,147.0	6,112.3	6,040.4	6,079.2	6,040.4	6,079.2
2006 FISCAL SCENARIOS						
Tax Effort (Tax/GDP)	14.2	14.3	14.3	14.3	13.6	13.6
Tax Revenues (PB)	874.3	874.3	864.0	869.5	824.4	829.7
BIR Effort (BIR/GDP)	11.0	11.0	11.0	11.0	10.4	10.4
BIR Revenues (PB)	675.4	675.4	667.5	671.7	630.6	634.6
Revenue Effort (Tot Rev/GDP)	15.8	15.8	15.8	15.8	15.7	15.7
TOTAL REVENUES (PB)	**968.6**	**968.6**	**957.2**	**963.4**	**946.0**	**952.1**
Diff. from official target			(11.4)	(5.2)	(22.6)	(16.5)
TOTAL DISBURSEMENTS (PB)	**1,093.5**	**1,093.5**	**1,093.5**	**1,093.5**	**1,093.5**	**1,093.5**
Estimated Deficit						
2006 Deficit (P billion)	**(124.9)**	**(124.9)**	**(136.3)**	**(130.1)**	**(147.4)**	**(141.3)**
Ratio to GDP	2.0	2.0	2.3	2.2	2.4	2.3

Notes: (1) BESF 2006 revenue data are based on BESF documents while BESF Emerging Update was sourced from the DOF. (2) Actual nominal 2005 GDP is from the NSCB National Accounts. (3) Nominal 2006 GDP under the BESF column heading were recomputed by the CPBD based on official growth targets and inflation assumption (7.5%). (4) Corollary, the concomitant effort varied with changing nominal GDP values. (5) For comparability purposes, nominal GDP levels under the CPBD scenarios were based on CPBD-assumed real GDP growth estimates and the low-end of the government's official inflation forecast of 7.5%. (6) Variation in results may occur from rounding off decimals in the various efforts. Note further that this is an update as of January 2006 based on revised revenue estimates by the CPBD Fiscal Policy Desk. The CPBD 2006 baseline revenue figures were derived based on elasticities and subsequently adjusted for CPBD estimates of projected collections and E-VAT February 2006 implementation scenario.

The second set of scenarios employ CPBD's GDP growth projections but now assume different tax and BIR efforts relative to the recomputed effort concomitant to the retained levels of collection. For this scenario, the following updated CPBD target efforts for 2006 were used: 13.6% tax effort, 10.4% BIR effort, and 15.7% revenue effort.[8]

Scenario 2.1 – *CPBD-Estimated 4.5% Growth Rate and 13.6% Tax Effort.* The CPBD's low economic growth assumption for 2006, coupled with the estimated tax effort aforementioned are bound to produce a P147.4 billion deficit, which is 2.4% of GDP and higher than the official deficit target by P22.5 billion.

Note that CPBD's growth scenario 1.1 results in total revenues of P957.2 billion while scenario 2.1, which also considers changes in tax and revenue efforts, ends up with P946.0 billion in total revenues. The decline by P11.2 billion in total revenues and correspondingly a worsening in the deficit, therefore, accrues from lower BIR and tax effort.

Scenario 2.2 – *CPBD 2006 5.1% Growth Scenario and CPBD-Assumed Efforts.* The deficit outcome from these assumptions would turn out to be P141.3 or 2.3% of CPBD-projected GDP, which differs from the government's target by P16.4 billion.

SENSITIVITY ANALYSIS

Changes in certain macroeconomic assumptions impact on fiscal targets. The following sensitivity analysis delves into the fiscal effects of non-realization of assumptions, or changes in target variables—tax effort, GDP growth, interest rates and inflation.

Tax Effort. The Executive's proposed tax effort assumption for the 2006 budget was originally 14.6%, which was then re-estimated by the Department of Finance at 15.1% under the emerging 5.7% GDP growth assumption. With the release of 2005 actual GDP data, CPBD reckons that with an official 5.7% growth scenario and 7.5% inflation rate, a 14.3% tax effort is in the offing in 2006, assuming targeted tax revenue is maintained at P874.3 billion.

[8] The rationale for the updated CPBD assumptions on efforts is tackled in Chapter 3 by the CPBD Fiscal Policy Desk. The 2006 baseline revenue figures were derived based on elasticities and then subsequently adjusted for CPBD estimates of projected collections.

Improving tax collection efficiency is imperative. For every 0.1 percentage point tax effort deviation from target, tax revenues would be off the mark by roughly P6.1 billion. (*Note that rounding off decimals in the tax effort greatly affects outcomes. Hence, results may vary*.)

GDP Growth. The Department of Finance estimates that a one percentage point increase in real GDP translates to P6.17 billion expansion in revenues, or a reduction in the deficit by the same amount.

Relative to official targets, the more conservative CPBD GDP growth forecast of 4.5% for 2006 would result in an P11.4 billion revenue shortfall, as mentioned earlier in the section on growth scenarios. Meanwhile, a more moderate assumption of 5.1% in 2006 would cause a P5.2 billion difference from official revenue and deficit targets.

Treasury Bill Rates, Foreign Exchange, and Inflation. Sensitivity indicators provided by the Executive (through the DOF) indicate that changes of 100 basis points in Treasury bill rates of all maturities are deficit neutral while a P1.00 depreciation in the local currency vis-a-vis the dollar is also almost neutral given the slight P20 million increase in the deficit. The Executive's analysis points out, however, that a one percentage point increase in inflation would jack up revenues by an estimated P5.67 billion while also hiking disbursements to the tune of P2.3 billion, thereby leading to a net decrease in the deficit by about P3.37 billion.

CONCLUSION AND RECOMMENDATIONS

Improving the tax effort should be an utmost concern because fiscal stability and debt sustainability have become very important decisions for investing in the country. Further, economic growth and tax effort both impact immensely on the government's revenue and deficit targets.

Critical economic reforms in support of sustained and high growth path must be pursued and effectively implemented. The CPBD surmises that if its relatively cautious growth forecasts for 2006 ensue instead of the government's growth targets, additional potential revenue shortfall in 2006 ranging from P5.2 billion to P11.4 billion could materialize. Hiking revenue effort could mitigate lower tax take from low growth assumptions. However, while increasing non-tax revenues contributes to addressing deficit concerns, enhancing the tax effort would still be a better and sustainable option.

Ensuring macroeconomic stability is crucial especially in light of vulnerability to downside risks. The IMF advocates "strong up-front actions" necessary to improve growth prospects and insulate the economy from adverse shocks while the World Bank espouses "strong front-loaded adjustment" to signal government's commitment to serious reforms.

Both the International Monetary Fund and the World Bank maintain that invigorating and sustaining economic growth entails the pursuit of strong fiscal and structural reforms that would curb vulnerabilities, improve the business climate and competition, increase investments, and enhance productivity.

Even the Medium Term Philippine Development Plan recognizes that accelerating growth necessitates squarely addressing the fiscal problem while enhancing competitiveness through measures to boost productivity, improve infrastructure, reduce corruption, and simplify business procedures. Indeed, macroeconomic reforms should be supplemented with micro reforms that eliminate barriers to productivity and boost economic growth. Growth sectors in the economy (such as in telecommunications, transportation, and retail trade) benefited from policy reforms in the past.

Robust and effective reforms are crucial in enhancing the tax effort and the quality of economic growth. In turn, these could boost resource availability, which when efficiently allocated and shielded from unwarranted leakages, would support the government in fulfilling its commitment to sustainable economic development and poverty alleviation.

BOX 2.1

SENSITIVITY OF THE BUDGET TO MACROECONOMIC ASSUMPTIONS AS PROVIDED BY THE EXECUTIVE*

The fiscal program is highly sensitive to the movement of four major macroeconomic indicators – exchange rates, interest rates, imports and real GDP growth. The table below summarizes the impact of each variable to revenues and disbursements and, consequently, to the budget deficit.

TABLE 2.8
SENSITIVITY INDICATORS, 2006
(IN BILLION PESOS)

Particulars	Revenues	Disbursements	Deficit/[1]
P1 depreciation in Foreign Exchange	2.20	2.22	(0.02)
1% point (100 bps) increase in T-bill Rate[2]	5.14	5.14	0.00
1% point decrease in imports	(3.70)	0.0	(3.70)
1% point increase in inflation	5.67	2.30	3.37
1% point increase in real GDP	6.17	0.0	6.17

1/ A positive figure indicates a decrease in the deficit while a negative figure means an increase in the deficit.
2/ All maturities
Source: Department of Finance

Foreign Exchange Rate. The depreciation of the peso against the dollar has both positive and negative effects on the economy. It makes the country's exports more competitive while it makes imports more expensive. On the fiscal side, it increases revenues from the higher peso proceeds from import taxes but also raises expenditures through higher debt payments and increases in other foreign exchange sensitive expenditures. DOF estimates show that a peso depreciation in foreign exchange will increase revenues by P2.2 billion and raise expenditures by P2.22 billion, with a net outcome of P20 million, which is close to being deficit-neutral.

Interest Rate. Higher T-bill rate, likewise, affects the fiscal position in two ways. It increases revenues through higher withholding tax on interest income but also raises disbursements through higher interest payments from domestic borrowing. Estimates show that a one-percentage point (100 basis points) increase in the T-bill rate of all maturities would increase both revenues and disbursements each by P5.14 billion, thereby on the net leaves the deficit unaffected.

Imports. Revenues derived from international trade through import duties and taxes account for almost 20% of total revenues. Thus, a decline in imports would have adverse impact on total revenue collections. Estimates show that a one-percentage point decrease in imports would reduce revenue collections by P3.7 billion, thereby increasing the deficit by the same amount.

Gross Domestic Product. The GDP is used as general indicator of a revenue base. When it increases, revenues would also rise assuming a constant revenue effort. Estimates show that a one-percentage point increase in real GDP growth rate would increase revenues by P6.17 billion, thereby reducing the deficit by the same amount.

TABLE 2.9 UPDATE
GROSS NATIONAL PRODUCT AND GROSS DOMESTIC PRODUCT
(BY INDUSTRIAL ORIGIN AT CONSTANT 1985 PRICES, 2002-2006)

PARTICULARS	ACTUAL				CPBD Growth Scenarios	
	2002	2003	2004	2005	2006 Forecast*	
					Low	High
In billions of pesos						
Agriculture, fisheries and forestry	207.5	214.1	224.7	229.2	236.7	239.3
Nonagriculture	826.6	866.5	921.1	975.4	1,021.6	1,030.3
Industry	349.5	362.0	380.8	400.9	416.6	421.0
Services	477.1	504.6	540.3	574.4	605.0	609.3
Gross domestic product	1,034.1	1,080.7	1,145.8	1,204.5	1,258.2	1,269.6
Net income from abroad	71.6	81.8	88.8	101.0	106.1	109.8
Gross national product	1,105.7	1,162.5	1,234.6	1,305.5	1,364.4	1,379.4
Percentage change from Previous Year						
Agriculture, fisheries and forestry	4.0	3.2	4.9	2.0	3.3	4.4
Nonagriculture	4.6	4.8	6.3	5.9	4.7	5.6
Industry	3.9	3.6	5.2	5.3	3.9	5.0
Services	5.1	5.8	7.1	6.3	5.3	6.1
Gross domestic product	4.4	4.5	6.0	5.1	4.5	5.1
Net income from abroad	0.5	14.3	8.5	13.8	5.1	8.7
Gross national product	4.2	5.1	6.2	5.7	4.5	5.7

(BY EXPENDITURE SHARES AT CONSTANT 1985 PRICES, 2002-2006)

PARTICULARS	ACTUAL				CPBD Growth Scenarios	
	2002	2003	2004	2005	2006 Forecast*	
					Low	High
In billions of pesos						
Consumption	883.3	928.0	977.6	1,024.3	1,070.5	1,075.9
Private	810.8	853.6	903.1	947.8	991.6	995.3
Government	72.5	74.4	74.4	76.5	79.0	80.5
Investment	212.1	215.3	235.8	225.6	234.7	239.6
Domestic demand	1,095.4	1,143.3	1,213.4	1,249.9	1,305.2	1,315.4
Exports of goods and services	447.7	464.0	529.6	542.0	566.3	576.9
Imports of goods and services	536.5	584.4	619.1	630.2	645.8	655.9
Statistical discrepancy	27.6	57.8	21.9	42.9	32.5	33.2
Gross domestic product	1,034.1	1,080.7	1,145.8	1,204.5	1,258.2	1,269.6
Net income from abroad	71.6	81.8	88.8	101.0	106.1	109.8
Gross national product	1,105.7	1,162.5	1,234.6	1,305.5	1,364.4	1,379.4
Annual percentage change						
Consumption	3.4	5.1	5.3	4.8	4.5	5.0
Private	4.1	5.3	5.8	4.9	4.6	5.0
Government	-3.8	2.6	0.0	2.7	3.3	5.3
Investment	-4.3	1.5	9.5	-4.3	4.0	6.2
Domestic demand	1.8	4.4	6.1	3.0	4.4	5.2
Exports of goods and services	4.0	3.7	14.1	2.3	4.5	6.4
Imports of goods and services	5.6	8.9	5.9	1.8	2.5	4.1
Gross domestic product	4.4	4.5	6.0	5.1	4.5	5.1
Net income from abroad	0.5	14.3	8.5	13.8	5.1	8.7
Gross national product	4.2	5.1	6.2	5.7	4.5	5.7

*Sources: NSCB National Accounts of the Philippines as of January 2006 Notes: Reformatted tables from IMF-STIFP. *Forecasts for 2006 are CPBD-MISG Staff estimates based on combination of forecasting, sectoral analysis, and programming techniques. CPBD update as of January 2006.*

Chapter 3

FINANCING THE 2006 BUDGET

Given a projected cash disbursement of P1,093.5 billion in 2006, the National Government needs to ensure that recently-approved tax measures[1] as well as the existing ones are properly enforced to contain the NG budget deficit. Otherwise, NG may have to choose between two bitter options or do both—cut back an already constricted budget and sacrifice long-term growth in the process and/or borrow above program levels and expose the economy to more downside risks *(i.e. higher interest rate, higher debt service and balance of payment problem).*

REVENUE PERFORMANCE

The country's revenue performance over the years has been far from encouraging. From a revenue effort (ratio of total revenue collections to GDP) of 19.4% in 1997, government revenues slipped to 14.8% of GDP in 2004. Even among its Asian neighbors, the Philippines remains a laggard in terms of revenue performance. For two consecutive years (2003-2004), the Philippines consistently had the lowest revenue effort. Note that Philippine revenue effort (15.3%) in 2000 was slightly higher than that of China (15.0%) but the latter managed to improve its revenue collection over time. By the end of 2004, China's revenue effort got better at 19.3% while that of the Philippines got worse at 14.8% *(see Table 3.1).*

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[1] New tax measures include the following: excise tax reforms on automobiles, tobacco, and alcohol products; lateral attrition for BIR and BOC personnel; and rationalization of documentary stamp tax. The new VAT Law (RA 9337) includes the 20% VAT rate increase, lifting of VAT exemptions, 70% cap on input VAT credit, five-year spread out of input VAT on capital equipment, and corporate tax rate increase, among others.

TABLE 3.1
REVENUE EFFORT OF SELECTED ASIAN COUNTRIES
(2000-2004)

COUNTRY	2000	2001	2002	2003	2004
South Korea	20.9	20.3	20.3	21.0	20.2
Vietnam	20.4	21.4	22.6	24.4	24.1
Malaysia	18.0	23.8	23.1	23.5	22.2
Hongkong	17.5	13.8	14.2	17.0	18.4
Thailand	15.4	15.0	15.8	16.6	17.6
China	15.0	16.8	18.0	18.5	19.3
Indonesia	14.7	17.8	15.8	16.7	20.3
Philippines	15.3	15.5	14.6	14.9	14.8

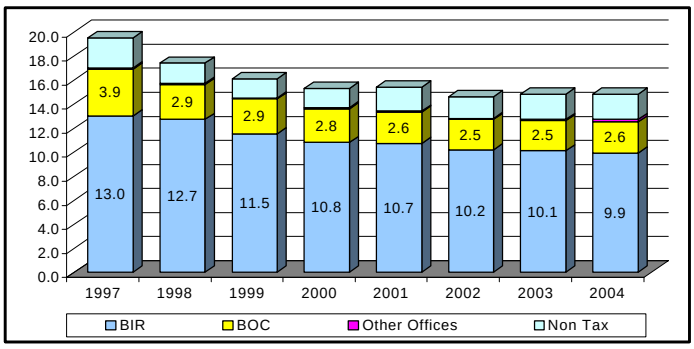
Sources: BESF and Asian Development Outlook

BIR Performance. Poor revenue performance was primarily due to the drop in collections of the Bureau Internal Revenue (BIR) which accounts for almost 70% of total NG revenues. From a tax effort — *measured as tax collections as a ratio of GDP* — of 13% in 1997, BIR tax take nose-dived to 9.9% of GDP in 2004 despite the implementation of a comprehensive tax reform package in 1998 *(see Figure 3.1).* Note that this was the bureau's lowest collection effort in eleven years. Among the reasons given for poor BIR performance are as follows: *(a)* rampant tax evasion; *(b)* limited VAT base; *(c)* non-indexation of excise tax rates to inflation; and *(d)* alleged corrupt practices abetted by some BIR functionaries.

Data from the National Tax Research Center (NTRC) indicates that in 2002 alone, tax gap – *difference between actual vis-a-vis potential revenue collections* – among individual business income earners and professionals was as high as 76%. Conversely, this would mean that only 24% of potential tax dues was collected from this taxpayer group. Corporate income tax gap for the same year was estimated at 32% while that of the value added tax (VAT) was at 33%. These tax leakages were attributed to under-reporting of sales/receipts and over-claim of deductions/tax credits.

In addition to VAT evasion, the Department of Finance claims that the exemption and zero-rating of certain sectors *(e.g. electric power industry, oil products, doctors, lawyers, etc.)* limits the VAT base and disrupts the audit trail *(i.e., the input of one sector becomes the output of the other and vise-versa).* Upon recommendation of the Executive Branch, Congress passed a new VAT Law to remove the exemption and zero-rating of these sectors, among other things.

FIGURE 3.1
REVENUE EFFORT
(IN PERCENT)



Source of Data: Cash Operations Report, BTr

In the case of excise taxes, the form of tax that was adopted in 1997 *(i.e., specific tax which is computed based on number of units produced instead of price per unit)* was not responsive to the movement in selling price of excisable goods. While values of goods subject to excise tax have increased many times over, the tax rate remained the same. To correct the situation, Congress approved RA 9334 which provides the schedule for increase in tax rates every two years starting 2005 until 2011.

TABLE 3.2
VAT COLLECTION EFFICIENCY
(IN PERCENT)

YEAR	Domestic	Imports	Total
1998	80.5	92.8	85.5
1999	87.7	98.3	92.0
2000	70.0	98.4	80.9
2001	66.7	84.3	73.7
2002	67.8	85.5	74.7
2003	69.0	82.4	74.0

Source: Manasan, Rosario (PIDS)

BOC Performance. From a tax effort of 3.9% in 1997, Customs collections continued to decline to as low as 2.5% in 2003 with partial recovery the following year. Decline in the collections of the Bureau of Custom (BOC) can be partly explained by the tariff reduction program that was implemented in the 1990s in compliance with the country's commitment to the General Agreement on Trade and Tariff under the World Trade Organization.

Apart from tariff reduction, low BOC collection can be attributed also to rampant smuggling—both physical and technical[2]. The Fair Trade Alliance estimates that foregone revenue due to smuggling (2004) is P174.2 billion while the Federation of Philippine Industries projects a loss of at least P100 billion[3]. Meanwhile, it was raised during the Senate plenary deliberation (Session 40) that the Bureau of Customs could have doubled its P115 billion collection in 2004 if not for smuggling. Table 3.2 shows that VAT collection efficiency (actual vis-à-vis potential) by BOC as represented by imported goods has particularly worsened in 2003 while there appears to be an improvement in VAT collection by BIR from domestic goods/services in 2002 to 2003.

2005 Collections From January to December 2005, NG exceeded its adjusted revenue program[4] by P12.5 billion primarily on account of BTr's collection performance *(see Table 3.3).* BTr revenue target was set at P36.6 billion only when actual collections for prior years were way above that level—i.e. P56.7 billion in 2003 and P64.7 billion in 2004. Treasury collection of P70.6 billion was raised primarily from interest income from investments in Bond Sinking Fund (P34.8 billion), NG share in PAGCOR profits (P9.6 billion), interest income on NPC Securities (P8.8 billion), GOCC dividend remittances (P5.6 billion) and guarantee fees (P2.2 billion).

But while BTr almost doubled its collection vis-à-vis target, BIR and BOC revenues were short by P12.4 billion and P9.5 billion, respectively which may suggest that expected gains from new measures were not fully realized. For instance, estimated yield from excise tax was P15 billion but actual collection that can be credited from RA 9334 is only P2.1 billion for both BIR and BOC.[5] In anticipation of new tax rate, excise taxpayers reportedly increased their production and built up their inventory to avail of the lower tax rate. [6]

Total revenue-to-GDP ratio settled at 14.8%—slightly higher than the revenue effort of 14.7% posted in 2004—as collection effort of both BIR (9.9%) and BOC (2.6%) failed to move up despite approval of several tax-enhancement measures by Congress. Recall that tax effort used to be at 13.0% for BIR and 3.9% for BOC (1997). Thus, the challenge remains for the two revenue-generating agencies to assess and improve internal systems and procedures for better audit, assessment and collection of tax liabilities.

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[2] Physical smuggling refers to the entry of goods without the necessary import documents/tax payments while technical smuggling involves under-valuation, misclassification and mis-declaration of imports.

[3] Figures culled from documents submitted to the House Committee on Ways and Means during the deliberations of the Anti-Smuggling Bill.

[4] When the proposed budget was submitted last year (2004), revenue target was set only at P758.5 billion. This was later adjusted to P783.2 billion to factor in the estimated yield from legislated measures.

[5] BusinessWorld, Jan 25,2006

[6] Excise tax is collected upon removal of "sin" products from the manufacturing site and not at the point of sale.

TABLE 3.3
2005 REVENUE COLLECTIONS
(IN BILLION PESOS)

PARTICULARS	Adjusted Program		Actual		Difference
	Amount	% of GDP	Amount	% of GDP	
BIR	546.9	10.3	534.5	9.9	(12.4)
BOC	151.2	2.8	141.7	2.6	(9.5)
Other Tax	8.1	0.1	8.3	0.1	0.2
Non-Tax	77.0	1.5	111.3	2.1	34.2
Of which:BTr	*36.6*		*70.6*		*34.0*
TOTAL	783.2	14.7	795.7	14.8	(12.5)

Sources of Basic Data: BTr and DOF

To improve taxpayer consciousness, BIR initiated administrative reforms that include the Run-After Tax Evaders (RATE) Program or the filing of tax evasion cases against high-profile personalities. Meanwhile, the Tax Compliance Verification Drive (TCVD) generated P86 million from penalties and an additional P204.3 million from income and business taxes (2003-2004). Graft cases have also been filed against erring officials/employees under the Revenue Integrity Protection Service (RIPS). For 2004 alone, 73 cases were filed involving 80 personnel which resulted in 22 dismissals from service, 21 suspensions and 25 reprimands. Four others were meted fines while eight were exonerated.

2006 REVENUE PROGRAM

DBCC Targets. To finance the 2006 proposed budget, NG aims to generate a total of P968.6 billion revenues. This amount is P185.4 billion (23.7%) higher than the 2005 estimated revenues of P783.2 billion. The spike in revenue collection target is partly due to the inclusion of P123 billion projected yield from new tax/administrative measures and from non-tax sources *(see Table 3.4)*. In terms of source, close to 70% (P675.4 billion) will have to be collected by the BIR while around 20% (P190.4 billion) will come from the BOC. Other tax collecting agencies *(e.g. LTO, CHED, DENR and Bureau of Immigration)* are expected to contribute P8.5 billion while a total of P94.3 billion is projected to come from non-tax sources, largely from the Bureau of Treasury.

TABLE 3.4
ESTIMATED YIELD OF NEW MEASURES
(IN BILLION PESOS)

MEASURES	Estimated Yield
Tax Measures	**103.55**
Restructuring of the Excise Tax on Automobiles	*0.49*
Rationalization of the Documentary Stamp Tax	*5.33*
Restructuring the Excise Tax on "Sin" Products	*15.15*
New E-VAT	*82.57*
Administrative Measures	**9.84**
BIR	*5.95*
BOC	*3.88*
Other Offices (Road User)	**2.83**
Non-Tax	**6.83**
TOTAL	**123.04**

** may not add up due to rounding-off*
Source: 2006 BESF

Based on the original GDP (low-end) target of P5,999.1 billion, the proposed revenue program is equivalent to 16.1% or 1.4 percentage points higher than the estimated revenue effort of 14.7% in 2005. With the recent release of year-end national income accounts, GDP forecast for 2006 is placed at P6,112.3 billion resulting in lower-revenue-to-GDP ratio of 15.8%.

CPBD Projection. The CPBD projects that GDP will grow by 4.5%-5.1% instead of 5.7%-6.3% as targeted by the DBCC. A much lower GDP growth for 2006 is assumed considering recent developments that could adversely affect the productivity of the taxable sector—e.g., geo-political conditions among suppliers of crude oil, risks of calamities and diseases, and political noise over Charter Change and possible re-filing of impeachment charges by mid-year. At 4.5% growth, nominal GDP will amount to P6,040.4 billion [7] which is P71.9 billion lower than emerging DBCC target of P6,112.3.

Table 3.5 shows that CPBD's baseline revenue projection for 2006 amounts to P832.0 billion. This was arrived at using the estimated elasticity or the responsiveness of tax and non-tax revenue collection to GDP growth for the period 2003-2005. Assuming a VAT rate increase from 10% to 12% by February 1, and lower collection efficiency for documentary stamp tax (at 72%) and excise tax on "sin" products (at 70%), CPBD expects total revenues for 2006 to reach P946.1 billion or P15.7% of GDP (based on CPBD low-end estimate).

[7] CPBD projects that nominal GDP for 2006 ranges between P6,040.4 billion and P6,079.2 billion.

TABLE 3.5
2006 CPBD REVENUE ESTIMATES
(IN BILLION PESOS)

PARTICULARS	2006 Baseline	2006 Projection	
		Collection *	Effort (%)
Tax Revenues	717.2	824.4	13.6
BIR	559.5	630.6	10.4
BOC	149.1	182.4	3.0
Other Taxes	8.6	11.4	0.2
Non-Tax	114.8	121.7	2.0
TOTAL Revenues	832.0	946.1	15.7

Source of Basic Data: BESF; may not add up due to rounding-off
** including estimated yield of new measures*

Table 3.6 shows that at 15.7% revenue effort (based on CPBD low-end GDP projection), NG is likely to miss its revenue program of P968.6 billion by P22.5 billion or 2.3% due to lower economic growth and lower yield from new tax measures (as projected by CPBD). The projected shortfall may be attributed to BIR (P44.8 billion) and BOC (P8.0 billion)—but the estimated excess collection of P27.4 billion from non-tax sources will likely compensate for losses in tax revenues. Excess collection from non-tax sources will again largely come from BTr income because of its rather low revenue goal of P51.9 billion—compared to actual collections during the last two years (P64.7 billion in 2004 and P70.6 billion in 2005)

If revenue collection for 2006 will be off target by P22.5 billion, the programmed deficit of P124.9 billion (based on total cash disbursement of P1,093.5 billion) will be higher at P147.4 billion or 2.4% of GDP.

TABLE 3.6
2006 DBCC TARGETS AND CPBD REVENUE PROJECTIONS
(IN BILLION PESOS)

PARTICULARS	Emerging DBCC Targets		CPBD Projection		Difference
	Amount	% of GDP *	Amount	% of GDP	
BIR	675.4	11.0	630.6	10.4	(44.8)
BOC	190.4	3.1	182.4	3.0	(8.0)
Other Tax	8.5	0.1	11.4	0.2	2.9
Non-Tax	94.3	1.5	121.7	2.0	27.4
TOTAL	968.6	15.8	946.1	15.7	(22.5)

** computed based on adjusted GDP target*
Source of Basic Data: 2006 BESF; may not add up due to rounding-off

SUMMARY

The National Government's resolve to balance the budget by 2008 lies largely on its ability to generate revenues to support government spending and keep the budget deficit as programmed. The CPBD projects that total revenue collection for 2006 will likely settle at P946.1 billion contrary to DBCC projection of P968.6 billion. Collection performance by the BIR and BOC have not been very encouraging—only the BTr continues to compensate for the shortfall primarily on account of a rather low revenue assignment.

Tax evasion poses the biggest threat to efficient revenue collection. Leakages are particularly high among individual business income earners/professionals and under the VAT. Moreover, NG continues to lose revenues from rampant smuggling activities—i.e., the Bureau of Customs could have doubled its P115 collection if illegal entry of goods is abated.

A healthy revenue stream would depend on the performance of the economy particularly the taxable sectors *(i.e. manufacturing and services)* and the efficient enforcement of tax and tariff laws. Moreover, effective tax administration requires sustained implementation of administrative reform initiatives to ensure that gains are maximized in favor of the government.

Chapter 4

DIMENSIONS OF THE 2006 EXPENDITURE PROGRAM

" I hope that Congress will see the proposed Budget as the Executive Branch envisions it to be — a potent weapon for the permanent upliftment of the large mass of our people from poverty."

- The President's Budget Message, "Moving the 10-Point Agenda for Socio-Economic Renewal and Fiscal Health"

The President calls on Congress to speed up the scrutiny and approval of the 2006 budget so that government can immediately implement the programs supporting the 10-Point Agenda. The Executive proposes a P1,053.3 billion budget[1] for the National Government which in nominal terms is 14.7% higher than the P918.6 billion appropriated for 2005. In real terms, however, the 2006 budget grew only by 6.7%.

Despite the budget reaching the trillion mark, it still pales in comparison with NG spending of other Asian countries. The proposed budget of P1,053.3 billion is only equivalent to 17.6% of gross domestic product (GDP) while countries like Vietnam (27.9%), Malaysia (21.7%), and Cambodia (18.5%) spend much more. In fact, the 2006 budget as a ratio of GDP is far below the country's average spending of 19.4% in 2000-2004.

The NG budget for 2006 *(net of interest payment)* amounts to only P713.3 billion or 11.9% of GDP. This means that "productive" spending on per capita basis is roughly P8,200 assuming a projected population of 87 million in 2006.

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[1] Excluding Unprogrammed New Appropriations of P57.1 billion (see related discussion under Sources of Appropriations)

SECTORAL APPROPRIATIONS

While the proposed 2006 budget seems to reflect the government's will to generate more economic activities and alleviate poverty due to increases in spending for both economic and social services, debt service *(interest payments)* continues to get the biggest chunk (32.3%) of the budget. It represents 5.7% of GDP or almost one-third of the total proposed budget for next year (2006).

The sectoral distribution of the 2006 budget shows that next to interest payments, social services gets the bigger share (27.9%) compared with economic services (18.7%), general services (15.3%), and defense (5.0%). Net lending is likely to increase by 19.1% from P6.9 billion in 2005 to P8.3 billion in 2006 due to the growing financial needs of government corporations. Note that even though social services gets the highest budgetary allocation of P293.9 billion, economic services grew by 24.8% while the social sector is up by only 15.6%. Economic services suffered a huge budget cut of more than P10 billion in 2005 that could partly explain the remarkable growth the following year.

TABLE 4.1
NG EXPENDITURE PROGRAM BY SECTOR, 2004-2006

PARTICULARS	Levels (Billion Pesos)			Growth Rates		Percent of GDP		
	2004	2005	2006	04-05	05-06	2004	2005	2006
Economic Services	168.2	158.0	197.2	(6.1)	24.8	3.5	3.0	3.3
Social Services	250.2	254.3	293.9	1.6	15.6	5.3	4.8	4.9
Defense	42.7	44.2	52.4	3.5	18.7	0.9	0.8	0.9
General Public Services	139.3	141.9	161.5	1.8	13.8	2.9	2.7	2.7
Net Lending	5.7	6.9	8.3	22.1	19.1	0.1	0.1	0.1
Debt Service	260.9	313.4	340.0	20.1	8.5	5.5	5.9	5.7
TOTAL	**867.0**	**918.6**	**1,053.3**	**6.0**	**14.7**	**18.3**	**17.3**	**17.6**

Source of basic data: 2006 BESF (DBM)

ECONOMIC SERVICES

From two consecutive years of decline in the budget for economic services, the sector will enjoy a huge increment in 2006—i.e., a growth of 24.8% from a low of P158 billion in 2005 to P197.2 billion next year. In real terms, however, the sector will grow much lower at 16.1%. By sub-sector, the biggest allocation of P71.8 billion will go to Communications, Roads and Other Transportation. This signals NG's effort to address the country's infrastructure needs by bringing the budget closer to its 2000 level of P75.6 billion—the highest so far in the last

ten years. A crucial boost in infrastructure spending could positively improve the country's competitiveness in attracting more investors.

Subsidy to local government units (LGUs) receives the next biggest allocation of P58.3 billion, but note that this forms part of the mandatory share of LGUs in the total national internal revenue collection, otherwise known as the Internal Revenue Allotment (IRA). Agriculture, Agrarian Reform and Natural Resources will also get a large part of the economic sector budget (P35.1 billion), most of which will be used for agriculture modernization (AFMA) and land acquisition (ARF).

TABLE 4.2
ECONOMIC SERVICES EXPENDITURE PROGRAM, 2004-2006

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget		
	2004	2005	2006	2004	2005	2006
Agriculture, Agrarian Reform and Natural Resources	34.7	32.7	35.1	4.0	3.6	3.3
Trade and Industry	3.5	3.0	3.1	0.4	0.3	0.3
Tourism	1.5	1.4	1.7	0.2	0.2	0.2
Power and Energy	1.8	1.5	2.2	0.2	0.2	0.2
Water Resources Development and Flood Control	7.6	6.5	8.2	0.9	0.7	0.8
Communications, Roads and Other Transportation	66.8	53.8	71.8	7.7	5.9	6.8
Other Economic Services	3.1	5.9	16.7	0.4	0.6	1.6
Subsidy to Local Government Units	49.4	53.1	58.3	5.7	5.8	5.5
TOTAL	**168.2**	**158.0**	**197.2**	**19.4**	**17.2**	**18.7**

Source of basic data: 2006 BESF (DBM)

Budgetary allocation for Other Economic Services is expected to grow from P6 billion to P16.7 billion with the highest increment of about P10 billion going to Special Purpose Funds (SPFs), particularly for Kalayaan Barangay Program Fund, Kilos Asenso Support Fund, Compensation Adjustment Fund, and Miscellaneous Personnel Benefits Fund *(see related discussion under SPF).*

SOCIAL SERVICES

Expenditure program for social services in 2006 amounts to P293.9 billion which is about 15.6% higher than the P254.3 billion budget in 2005. In real terms, the increase in the allocation is only 7.5% but this is much better than this year (2005) when the sector posted a budgetary cut of -5.8% amounting to P12.1 billion.

Half of the budget allotted for social services will go to Education, Culture and Manpower Development—an indication of government's continued resolve to invest in human capital formation. Of the P11 billion increase in the budget for education, P7 billion will go to the Department of Education (DepED) primarily for current operating expenditures (Personal Services and MOOE).

As part of the total IRA (P166.5 billion) for LGUs, P61.6 billion is allotted under social services. Social Security, Welfare and Employment which suffered a reduction of P4.7 billion in its budget in 2005 is expected to rebound, increasing by P18.5 billion next year. Note that the increase of close to P18 billion is due to Pension and Gratuity Fund which will receive a total of P52.5 billion in 2006. Meanwhile, the proposed budget for the health sector amounts to P13.7 billion—i.e., a minimal increase of P734 million which is insufficient to compensate for the budget cut of P1.6 billion made in 2005.

TABLE 4.3
SOCIAL SERVICES EXPENDITURE PROGRAM, 2004-2006

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget		
	2004	2005	2006	2004	2005	2006
Education, Culture, and Manpower Development	128.8	135.4	146.4	14.9	14.7	13.9
Health	14.5	12.9	13.7	1.7	1.4	1.3
Social Security, Welfare and Employment	44.8	40.1	58.6	5.2	4.4	5.6
Land Distribution (ARF)	7.4	4.4	4.4	0.8	0.5	0.4
Housing and Community Development	1.6	1.7	2.8	0.2	0.2	0.3
Other Social Services	1.1	3.6	6.5	0.1	0.4	0.6
Subsidy to Local Government Units	52.2	56.1	61.6	6.0	6.1	5.8
TOTAL	**250.2**	**254.3**	**293.9**	**28.9**	**27.7**	**27.9**

Source of basic data: 2006 BESF (DBM)

GENERAL PUBLIC SERVICES

General Public Services accounts for roughly 15% of the total P1,053.3 billion budget for 2006. From only P141.9 billion in 2005, the allocation for general public services will grow by 14% to P161.5 billion the following year. Compared with 2005 when the sector had a meager increase of P2.6 billion, the sector will enjoy a much bigger increment of P19.6 billion in 2006.

By sub-sector, the biggest allocation will go to Public Order and Safety (P60.5 billion) after posting a P6.1 billion increment from the 2005 budget level. Increases can be traced to the

TABLE 4.4
PUBLIC SERVICES EXPENDITURE PROGRAM, 2004-2006

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget		
	2004	2005	2006	2004	2005	2006
General Administration	45.5	41.2	48.4	5.3	4.5	4.6
Public Order and Safety	53.3	54.4	60.5	6.1	5.9	5.7
Other General Public Services	1.1	3.8	6.0	0.1	0.4	0.6
Subsidy to Local Government Units	39.5	42.5	46.6	4.6	4.6	4.4
TOTAL	**139.3**	**141.9**	**161.5**	**16.1**	**15.4**	**15.3**

Source of basic data: 2006 BESF (DBM)

Compensation Adjustment Fund (P2.4 billion), and growths in the budget of the Department of Interior and Local Government (P1.6 billion), Miscellaneous Personnel Benefits Fund (P1.2 billion), and to The Judiciary (P0.5 billion).

The allocation for Other General Public Services is the least among other sub-sectors, yet it posts the highest growth rate of almost 60% from only P3.8 billion in 2005 to P6 billion in 2006. This could be attributed to a relatively huge jump in allocation of premium subsidy for indigents under the National Health Insurance Program (NHIP). Subsidy for the enrollment of indigents to PhilHealth in 2005 is only P750 million but this will increase to P2.9 billion next year.

OBJECT OF EXPENDITURES

Current operating expenditures for 2006 amounts to P911.9 billion or roughly 86.6% of the total P1,053.3 billion proposed budget—the biggest portion of which goes to interest payments (P340 billion) and personal services (P330.5 billion). These two items alone already represent close to 65% of the budget. Meanwhile, allotment to local government units (LGUs) and maintenance and other operating expenditures (MOOE) amount to P133.2 billion and P103.5 billion, respectively. Note that allocation to MOOE significantly increased by about 20% from only P86.6 billion in 2005.

Although slightly lower *(in percent share to total budget)* than 2005, interest payments will still get the highest budgetary allocation of 32.3%. This effectively limits the funds that can be used to implement the programs/projects under the President's 10-Point Agenda. And since debt service is automatically appropriated by virtue of PD 1177, roughly one-third of the budget is already out of Congress' allocative discretion.

TABLE 4.5
EXPENDITURE PROGRAM BY OBJECT, 2004-2006

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget			Growth Rates	
	2004	2005	2006	2004	2005	2006	04-05	05-06
Current Operating Expenditures	**757.3**	**815.0**	**911.8**	**87.4**	**88.7**	**86.6**	**7.6**	**11.9**
Personal Services	285.8	289.2	330.5	33.0	31.5	31.4	1.2	14.3
MOOE	80.3	86.5	103.5	9.3	9.4	9.8	7.8	19.6
Allotment to LGUs	112.8	121.3	133.2	13.0	13.2	12.6	7.5	9.8
Interest Payments	260.9	313.4	340.0	30.1	34.1	32.3	20.1	8.5
Subsidy	17.6	4.5	4.7	2.0	0.5	0.4	(74.3)	4.1
Capital Outlays	**104.0**	**96.7**	**133.2**	**12.0**	**10.5**	**12.6**	**(7.0)**	**37.7**
Infrastructure	58.6	57.2	79.0	6.8	6.2	7.5	(2.4)	38.1
Corporate Equity	3.6	0.2	1.2	0.4	0.0	0.1	(94.7)	551.2
Special Shares to LGUs	1.6	1.9	2.1	0.2	0.2	0.2	18.2	9.0
Other Capital Outlays	12.0	7.1	17.5	1.4	0.8	1.7	(41.0)	148.4
Capital Transfer to LGUs (IRA)	28.2	30.3	33.3	3.3	3.3	3.2	7.5	9.8
Net Lending	**5.7**	**6.9**	**8.3**	**0.7**	**0.8**	**0.8**	**22.1**	**19.1**
TOTAL	**867.0**	**918.6**	**1,053.3**	**100.0**	**100.0**	**100.0**	**6.0**	**14.7**

Source of basic data: 2006 BESF (DBM)

On the other hand, Personal Services (PS) which will receive the second biggest portion of the budget at 31.4% will post an increase of P41.3 billion compared to the previous year's level of P289.2 billion. Part of the 14.3% growth in PS in 2006 can be attributed to the planned adjustments in employees' compensation. An allocation of P13.1 billion has been included in the Compensation Adjustment Fund to provide for additional allowances—i.e., computed as 8% of basic salary but not lower than P500. Note that such raise is barely enough to cover for next year's inflation of 7.5%. The last salary adjustment was effected in July 2001 (*under Executive Order 22*).

The 2006 budget shows a marked improvement in allocation for capital outlays (CO). From a negative growth rate in the past two years (2004 and 2005), budgetary allocation to CO will increase by 37.7% in 2006 and correspondingly get a slightly bigger share of 12.6% of the budget pie. Note that capital outlay (in percent share) was 12% and 10.5% in 2004 and 2005, respectively.

SOURCES OF APPROPRIATIONS

Out of the P1,053.3 billion budget for 2006, the Programmed New Appropriations amounts to P677 billion or roughly 64.3% of the total proposed budget. The remaining P376.3 billion or 35.7% of the budget are automatic appropriations—the bulk of which will be used for interest payment (P340 billion).

Under Programmed New Appropriations, two of the biggest allocations will go to Personal Services (P330.5 billion) and to LGUs as Internal Revenue Allotment (P166.5 billion). Note that the IRA was reclassified from Automatic Appropriations in 2005 to Programmed New Appropriations in 2006.

TABLE 4.6
BUDGET LEVEL BY SOURCE OF APPROPRIATIONS
(IN BILLION PESOS)

PARTICULARS	Amount		% Share	
	2005	2006	2005	2006
Programmed New Appropriations	**411.2**	**677.0**	**44.8**	**64.23**
Of which:				
Personal Services	289.2	330.5	31.5	31.34
Internal Revenue Allocation	-	166.5	-	15.8
Automatic Appropriations	**507.4**	**376.3**	**55.2**	**35.7**
Interest Payments	313.4	340.0	34.1	32.3
Net Lending	6.9	8.3	0.8	0.8
Others	187.1	28.0	20.4	2.7
Of which: IRA	151.6	-	16.5	-
Sub-Total, Programmed Obligations	**918.6**	**1,053.3**	**100.0**	**100.0**
ADD:				
Unprogrammed New Appropriations	62.5	57.1	-	-
TOTAL APPROPRIATIONS	**981.1**	**1,110.4**	-	-

Sources of basic data: 2005 GAA and 2006 BESF (DBM)

Taking into account all mandatory expenses—personal services, Internal Revenue Allotment, and interest payments—an amount of P837 billion or about 80% of the proposed budget appears to be out of the Congress' discretion to reallocate for other expenditure needs. To a certain extent, Congress' *"power over the purse"* extends only to as much as P216.3 billion or 20% of the budget in 2006.

Aside from the New Programmed Obligations of P1,053.3 billion, the Executive also submits a P57.1 billion of Unprogrammed Appropriations. When approved by Congress, this will provide NG a standby authority to incur obligations for priority programs/projects when revenue collections exceed targets, and when additional grants or foreign funds are generated. Unprogrammed appropriations will go to Infrastructure Projects and Social Programs (P30.5 billion), Budgetary Support to GOCCs (P8.1 billion), and Support to Foreign-Assisted Projects (P8 billion), among others.

REGIONAL ALLOCATION

A breakdown of the proposed 2006 budget shows that P451.7 billion (42.9%) will go to the Central Office, P358.9 billion (34.1%) to the different regions, and the remaining P242.6 billion (23%) for programs/activities of nationwide application. Out of the P358.9 billion that will be regionally distributed, Luzon accounts for P185.7 billion or more than half (52%) of the total regional allocation. Meanwhile, total regional allocation for Mindanao amounts to P94.6 billion (26%) while Visayas gets P78.6 billion (22%).

Table 7 shows that the top five regions receiving the highest budget allocation in 2006 are Region IV (P41.9 billion), NCR (P39.2 billion), Region VI (P34.4 billion), Region III (P31.2 billion) and Region VII (P23.5 billion). On the other hand, the bottom five regions include the Cordillera Administrative Region (P11.4 billion), CARAGA (P14 billion), Region IX (P14.9 billion), Region XII (P15.4 billion) and Region XI (P16.1 billion).

On per capita basis, however, the highest allocation will go to CAR (P7,454) and CARAGA (P6,065) owing to a much lower population despite these two regions receiving smaller budgetary allocations. On the contrary, Region IV which receives the highest budget amounting to P41.9 billion has a per capita spending of only P2,857. Note that Region XI which is one of the bottom five regions (as far as the 2006 regional allocation is concerned) has also the lowest per capita spending of P2667.

ALLOCATION BY DEPARTMENT

The Department of Education (DepED) gets the biggest allocation of P119.1 billion or about 28% of the total regular allocation of P419.2 billion *(net of Special Purpose Fund)* that will go to the different government agencies. From P112 billion in 2005, the national government allocates an additional P7 billion for DepEd to take care of the following, among others: (a) English manuals and textbooks, P1.8 billion; (b) hiring of new teachers, P2.7 billion;

TABLE 4.7
NG REGIONAL EXPENDITURE PROGRAM, 2006
(IN BILLION PESOS)

Region	Amount	% Share	Per Capita
Central Office	**451.7**	**42.9**	**-**
Nationwide	**242.6**	**23.0**	**-**
Regional	**358.9**	**34.1**	**-**
Region IV	41.9	4.0	2,856.8
NCR	39.2	3.7	3,705.6
Region VI	34.4	3.3	5,043.7
Region III	31.2	3.0	3,213.0
Region VII	23.5	2.2	3,492.7
Region V	22.9	2.2	4,437.1
Region I	22.3	2.1	4,666.9
Region VIII	20.8	2.0	5,263.3
Region X	17.7	1.7	5,660.9
Region II	16.8	1.6	5,240.1
ARMM	16.5	1.6	5,455.5
Region XI	16.1	1.5	2,666.8
Region XII	15.4	1.5	5,219.2
Region IX	14.9	1.4	4,224.7
CARAGA	14.0	1.3	6,065.3
CAR	11.4	1.1	7,454.1
TOTAL	**1,053.3**	**100.0**	

Sources of basic data: 2006 BESF (DBM), 2002 PSY (NSCB)

(c) service contracting of high school students, P2 billion; (d) construction of new classrooms, P2.9 billion; and (e) nutrition programs for grade school pupils, P1.5 billion.[2]

Next to DepED, other top ten departments/entities in terms of budget allocation are DPWH (P62.3 billion), DND (P46.6 billion), DILG (P45.6 billion), SUC's (P16.7 billion), DA (P15.7 billion), DOTC (P14.3 billion), DOH (P10.6 billion), The Judiciary (P8.5 billion), and Autonomous Regions (P8.3 billion). Note that the Department of Land Reform *(formerly DAR)* appears to suffer the biggest cut of P8.3 billion from P14.7 billion in 2005 to only P6.5 billion the following year. However, the decline in DLR's budget may not actually be that much because allocations for land acquisition and distribution (for CARP) have simply been reclassified as Agrarian Reform Fund (ARF) under Special Purpose Fund (SPF). Of the P8.6 billion allocation for ARF, P3.7 billion will go directly to DLR while a huge amount of P4.4 billion will be disbursed through the Land Bank of the Philippines (LBP) for land acquisition and landowners' compensation.

[2] "Malacanang submits P1.05 trillion '06 budget to Congress", Business World (25 August 2005).

TABLE 4.8
NG EXPENDITURE PROGRAM BY DEPARTMENT
(IN BILLION PESOS)

PARTICULARS	2005	2006	Increase/Decrease	
			Amount	%
Department of Education a/	*112.0*	*119.1*	*7.0*	*6.3*
Department of Public Works and Highways	*49.5*	*62.3*	*12.9*	*26.0*
Department of National Defense	*46.2*	*46.6*	*0.5*	*1.0*
Department of Interior and Local Government	*43.9*	*45.6*	*1.7*	*3.9*
State Universities and Colleges	*16.9*	*16.7*	*(0.2)*	*(1.2)*
Department of Agriculture b/	*14.3*	*15.7*	*1.3*	*9.3*
Department of Transportation and Communications	*8.0*	*14.3*	*6.2*	*77.3*
Department of Health	*10.3*	*10.6*	*0.3*	*2.5*
The Judiciary	*8.0*	*8.5*	*0.5*	*6.6*
Autonomous Regions	*7.1*	*8.3*	*1.3*	*17.7*
Department of Finance	6.8	6.9	0.1	1.7
Department of Agrarian Reform *b/*	14.7	6.5	(8.3)	(56.0)
Department of Environment & Natural Resources	5.9	6.3	0.4	7.1
Department of Foreign Affairs	5.1	5.3	0.2	4.7
Department of Justice	5.1	5.3	0.2	4.0
Other Executive Offices	5.1	4.7	(0.4)	(7.8)
Department of Labor and Employment	4.5	4.6	0.1	2.9
Congress of the Philippines	4.7	4.6	(0.1)	(2.3)
Commission on Audit	4.0	3.9	(0.0)	(0.4)
Office of the President	3.5	3.6	0.1	2.7
Commission on Elections	1.4	3.3	1.9	134.8
Department of Science and Technology	2.5	2.9	0.3	12.7
National Economic and Development Authority	1.3	2.8	1.5	114.0
Department of Social Welfare and Development	2.3	2.6	0.3	12.3
Department of Trade and Industry	2.1	2.0	(0.1)	(3.4)
Department of Energy	1.0	1.7	0.7	67.3
Department of Tourism	1.1	1.4	0.3	24.5
Office of the Ombudsman	0.7	0.9	0.3	38.6
Office of the Press Secretary	0.9	0.8	(0.0)	(5.7)
Department of Budget and Management	0.4	0.6	0.2	44.8
Civil Service Commission	0.5	0.5	(0.0)	(0.0)
Commission on Human Rights	0.2	0.2	(0.0)	(9.3)
Office of the Vice-President	0.1	0.1	0.0	55.0
Joint-Legislative-Executive Offices	0.0	0.0	-	-
Departments*	**390.0**	**419.2**	**29.2**	**7.5**
Special Purpose Funds	**528.6**	**634.1**	**105.5**	**20.0**
GRAND TOTAL	**918.6**	**1,053.3**	**134.7**	**14.7**

a/ Includes DepEd – School Building Program; b/ Includes AFMA
Source: 2006 BESF (DBM)

Table 4.8 shows that budgetary increases are also significant for the Department of Public Works and Highways (DPWH) and Transportation and Communications (DOTC)—two of the major agencies tasked to implement infrastructure projects of government. In nominal terms, DPWH enjoys the highest increment of P12.9 billion from 2005's level of P49.5 billion. NG's expenditure program for DPWH shows that the increase will largely go to capital outlays for public infrastructure projects such as flood control and highway projects *(includes roads, bridges and, right-of-way acquisition)*.

Note that the increase in DPWH's budget are basically for foreign-assisted projects (FAPs) which could mean that NG is now able to put up its peso counterpart for capital intensive infrastructure projects. On the other hand, the increase of about P6.2 billion in DOTC budget will be used for locally-funded projects such as the construction, rehabilitation and improvement of transportation and communication infrastructure *(e.g., airports and ports).*

SPECIAL PURPOSE FUNDS

The proposed 2006 budget allocates a total of P634.1 billion[3] for Special Purpose Funds (SPFs)—more than half of which will be used for interest payments (P340 billion). Allocations to local government units (ALGU) will increase by P25.2 billion from P155.9 billion in 2005. The increase in ALGU can be attributed mainly due to the natural growth in local government share in the national internal revenues (otherwise known as the Internal Revenue Allotment).

In support of development initiatives at the local level, ALGU for 2006 includes two new Program Funds namely the *"Kilos Asenso Support Fund"* and the *"Kalayaan Barangay Program Fund"* with amounts of P5 billion and P3 billion, respectively. The Kilos Asenso Support Fund shall be used as NG counterpart to support local programs/projects like the construction of farm-to-market roads and day care centers, improvement of potable water supply, setting up/upgrading of micro-financed community livelihood enterprises, and investments in agro-forestry projects. On the other hand, the Kalayaan Barangay Program Fund shall be used specifically to assist barangays in "conflict areas"[4] for livelihood projects and basic infrastructure works—*e.g., access roads, school buildings, water system and electricity facilities.*

[3] Net of AFMA intended for the Departments of Agriculture and Land Reform (formerly DAR).
[4] As identified by the Department of National Defense (DND) and the Office of the Presidential Adviser on the Peace Process (OPAPP).

TABLE 4.9
NG EXPENDITURE PROGRAM BY SPECIAL PURPOSE FUND
(IN BILLION PESOS)

PARTICULARS	2005	2006	Increase/Decrease	
			Amount	%
Budgetary Support to GOCC *b/*	11.9	14.4	2.6	21.6
Allocations to Local Government Units	155.9	181.0	25.2	16.1
AFP Modernization Fund	-	5.0	5.0	-
Agrarian Reform Fund	-	8.6	8.6	-
Calamity Fund	0.7	0.7	-	-
Contingent Fund	0.8	0.8	-	-
E-Government Fund	1.0	1.0	-	-
International Commitments Fund	1.8	1.9	0.1	5.6
Miscellaneous Personnel Benefits Fund	2.4	8.8	6.4	272.8
National Unification Fund	0.1	0.1	-	-
Priority Development Assistance Fund	6.1	6.2	0.1	2.0
Compensation/Salary Adjustment Fund	-	13.1	13.1	-
Pension and Gratuity Fund	34.7	52.5	17.9	51.5
Debt Service -Interest Payment	313.4	340.0	26.6	8.5
TOTAL	**528.6**	**634.1**	**105.5**	**20.0**

b/ includes AFMA
Source of basic data: 2006 BESF (DBM)

Higher budgetary allocation to LGUs is also due to a substantial increase in premium subsidies for the enrolment of indigents to the National Health Insurance Program. In 2005, only P750 million was appropriated to provide for NG's counterpart in the payment of health insurance premiums with PhilHealth but this was increased to as high as P2.9 billion in 2006. This sits well with efforts to increase access of poor Filipinos to medical services—thus, improving the country's chances of reducing incidence of illnesses/deaths and subsequently achieving the millennium development goals (MGDs) for health.

The increase in SPF can also be attributed to additional funds for salary adjustments and payment of personnel benefits and retirement packages. In keeping with the President's declaration of an increase in pay of government employees, the 2006 budget has included P13.1 billion for such purpose. The Pension and Gratuity Fund which increased by P17.9 billion from P34.7 billion in 2005 sets aside P10 billion for the payment of incentive packages in anticipation of employees availing of the Rationalization Program *(by virtue of Executive Order 355, Series 2004).*

Note also that Miscellaneous Personnel Benefits Fund increased by P6.4 billion from only P2.4 billion in 2005. The bulk of the increase will be used by NG to pay for arrears in its counterpart contributions to the Home Development and Mortgage Fund (HDMF), Philippine Health Insurance Corporation (PHIC), and the Government Service Insurance System (GSIS). For GSIS alone, NG is expected to settle P3.3 billion for deficiencies incurred from July 1997 to December 1998 [5].

Table 4.9 shows that NG allotted P14.4 billion as budgetary support to government-owned and controlled corporations (GOCCs). This is P2.6 billion or 21.6% higher than the P11.9 billion appropriated for GOCCs in 2005. Budgetary support to government corporations may either come in the form of equity contribution *(NG investment in capital stock)*, subsidy or net lending.

Out of the P14.4 billion budgetary support to government corporations, P8.3 billion (57.2%) will go to net lending, P4.9 billion (34.2%) to subsidy, and the remaining P1.2 billion (8.6%) to equity. Net lending are cash advances by the national government for servicing guaranteed corporate debts to avoid payment defaults. Unlike equity and net lending where NG subsequently gets returns through dividends and repayments for cash advances, respectively, subsidies are outright NG expense used to cover operational expenses or deficits/losses of GOCCs.

It is important for NG to closely monitor the performance of GOCCs, to watch out for excessive spending *(e.g., salaries and allowances)*, and to develop a "turn around" program for losing corporations. This may eventually require the streamlining of the government corporate sector through privatization and mergers of redundant agencies, and the closure of those that consistently fail to improve profitability.

Aside from inherent inefficiencies on the way government corporations are run, there are policies that force NG to continue giving subsidies. For example, the National Food Authority (NFA) is designed to lose money with its policy of *"buying high and selling low"*. Similarly, for political reasons, light-rail fares are below the price than what government originally contracted to pay. Given their poor cash position, GOCCs are caught in a chronic cycle of deficit and debt—thus, a need for continued assistance from the national government.

[5] Arrears were incurred due to the increase in employer's share in GSIS contribution (from 9.5% to 12%) when GAA for 1997 was already passed and budget for 1998 has already been prepared.

CASH VS. OBLIGATION BUDGET

While programmed obligations for 2006 amount to P1,053.3 billion, the estimated cash disbursements for the year is expected to be higher by P40.2 billion. Total cash disbursements of P1,093.5 billion is 13.5% more than the projected cash payment of P963.2 billion in 2005. A breakdown of cash disbursements for 2006 shows that 85% will go to current operating expenditures (P924.8 billion), 15% to capital outlays (P160.5 billion), and the amount of P8.3 billion to net lending.

Since the deficit is determined on cash basis—*i.e., expenses are reported as they are paid regardless of the year when the obligation was incurred*—the budget gap for next year (2006) is projected at P124.9 billion given a revenue program of only P968.6 billion.

BOX 4.1

IMPLICATIONS OF A RE-ENACTED BUDGET

The National Government will be forced to operate under a re-enacted budget should Congress fail to pass the 2006 General Appropriations Bill by end of the year. Table 4.10 shows that a re-enacted budget will reduce NG's obligation program (2006) by P114.2 billion. Note that the 2005 budget amounted to only P918.6 billion but since P376.3 billion is likely to be automatically appropriated (as programmed for 2006), total obligations will likely settle at P939.1 billion. Out of the P376.3 billion, interest payments accounts for P340 billion while the remaining automatically appropriated items would include Retirement and Life Insurance Premiums, special accounts, and net lending.

TABLE 4.10
COMPARATIVE OBLIGATION BUDGET
(IN BILLION PESOS)

PARTICULARS	2005 GAA	2006 Proposed (a)	2005 Re-enacted (b)	Difference (b-a)
Programmed, New	562.8	677.0	562.8	(114.2)
Automatic Appropriations	355.8	376.3	376.3	
TOTAL Obligations	**918.6**	**1,053.3**	**939.1**	**(114.2)**

Note: Automatic Appropriations amounting to P355.8 billion is the adjusted figure for 2005.

If forced to work on the basis of a re-enacted budget, the biggest losers will include the following: (1) ALGU, particularly the Internal Revenue Allotment; (2) DPWH—delay or non-implementation of flood control and highway projects; (3) DepEd—loss of funds intended for hiring new teachers, purchase of textbooks, and construction of classrooms; (4) DOTC—lack of funding for the construction and rehabilitation of airports and ports; (5) Pension and Gratuity Fund—delay in releases of retirement gratuities and terminal leave benefits (no funds for the payment of incentive packages under the Rationalization Program); (6) Compensation and Salary Adjustment Fund—suspension of the planned increase in allowances of government employees; and (7) Miscellaneous Personnel Benefits Fund—postponement of NG's plans to settle arrears in counterpart contributions to the HDMF, PHIC and GSIS *(see Table 4.11).*

Allocations to LGUs will be most affected under a re-enacted budget. The Internal Revenue Allotment (IRA) which is likely to stay at P151.6 billion (as in 2005) will deprive LGUs of the expected P14.9 billion increment for next year. Also, NG is less likely to provide the P8 billion in counterpart funds for local projects under two new programs—*Kalayaan Barangay Program Fund* and *Kilos Asenso Support Fund.* Plans to increase the budgetary allocation for the enrollment of indigents to the National Health Insurance Program from only P750 million in 2005 to P2.9 billion in 2006 will also have to be sidelined.

TABLE 4.11
GAINERS AND LOSERS UNDER A 2005 RE-ENACTED BUDGET
(IN BILLION PESOS)

PARTICULARS	2005 GAA (a)	2006 Proposed (b)	Difference (a-b)
GAINER: DLR	14.7	6.5	8.2
LOSERS: ALGU	155.9	181.0	(25.2)
DPWH	49.5	62.3	(12.9)
DepEd	112.0	119.1	(7.0)
DOTC	8.0	14.3	(6.2)
By Fund:			
Pension and Gratuity	34.7	52.5	(17.9)
Compensation/Salary Adjustment	-	13.1	(13.1)
Miscellaneous Personnel Benefits	2.4	8.8	(6.4)

Under a re-enacted budget, the Department of Budget and Management (DBM) wields power over budget re-alignments. It gives the executive branch the "upperhand during budget execution phase…(and) the discretion in deciding how to implement the budget cuts." *(Manasan, 2003).* Moreover, "the selective rationing of allotment authority and/or cash allocations tends to politicize the prioritization process as different stakeholders jockey for favors…" *(Schiavo-Campo and Tommasi, 1999).*

Budget re-alignments can also cause delay in the implementation of programs/projects. The timing of release of allotment authority can adversely affect construction schedules. Exercise of discretion in terms of identifying which projects will continue to be funded under a re-enacted budget can put some projects on hold. In particular, counterpart funds for new foreign-assisted projects (FAPs) may not be provided during the year.

Chapter 5

TAKING STOCK OF GOVERNMENT DEFICIT AND DEBT

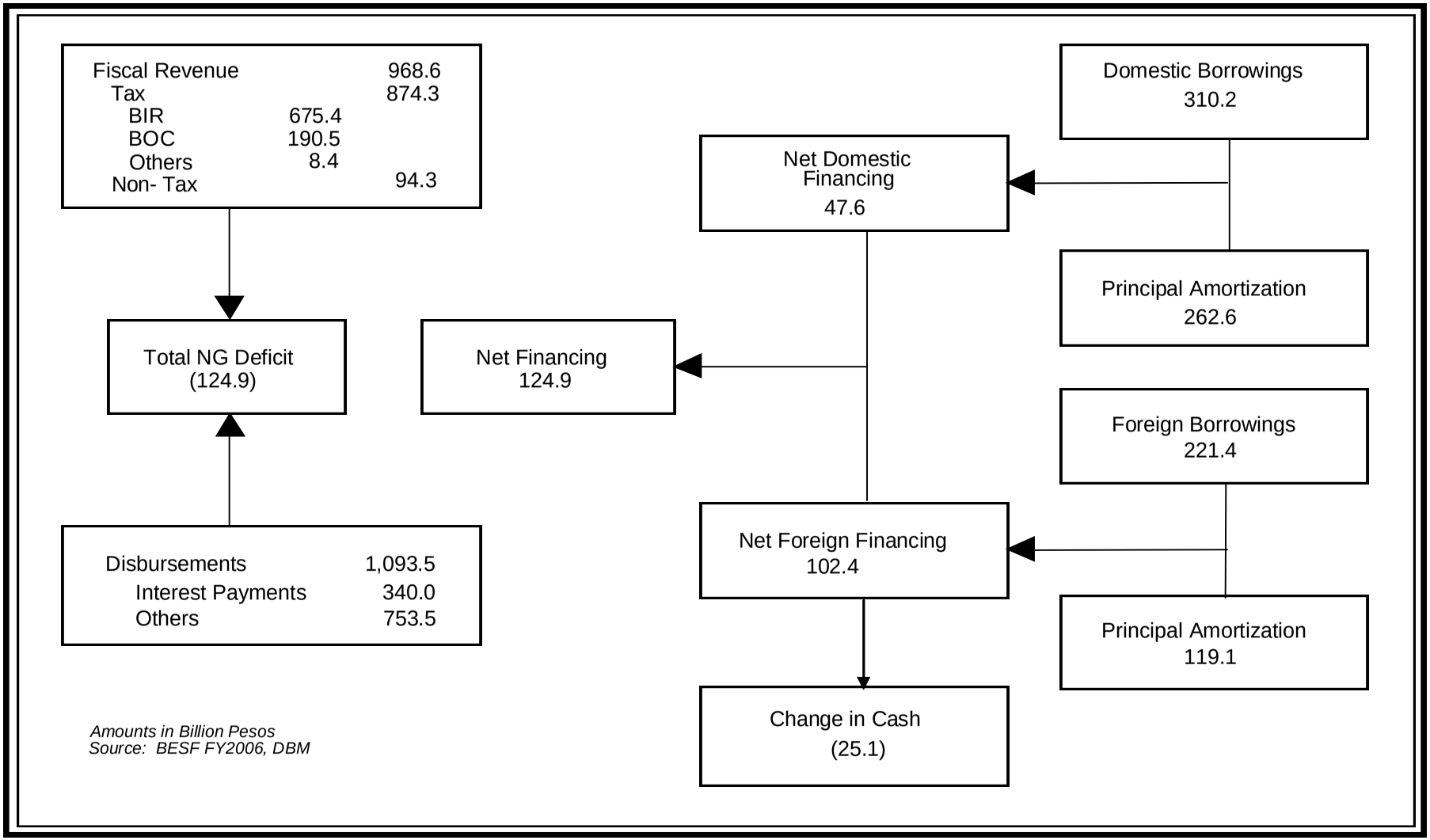
Government deficit may be financed by printing new money or borrowing. Deficit financing through money creation has long been abandoned due to its impact on inflation; hence, borrowing from domestic and foreign sources has become the instrument to finance government deficit. When the deficit is financed through borrowing, total outstanding debt automatically increases. The proportion of debt service in the budget subsequently rises to the detriment of capital and social expenditures in the long run.

NG BORROWING PROGRAM

Total borrowing for 2006 amounts to P531.6 billion, of which P310.2 billion (58%) will come from domestic sources and P221.4 billion (42%) from abroad. Out of the total borrowings, P381.7 billion (72%) will be used for amortization of principal loans— P262.6 billion for domestic debts and P119.1 billion for foreign debts *(see Figure 5.1).* Note that while projected deficit is only P124.9 billion, an additional P25.1 billion will be needed to build-up the cash account of the National Treasury *(i.e., change in cash).*

Domestic loans will be tapped through the issuance of Fixed Rate Treasury Bonds (P221.4 billion) and Treasury Bills (P88.9 billion). Obtaining more funds from local credit market is seen to be a more prudent debt strategy than sourcing loans abroad because of the recent credit downgrade by international rating agencies. Furthermore, the NG is better off with Treasury Bonds because longer maturity period provides "breathing space" that allows the

FIGURE 1
NG DEFICIT AND FINANCING PROGRAM, FY 2006



use of funds for development rather than debt service/repayments. Nevertheless, the government is still forced to borrow abroad despite certain risks since its huge demand for loans cannot be met domestically.

The bulk of foreign funding will come from global or commercial bonds (P173.6 billion), and the remaining P17.8 billion will be provided through project loans (P3.8 billion) and program loans (P14.0 billion)[1]. Compared with project and project loans (e.g. Official Development Assistance), global bonds fetch higher interest rates and are more vulnerable to foreign shocks. They are also subject to "event risk" such that any unfavorable economic or political news may create negative perception of the country's credit-worthiness and/or payment potential. Fixed interest rates on certain external debt instruments can only mitigate some of these risks as 34.6% of the current $49.95 billion medium to long term obligations are in variable interest rates. [2]

TABLE 5.1
BORROWING MIX, 2004-2005

PARTICULARS	Levels (Billion Pesos)			% Distribution		
	2004	2005	2006	2004	2005	2006
Gross Domestic Borrowings	**383.78**	**348.67**	**310.21**	**100.00**	**100.00**	**100.00**
Treasury Bills	81.73	128.15	88.86	21.30	36.75	28.65
Fixed Term Deposits	34.99	-	-	9.12	-	-
Retail Treasury Bonds	41.70	-	-	10.87	-	-
Fixed Rate Treasury Bonds	225.36	220.52	221.35	58.72	63.25	71.35
Gross Foreign Borrowings	**199.53**	**227.74**	**221.43**	**100.00**	**100.00**	**100.00**
Project Loans	34.47	30.06	33.83	17.28	13.20	1.73
Program Loans	5.00	22.40	14.00	2.51	9.84	6.32
Global Bonds	160.06	175.28	173.60	80.22	76.96	78.40

Source: BESF (DBM)

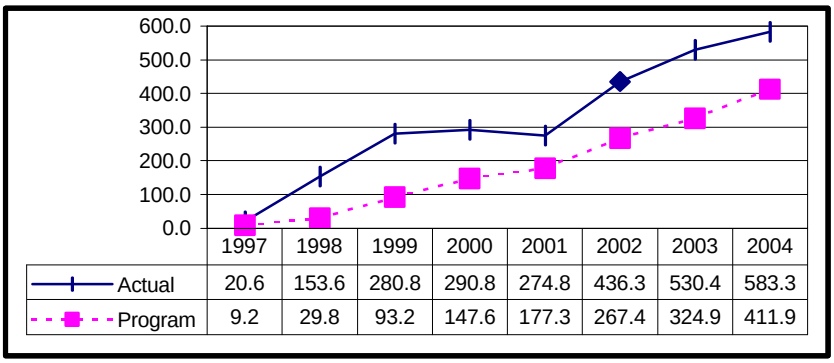
The proposed financing next year (P531.6 billion) is lower by 7.8% than the 2005 borrowing of P576.4 billion. Since actual NG borrowings have always exceeded program, the possibility of borrowing more than P531.6 billion for 2006 cannot be discounted *(see Figure 5.2).* On the average (1997-2004), the difference between actual and program borrowing is P138.7 billion.

[1] Project loans pertain to foreign loan obtained to finance a specific project while program loans are multi-purpose foreign loans conditioned on basic changes in economic, monetary or fiscal policies, among others.

[2] "Debt Payments to increase due to higher key US rate" BusinessWorld (07 November 2005)

Deviation from program borrowing may be traced to a number of reasons: *(a)* larger-than-programmed deficit; *(b)* higher principal amortization due to peso depreciation; and *(c)* financial support to GOCCs, among others.

FIGURE 5.2
ACTUAL VS PROGRAM BORROWING, 1997-2004



	1997	1998	1999	2000	2001	2002	2003	2004
Actual	20.6	153.6	280.8	290.8	274.8	436.3	530.4	583.3
Program	9.2	29.8	93.2	147.6	177.3	267.4	324.9	411.9

Source of basic data: BESF (DBM)

In 2003, for example, NG borrowed P530.4 billion which is P205.5 billion or 63.3% more than the original program (P324.9 billion) because the deficit target (P142.1 billion) was breached by P57.8 billion. Principal amortization for foreign loans was also higher by P9.6 billion partly due to the depreciation of the peso (from P51-52:US$1 as projected to P54.20:US$1 actual). Moreover, the Bureau of the Treasury built up its cash accounts (change in cash) during the same year by P86.9 billion.

Actual deficit in 2004 (P187.1 billion) was lower than originally projected budget gap by P10.7 billion but actual borrowing (P583.3 billion) exceeded original program by P171.4 billion or 41.6%. Accounting for the difference, it was noted that repayment for foreign debt was higher by P15.8 billion primarily due to foreign exchange variance (from P53-54:US$1 as projected to P56.04:US$1 actual). Also, the Bureau of Treasury purchased P78.6 billion worth of National Power Corporation (NPC) securities. It may be recalled that when NPC failed to sell its debt papers in the international market due to weak financial position, NG borrowed money and used it to buy NPC bonds. Consequently, the Bureau of the Treasury recognized income on NPC investments amounting to P14.8 billion. However, such income would be wiped out as the government assumes P200 billion of NPC liabilities as stated in the Electric Power Reform Act (EPIRA). It is estimated that annual payment for interest on NPC debts would be equivalent to 0.3% of GDP or approximately P16 billion in 2005.

NG DEFICIT AND DEBT

Budget deficits have perennially afflicted the country for the last 40 years *(see Table 5.2).* Note that from an average of only 1% of gross domestic product in the 1960s, the NG budget deficit worsened to 4.4% of GDP in recent years. Large and persistent deficits have been largely due to progressive decline in the tax effort and the inflexibility of the tax system to economic changes. From a high of 17% tax-to-GDP ratio in 1997, tax effort continuously declined to as low as 12.6% in 2004 despite the implementation of a Comprehensive Tax Reform Program in 1998.

As NG deficits are financed through borrowings, government debts grew at exorbitantly high levels—from only P395.5 billion in 1986 to P1.1 trillion in 1993. After seven years (2000), NG posted its debt at P2.2 trillion and this further went up to P3.8 trillion (79% of GDP) by the end of 2004. NG debt increases by 16.9% on the average from 1999-2004.

TABLE 5.2
DEFICIT HISTORY

PERIOD	Deficit as % of GDP (average)	No. of Years in Deficit
1960 – 1969	1.0%	8
1970 – 1979	0.5%	7
1980 - 1989	2.5%	10
1990 - 1999	2.3%	6
2000 - 2004	4.4%	5

Source: Asian Development Bank (ADB) and BESF (DBM)

In retrospect, borrowings during the 1970s and 1980s were utilized to pump-prime the economy and provide stability against oil price shocks. Moreover, the restructuring of the Philippine National Bank and the Development Bank of the Philippines in 1986 involved the transfer to NG of more than P55 billion liabilities and non-performing assets of doubtful value. Poor financial performance of these institutions was traced to their lending mainly to highly protected economic ventures or "behest loans".[3] One example was the Bataan Nuclear Power Plant that became embroiled in national politics and the international politics of environmental safety. In recent years, the debt stock increased considerably not only because of budget deficits but also due to mismanagement of public corporations such as NPC.

[3] Sicat and Abdula, "Public Finance" in The Philippine Economy by Balisacan and Hill (eds.) 2003

These factors led the Executive Department to recognize the deepening fiscal and debt problem in 2004.

The Department of Finance estimates that NG debt will reach P4.4 trillion in 2006 *(see Table 5.3).* Note that while the government expects an improvement in the debt ratio from 79% of GDP in 2004 to 74.1% in 2006, this is still very high compared with the IMF debt-to-GDP benchmark of 25% and 30% for emerging market and developing economies, respectively.[4] Debt service (interest payments and principal amortization) as a ratio to GDP is also expected to decline from 12.5% 2004 to 12% in 2006.

TABLE 5.3
DEBT RATIOS (IN BILLION PESOS)

PARTICULARS	2004 Actual	2005 Program	2006 Program
National Government Debt	3,811.9	4,247.7	4,444.2
% of GDP	*79.0*	*79.8*	*74.1*
Debt Service	601.7	674.1	721.7
% of GDP	*12.5*	*12.7*	*12.0*
Interest Payments	260.9	313.4	340.0
% of GDP	*5.4*	*5.9*	*5.7*
% of Cash Disbursements	*29.4*	*32.5*	*31.1*
% of Revenues	*37.3*	*40.0*	*35.1*
Principal Amortization	340.8	360.7	381.7
% of GDP	*7.2*	*6.8*	*6.4*

Source: DOF presentation before the House Committee On Appropriations (26 Sept 2005)

What deserves attention though is the claim of debt servicing in the NG budget. Table 5.3 shows that in 2004, interest payment alone ate up more than one-fourth (P0.29) of every P1 cash disbursement and more than one-third (P0.37) of every P1 revenue collection. Thus, the money that could have been spent to promote social welfare and increase the country's productive capacity was diverted to interest payment instead. Budget allocated for debt burden in 2006 will not be any better as almost one-third (P0.31) of cash disbursements will go to interest payment while the remaining 69% will have to be divided among social and economic services, allocation for local government units and other NG budget priorities.

[4] "Public Debt in Emerging Markets: Is it Too High?" World Economic Outlook, International Monetary Fund, September 2003.

CONSOLIDATING THE PUBLIC SECTOR

Consolidated Public Sector Fiscal Position (CPSFP). Aside from NG, the public sector also includes the 14 monitored GOCCs, local government units (LGUs), government financial institutions (GFIs), and social security institutions (e.g. SSS and GSIS). While NG was able to bring down its deficit from P210.7 billion in 2002 to P187.1 in 2004, total public sector borrowing requirement (PSBR) grew from P268.3 billion in 2002 to P286.1 billion in 2004 *(see Table 5.4)*. The increase in PSBR was primarily due to the combined deficits of the 14 major GOCCs (P90.7 billion) and the cost of restructuring the old Central Bank (P17.5 billion). PSBR is expected to decline in 2005 and 2006 because of two factors: efforts of NG to balance the budget over the medium term; and the decline in financing deficit of the 14 monitored corporations. A high PSBR usually results in crowding out of private investments i.e., NG borrowing competes with the private sector for loanable funds and pushes up benchmark lending rate of financial institutions.

TABLE 5.4
CONSOLIDATED PUBLIC SECTOR FISCAL POSITION
(IN BILLION PESOS)

PARTICULARS	2002	2003	2004	2005 Adj	2006 Est
National Government	-210.74	-199.87	-187.06	-180.00	-124.88
Monitored GOCCS	-46.36	-65.32	-90.74	-42.50	-47.80
CB Restructuring	-15.13	-15.66	-17.48	-18.38	-19.24
Adjustments	3.94	5.81	9.17	9.77	10.79
PSBR	**-268.29**	**-275.04**	**-286.10**	**-231.10**	**-181.13**
Other Public Sector	49.57	50.10	49.40	50.76	53.00
CPSD	**-218.72**	**-224.93**	**-236.70**	**-180.34**	**-128.13**
% of GDP	*-5.63%*	*-5.34%*	*-4.99%*	*-3.39%*	*-2.14%*

Source: BESF

Table 5.5 shows the financing deficits and surpluses of the 14 monitored GOCCs. Decline in the projected NPC deficit is mainly due to the recent adjustment in generation tariff by P0.3625 per kilowatt-hour as approved by the Energy Regulatory Commission. On the other hand, the National Food Authority (NFA) deficit is projected to reach P22.1 billion in 2005 due to high volume of imports and its policy of "buying high and selling low". Similarly, LRTA deficit is expected to grow from P1.7 billion in 2004 to P6.4 billion in 2005. With subsidized light-rail fares, internally generated revenues of LRTA are insufficient to meet the agency's financial needs.

TABLE 5.5
FISCAL POSITION OF 14 MONITORED GOCCS
(IN BILLION PESOS)

PARTICULARS	2002	2003	2004	2005	2006
National Power Corporation	-21.66	-47.62	-73.38	-5.95	-18.41
National Food Authority	-8.09	-3.69	-8.11	-22.09	-17.94
Light Rail Transit Authority	-5.77	-0.62	-1.73	-6.39	-5.20
National Irrigation Administration	-2.06	-9.74	-3.29	-3.31	-3.67
Philippine National Railways	-0.18	-0.31	-0.48	-1.22	-2.31
Metropolitan Waterworks & Sewerage System	-2.63	-2.09	-2.54	3.61	-1.51
Philippine Ports Authority	1.28	0.38	-0.09	-0.62	-0.84
National Housing Authority	0.23	-0.32	-0.21	-1.78	-0.47
Philippine National Oil Company	0.36	0.58	1.25	-1.22	-0.29
Home Guaranty Corporation	-6.16	-0.96	-1.50	-0.14	-0.10
Local Water Utilities Administration	-1.01	-1.26	-1.74	-0.21	0.20
Philippine Economic Zone Authority	0.22	0.36	0.15	0.11	0.16
National Electrification Administration	0.18	-0.31	0.73	0.77	1.21
National Development Company	-1.08	0.29	0.21	-4.07	1.36
TOTAL	-46.34	-65.32	-90.74	-42.50	-47.80

Source: DOF

Total Public Sector Debt. Consolidated public sector debt in 2002 stood at P 4.4 trillion and subsequently rose to P5.3 trillion by 2004 primarily due to NG. Table 5.6 shows that NG debt increased by 29% from P2.6 trillion in 2002 to P3.4 trillion in 2004 while that of the GOCCs grew by 13% from P1.4 trillion to P1.5 trillion during the same period. One of the reasons for NG's ballooning debt aside from the fiscal deficit is the practice of bailing out or assuming the liabilities of failing financial institutions and GOCCs (e.g. Central Bank, PNB, DBP, BNPP). Total bail-out by NG contributed P320.6 billion of the P2 trillion increase in its debt in 1997-2003. [5]

Estimates by the DOF for 2006 show that outstanding liabilities of NG and of the 14 monitored GOCCs will be P4.4 trillion and P1.4 trillion, respectively. Adding these to the 2004 debt levels of financial public corporations, social security institutions, old Central Bank and local government units (less intra-sector debt holdings) would mean that by end of 2006, liabilities of the entire government sector may reach P6.2 trillion.

[5] De Dios, et.al. "The Deepening Crisis: The Real Score on Deficits and the Public Debt" University of the Philippines, August 2004.

DEBT SUSTAINABILITY

Despite claims by some analysts that the country is in fiscal crisis, this may be disputed since the government has not defaulted on its debt repayments and the economy continues to grow. However, it is posited that the country's fiscal state is weakly sustainable because of two principal reasons.[6]

One, the current levels of NG debt and total public sector debt are already too high—making the economy susceptible to shocks. Fortunately, external shocks seems to have abated in recent years as foreign debt-to-GDP ratio declined from 71.3% in 2002 to 62.4% as of June 2005. The debt service burden (DSB) as a ratio to current account receipts, exports, and GNP/GDP has also improved *(see Table 5.7)*. In addition, external debt remains comfortable for the following reasons: *(a)* short term debt accounts for only 10% of total external debt; *(b)* medium to long-term debt maturities are well spread out over an average 17.7 years; and *(c)* strong OFW remittances continue to fend off the peso from depreciating.

TABLE 5.6
CONSOLIDATED PUBLIC SECTOR DEBT
(IN BILLION PESOS)

PARTICULARS	2002	2003	Prelim 2004
Nonfinancial public sector debt [1]	**3,714.10**	**4,349.20**	**4,637.20**
National Government (with Bond Sinking Fund)	2635.30	3081.30	3397.10
Central Bank/CB-BOL	67.10	60.50	48.50
Social Security Institutions (SSS,GSIS)	23.30	33.30	7.10
Local Government Units	33.70	43.90	49.20
Less: intrasector debt holdings[a]	-103.70	-124.60	-132.40
Nonfinancial Public Sector (14 GOCCs)	1377.30	1659.40	1554.40
Less: intrasector debt holdings[b]	-318.80	-404.60	-286.80
Financial Public Corporations *(BSP, DBP, LDP, TIDCORP)* [2]	**1,346.10**	**1,462.40**	**1,331.50**
***Less:* intrasector debt holdings[c] [3]**	**-691.1**	**-737.5**	**-671.1**
Consolidated Public Sector Debt [1]+[2}+[3]	**4,369.10**	**5,074.00**	**5,297.60**

Notes: [a] *NG debt instruments held by SSIs, LGUs*
[b] *NG debt instruments held by GOCCs, onlending from NG to GOCCs, onlending GOCC to GOCC*
[c] *NG and GOCCs securities and deposits at BSP, GFIs debt held by BSP*

Source: DOF

[6] Sustainability pertains to a debt-to-GDP ratio that is not out of control or is ever increasing.

TABLE 5.7
EXTERNAL DEBT RATIOS (IN %)

PARTICULARS	2002	2003	2004	Jan-Jun 2005[a/]
External debt to GNP	65.62	69.00	60.50	58.24
External debt to GDP	71.29	73.89	64.86	62.39
DSB to Current Acct Receipts	16.19	15.94	13.10	12.66
DSB to exports of goods, receipts from services & income	16.41	16.93	13.82	13.64
Debt Service Burden to GNP	9.11	9.58	7.97	7.14
Debt Service Burden to GDP	9.89	10.26	8.54	7.69

Note: Debt Service Burden refer s to principal and interest payments
Source: Mid Year Economic Briefing

However, these improving data are in constant threat from possible downgrade by international credit rating institutions amid political and fiscal instabilities. It is estimated that a 1% increase in Treasury-bill rate due to credit downgrade could result in a P6.2 billion additional interest payments.[7]

Two, the President may not have enough support to achieve her medium-term reform program (e.g. balanced budget by 2008) given the current political noise. According to the ADB, a balanced budget by 2010 would require an annual tax revenue growth of 11% and a primary spending *(government expenditures excluding interest payments)* growth of 5%.[8] However, ADB warns that this policy mix would result to a continued contraction in the economy culminating to a –2% GDP growth in 2010 as the government takes more (tax) from households and industries but flows back very little (primary spending) to the economy. Incidentally, taxpayers are left with low disposable income for consumption and investments.

Under the medium-term development framework (2004-2010), tax revenues are targeted to grow annually by 16.4% on average and primary spending to increase by 12.3%. In 2004, tax revenues and primary spending grew by 11.2% and 1.23%, respectively. Tax growth projections in the next two years are 18.1% (2005) and 23.8% (2006). However, these would largely depend on the proper implementation of the recently approved tax measures (e.g. VAT/non-VAT reforms and excise tax restructuring) and administrative reforms in the Bureau of Internal Revenue and the Bureau of Customs (e.g. Run After Tax Evaders and lifestyle check among BIR and BOC personnel).

[7] " Japanese Rating Agency Also Downgrades Credit Outlook", BusinessWorld (16 July 2005).
[8] Qin, Duo et. al., Empirical Assessment of Sustainability and Feasibility of Government Debt: The Philippine Case, ERD Working Paper No. 64 (ADB).

Primary spending is expected to grow by 17.9% in 2006—way above the 8.6% MTPDP target for the year but the increase was merely because primary spending in 2005 (P605.2 billion) was lower than previous year's spending (P606.1 billion). Related measures to increase the budget and/or improve spending pattern for which the President may need support from Congress members would include the annual appropriations bill, government reengineering/streamlining, and the Fiscal Responsibility Bill, among others.

Debt Management Strategies. Various proposals have been raised on how government can properly address the debt overhang. The MTPDP 2004-2010 presents a comprehensive strategy on administrative and legislative measures, where the Fiscal Responsibility Bill is included. Other proposals are the public audit/accounting of all government debts, cancellation of odious debts, and Debt-for-Millenium Development Goals (MDG) Investments[9].

The Fiscal Responsibility Bill *(HB No. 3890)* provides a holistic approach not only to ease the debt problem but also to instill fiscal discipline both in national and sub-national government agencies. Some of its important features are as follows:

- Rule-based policy making over the medium-term—*(a)* Legislative-Executive agreement on deficit, revenue, expenditure and financing programs, *(b)* personal services cap for NG, GOCCs and LGUs not to exceed a certain percentage of net current revenues, and *(c)* NG debt-to-GDP ratio of 60%-65%.

- Deficit-neutral measure wherein no expenditure proposal will be approved into law without a complementary revenue source or an expenditure reduction proposal in other areas.

- Disclosure of government guarantees and repeal of automatic guarantees to GOCCs and GFIs

Another proposal (HJR No. 2) is the creation of a Congressional Committee that will review the debt policy of government and conduct an audit of all public debt owing to the increasing magnitude of the debt. The legislative measure has already been approved in the House of Representatives, but a counterpart bill has yet to be filed in the Senate.

[9] Strategies were raised during the preparatory workshop on Fiscal and Financial Resources Management held 27 June 2005 for the 2nd Political Parties Conference.

A more radical approach to reduce the debt is contained in HB No. 441 which seeks to cancel loan repayments and recover previous debt servicing for alleged fraudulent loans incurred by previous administration. Similarly, HB No. 4263 calls for cancellation and recovery of loan payments for the Bataan Nuclear Power Plant Project.

Finally, there is a proposal to convert 50% of outstanding debt of middle-income countries into equities i.e., the money that creditors would have received as debt repayments will be flowed back into the system in terms of equity shares in MDG projects. The proposal has been endorsed by UN Secretary General Koffi Annan and the European parliaments. A technical committee for the Paris Club has been set-up to evaluate the proposal.

SUMMARY

Deficits and debt have been affecting the country for decades. The debt burden is demanding an increasing share in the yearly budget that threatens social welfare and sustainable growth. In addition, the debt problem is presenting a constant threat of a fiscal crisis that could cause further economic difficulties. The legislation of key reform measures such as restructuring of excise tax and E-VAT is a positive development, but it needs to be complemented by other measures to allow for better debt management.

PART 2

SECTORAL ALLOCATION

Chapter 6

PROMOTING PUBLIC INFRASTRUCTURE DEVELOPMENT: THE INFRA COMPONENT OF THE 2006 BUDGET

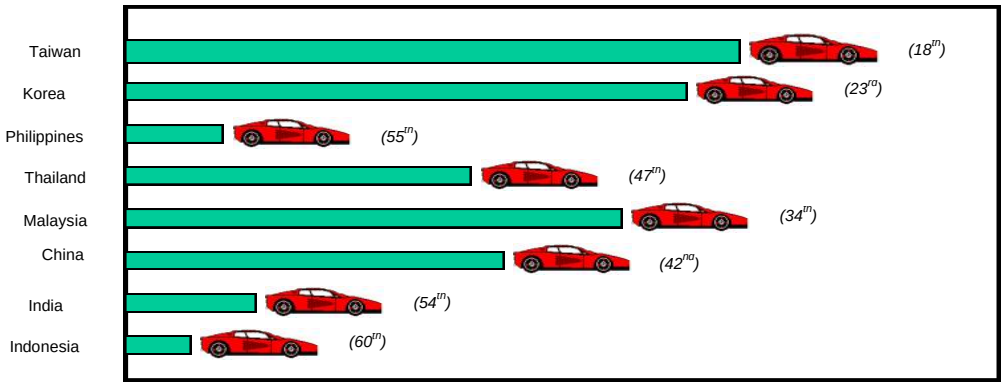
While the government is committed to boost infrastructure development in the country as reflected in a higher public sector infrastructure budget in 2006 compared to last year's, the major issues are still strategic allocation, balanced rural-urban development, and the efficient and effective selection and implementation of infrastructure projects. Corruption has also been persistently cited as one of the causes of poor and slow delivery of quality infrastructure services, hence, a critical and effective anti-corruption drive should be in place to complement the government's infrastructure development plan. Proper monitoring and public information drive on these projects along with their corresponding allocations should be undertaken with the coordinated efforts of stakeholders – government, constituents, private sector, etc. This will ensure that these projects are implemented as planned, and benefits from these shall accrue to the greatest number of Filipinos.

The lack of infrastructure is one key constraint of the Philippines in achieving its major goals of poverty reduction and sustainable economic growth over the long term. Undoubtedly, infrastructure has an increasing role in raising the living standards of the Filipinos, especially the poorest of the poor. Access to reliable, safe and cost-effective infrastructure services such as roads, power, safe drinking water, telecommunications, among others; is essential in improving the lives of the people both in the urban and rural areas. Moreover, adequate and efficient infrastructure is indispensable to growth as this improves the country's competitiveness and attractiveness to investments.

Although, the Philippines has attained important strides in infrastructure provision, it still lagged behind its neighboring countries in Asia. In the World Competitiveness Yearbook (WCY) for 2005, the Institute of Management Development (IMD) ranked the country's

overall infrastructure rating 55th among the 60 countries surveyed *(see Figure 6.1).*[1] The Philippine performance in 2005 showed minimal improvements from 2004, in terms of various subcategories under infrastructure *(see Table 6.1)*.

FIGURE 6.1
INFRASTRUCTURE COMPETITIVENESS RANKING
(REGIONAL COMPARISON)



Source: WCY 2005, IMD

Regional comparison of basic infrastructure services shows that while the Philippines has an edge in terms of advancement of specific infrastructure as compared to its neighboring countries in Asia, much is still to be done to catch up with its regional competitors on infrastructure development *(see Table 6.2).*

TABLE 6.1
PHILIPPINE INFRASTRUCTURE
COMPETITIVENESS RANKING

SUBCATEGORY	2004	2005
Basic Infrastructure	60	60
Technological Infrastructure	43	36
Science Infrastructure	58	58
Health & Environment	58	55
Education	57	53

Source: IMD

[1] The IMD is a Switzerland-based graduate management institution that measures and ranks the ability of countries to create and maintain an environment that sustains market competitiveness. It ranks the competitiveness of 60 countries using 314 criteria based on four main factors: economic performance, government and business efficiency, and infrastructure. (See also Annex 1)

TABLE 6.2
INTERNATIONAL COMPARISON ON INFRASTRUCTURE

PARTICULARS	Roads	Telecoms		Power		Water & Sanitation	
		per 100 people, 2003		2000 (%)	2003-2004[a]	2002 (%)	
	Paved Roads Ratio	Mainlines	Mobile subscribers	Electrifica-tion Rates	Quality of Electric Supply	Access to improved sanitation	Access to Improved water
Malaysia	0.74	18.16	44.2	96	5.9	-	-
Korea	-	53.83	70.09	100	6.1	92	92
Thailand	0.82	10.49	39.42	82	5.3	99	85
Philippines	0.22	4.12	26.95	80	3.7	73	85
Vietnam	0.35	5.41	3.37	75	3.4	41	73
Sri Lanka	-	4.90	7.27	62	3.2	91	78
Indonesia	0.47	3.94	8.74	53	3.6	52	78
India	-	4.63	2.47	43	3	30	86

1/ Scale of 1 to 7; with 1=poorly developed and inefficient; and 7=among the best in the world
Source: Cited in World Bank presentation during the Philippine Infrastructure Conference

The formidable task of addressing the country's huge infrastructure requirements lies with the government. The government must take bold steps to accelerate infrastructure development in the country, albeit private sector participation is strongly encouraged, to cope up with the growing demand for basic services due to a high population growth and rapid urbanization.

PUBLIC SECTOR INFRASTRUCTURE BUDGET

The government's commitment to boost infrastructure in the country can be determined through its budgetary allocation on major development projects. The public sector infrastructure budget is composed of capital outlays expenditure of the government through the various agencies, government-owned and controlled corporations (GOCCs) and local government units (LGUs) that carry out the infrastructure development plan.[2]

The government's proposed allocation of P126.7 billion for infrastructure development in 2006 is 9.6% higher than the P115.6 billion approved in 2005 *(see Table 6.3)*. The national government (NG) has allotted P72.4 billion to fund needed infrastructure projects – this is 28% higher compared with the P56.5 billion outlay a year ago. This budget comprises 57.1% of the overall public sector infrastructure budget.

[2] Although allocations to the LGUs – which are composed of 20% of IRA, and Special shares of LGUs in the proceeds of national tax, are classified as MOOE, these expenditures are intended for community development and capital projects. Hence, it is included in the public sector infrastructure budget.

TABLE 6.3
PHILIPPINE INFRASTRUCTURE ALLOCATION
(IN BILLION PESOS)

PARTICULARS	2004	2005	2006
Public Sector Infrastructure Budget	**96.2**	**115.6**	**126.7**
National Government (NG)	51.4	56.5	72.4
Local Government Units	29.8	32.2	35.4
GOCCs	15.0	26.8	18.9

Source: FY 2005 BESF, DBM

Although this is only around 15% of the total public sector infrastructure budget, government-owned and controlled corporations (GOCCs) allocation for infra development weighs significantly on government's overall fiscal standing, since much of these allocations come from internally generated funds as well as corporate borrowings, which are guaranteed by the national government. Moreover NG infusion is also needed as counterpart funds for GOCCs infra-related expenditures.

TABLE 6.4
NATIONAL GOVERNMENT INFRASTRUCTURE

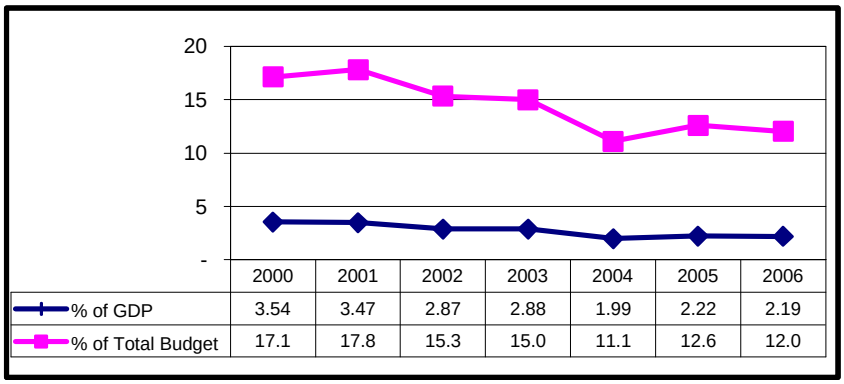
PARTICULARS	Levels (In Billion)		Percentage Share		Growth
	2005	2006	2005	2006	(%)
DPWH	38.7	51.4	68.5	71.0	32.7
DOTC	2.5	5.9	4.4	8.1	135.7
DepEd	3.2	3.0	5.7	4.1	(7.5)
ARMM	0.9	1.0	1.6	1.4	9.3
AFMA	10.6	10.5	18.7	14.5	(0.4)
Allocations to LGU	0.7	0.7	1.2	0.9	(2.2)
TOTAL	**56.6**	**72.4**	**100.0**	**100.0**	**28.0**

Source: DBM

The higher expenditure program on public infrastructure in 2006 marks an improvement in the government's spending pattern of giving priority to improve and modernize the country's physical infrastructure. However, the public infrastructure budget to GDP ratio in 2005 and 2006 of 2.2% and 2.1% respectively, is still meager compared to the 5% ratio proposed by World Bank (WB) for infrastructure investments to have a significant impact on middle income countries in East Asia.[3] Worse, public sector infrastructure budget as a percent to the

[3] The World Bank proposes that infrastructure investments gradually increase from less than 3% of GDP to at least 5%;

FIGURE 6.2
PUBLIC SECTOR INFRASTRUCTURE BUDGET



	2000	2001	2002	2003	2004	2005	2006
% of GDP	3.54	3.47	2.87	2.88	1.99	2.22	2.19
% of Total Budget	17.1	17.8	15.3	15.0	11.1	12.6	12.0

1/ Nominal GDP figures used for 2005 and 2006 are P5,203.3 billion and P5,780.6 billion, respectively, based on the revised DBCC assumptions;
2/ Actual expenditure used in 2000 to 2004; GAA allocation used in 2005 and proposed budget used in 2006;
Sources: GAA, NSCB

overall expenditure is generally on a downtrend in recent years – this is even set to weaken slightly in 2006 to 12.0% of the overall budget, from 12.6% in 2005 *(see Figure 6.2)*.[4]

PUBLIC INFRASTRUCTURE EXPENDITURE BY TYPE

Roads. Roads confer social benefits by providing communities with access to markets, basic services, (education, health, etc.) employment and information. Roads also play a catalytic role in improving agricultural productivity, quality of education and medical services, gender equality, as well as the overall well-being of the poor segment of the population. Improved road condition in the rural areas will effect spill-over development from business centers to less-progressive communities through trade, improved transportation and investments.

Poor road infrastructure is one factor that explains the disparity in regional development in the Philippines. The backlog in road infrastructure may be attributed to the low investment in roads network, as well as inefficiency in resource utilization. Data from the DPWH and DILG in 2005 showed that while the paved roads ratio to total national roads is at 70.4%, the paved roads accounted for only 23.8% of the total road network (local and national). This pales in comparison to Thailand (82%), Malaysia (74%), Indonesia (47%), and Vietnam (35%).[5]

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[4] Although a big portion of the GOCCs infra allocation is not part of the General Appropriations Act (GAA), it is included in this ratio – public sector infrastructure budget as a percentage of total budget, for analysis purposes only;
[5] Cited in DPWH presentation during the Philippine Infrastructure Conference in May 23, 2005;

As of 2005, the length of the country's total road network is at 206,780.4 km. comprised of 28,495 kms. of national roads and 178,285 kms. of local roads.[6] However, various road indicators *(as shown in Table 6.5)* manifest uneven distribution of national and local roads. Paved roads ratio is highest in Metro Manila with almost 100%, while the same ratio is dismal in the Cordillera Autonomous Region (CAR) and CARAGA with 33.3% and 49.5%, respectively. Metro Manila has also the highest road density per land area, but lowest in road density per vehicle and population. CARAGA and ARMM have the lowest road length per land area (in sq.km.) of 0.4 and 0.3 kilometers, respectively.

For 2006, the government is allotting P36.9 billion for roads and bridges development – 25.6% higher than the P29.4 billion proposed in the 2005 budget. This comprises 29.1% of the entire public sector infrastructure budget *(see Table 6.6)*.

TABLE 6.5
PHILIPPINE ROAD INDICATORS[A]
(BY REGION)

PARTICULARS	National Roads	Paved Road Ratio[b] (%)	Rank	Road Density (in km.)[c]		
				Land area (sq. km.)	Population '000	Vehicles '000
Philippines	**28,945.0**	**70.4**		**0.7**	**2.6**	**42.2**
NCR	992.3	99.9	1	7.6	0.5	3.1
CAR	1,795.1	33.3	15	0.5	6.6	171.1
Region I	1,609.0	89.3	2	1.1	3.5	60.7
Region II	1,748.8	66.2	10	0.5	5.3	88.4
Region III	1,977.3	86.3	3	0.8	1.9	26.7
Region IV	4,452.4	65.3	11	0.5	1.9	36.2
Region V	2,171.5	71.4	8	0.5	2.0	65.9
Region VI	2,875.4	73.9	6	0.9	2.8	67.6
Region VII	1,910.6	83.6	4	1.0	2.7	33.2
Region VIII	2,244.8	78.2	5	0.4	2.7	93.5
Region IX	1,106.2	72.4	7	0.6	3.5	80.1
Region X	1,604.0	71.3	9	0.9	5.6	121.1
Region XI	1,439.1	61.7	12	0.6	3.3	98.1
Region XII	1,211.8	59.4	13	0.5	3.7	69.1
CARAGA	1,356.9	49.5	14	0.4	3.6	157.2
ARMM	407.0	--	--	0.3	2.9	--

a/ Paved roads and road density are CPBD generated data using information derived from DPWH, the 2004 PSY, and LTO;
b/ Paved roads ratio is the percentage of all concrete and asphalt roads to the total national road length; data sourced from DPWH website as of August 2005;
c/ Road density is the ratio of total road length (national & local) per land area (in sq. km.), number of registered motor vehicles, and population; Regional breakdown of local roads data as of December

[6] National roads as of August 2005 is sourced from DPWH, and local roads as of date is sourced from DILG.

TABLE 6.6
REGIONAL PUBLIC INVESTMENT IN ROADS & BRIDGES

Region	Total Budget (in Million Pesos)	Rank	Percent of Regional Allocation to Total Roads Budget[b]	Rank	Per Capita Roads Investment[c] *(in Pesos)*	Rank	Per sq. km. Road Investment[d] *(in Pesos)*	Rank
NCR	3,002.6	4	10.1	4	30,229.6	9	4,864,040.2	1
CAR	2,713.7	5	9.1	5	198,744.9	1	139,932.0	4
Region I	4,208.6	1	14.2	1	100,193.6	3	319,003.3	2
Region II	986.3	12	3.3	12	35,058.9	5	31,653.1	14
Region III	1,425.3	10	4.8	10	17,747.3	14	77,480.6	9
Region IV	2,308.2	6	7.8	6	19,571.9	13	46,796.0	11
Region V	1,464.2	9	4.9	9	31,242.1	7	80,760.0	8
Region VI	1,929.9	7	6.5	7	31,071.8	8	93,618.0	7
Region VII	1,799.5	8	6.1	8	31,531.4	6	113,353.1	6
Region VIII	3,039.9	3	10.2	3	84,198.1	4	130,305.8	5
Region IX	889.7	13	3.0	13	28,782.4	10	46,386.4	12
Region X	621.6	14	2.1	14	22,625.3	12	38,392.8	13
Region XI	1,370.3	11	4.6	11	26,406.1	11	48,217.1	10
Region XII	28.2	16	0.1	16	1,085.9	16	1,560.1	16
CARAGA	3,536.2	2	11.9	2	168,764.2	2	164,699.5	3
ARMM	360.5	15	1.2	15	14,945.5	15	14,262.6	15

a/ Paved roads as percentage to total national roads;
b/ Accounted only P29.7 billion DPWH budget for roads & bridges with regional breakdown; does not include payment for completed works, Right-of-Way (payment), consultation services;
c/ Refers to the percentage of roads investment to regional population;
d/ Refers to the percentage of roads investment to regional land area (per sq.km.)
Source: DPWH computation based on the 2006 National Expenditure Program (NEP)

Regional breakdown of locally funded and foreign-assisted projects *(see Table 6.7)* for roads and bridges improvement in 2006 shows signs of redirection of the funds to regions with poor road infrastructures. For instance, regional allocations for CARAGA and CAR obtain a large share in the overall budget for roads, 11.9% and 9.1%, respectively, although ARMM and Region IV still have the lowest share in this category with 1.2% and 0.1% respectively. The other regions that topped in the rank in terms of percentage share of regional roads allocation to total roads investment are Ilocos region (14.2%), Eastern Visayas (10.2%) and Metro Manila (10.1%).

In terms of per capita road investment, the regions that have the biggest allocation are CAR, CARAGA, Ilocos region, Eastern Visayas, and Cagayan Valley. In terms of land area, NCR has the highest allocation of P4.9 million per sq. km., followed by the Ilocos region, CARAGA, CAR, and Eastern Visayas. The NCR with only 617 sq. km. land area (the lowest among all regions in terms of land area) obtains P3.0 billion allocation for roads and bridges, the 4th largest among the country's 16 regions.

TABLE 6.7
2003 DPWH INFRASTRUCTURE PROGRAM
REGIONAL ALLOCATION OF INVESTMENTS FOR ROADS & BRIDGES
(IN THOUSAND PESOS)

PARTICULARS	Locally-funded Projects	Foreign-assisted Projects	Total[1]	Ratio of Regional Allocation to Total *(In %)*
Philippines	**3,780,760**	**25,903,934**	**29,684,694**	**100.0**
NCR	1,766,818	1,235,754	3,002,572	10.1
Northern Luzon	**1,046,331**	**8,287,502**	**9,333,833**	**31.4**
CAR	26,903	2,686,784	2,713,687	9.1
Region I	83,275	4,125,336	4,208,611	14.2
Region II	170,953	815,310	986,263	3.3
Region III	765,200	660,072	1,425,272	4.8
Southern Luzon	**231,230**	**3,541,224**	**3,772,454**	**12.7**
Region IV-A	35,730	934,614	970,344	3.27
Region IV-B	30,000	1,307,898	1,337,898	4.5
Region V	165,500	1,298,712	1,464,212	4.9
Visayas	**376,726**	**6,392,484**	**6,769,210**	**22.8**
Region VI	--	1,929,878	1,929,878	6.5
RegionVII	278,390	1,521,091	1,799,481	6.1
Region VIII	98,336	2,941,515	3,039,851	10.2
Mindanao	**359,655**	**6,446,970**	**6,806,625**	**22.9**
Region IX	--	889,724	889,724	3.0
Region X	121,655	499,993	621,648	2.1
Region XI	143,000	1,227,301	1,370,301	4.6
Region XII	--	28,214	28,214	0.1
CARAGA	95,000	3,441,230	3,536,230	11.9
ARMM	--	360,508	360,508	1.2

Note:
1/ The DPWH roads budget is P36.9 billion, but what is only accounted for regional breakdown is P 29.7 billion; does not include allocation for payment of ROW, and other lumped sum allocation.
Source: DPWH computation based on NEP 2006;

Railway System. The government has embarked in developing an efficient railway system to address the severe traffic congestion in Metro Manila. This will provide alternative means of transporting people and cargoes to distant areas in a fast and cost-effective way. Government budgetary support to the Light Rail Transport Authority (LRTA) through the Department of Transportation and Communications (DOTC) amounting to P25 million will be used to finance Line 1 capacity expansion project – i.e purchase of additional four (4) sets of trains, improvement of stations, etc. The DOTC will also infuse P403 million as a counterpart fund to a foreign assisted project for Line 2, which will be used for civil works, land settlement and site acquisitions costs, among others. Budgetary support is also provided for MRT 3 worth P600,000 for the purchase of additional ticket issuing machines. Given the

enormous capital investment requirement, NG is financially constrained to finance rail system projects deeply needed to improve and revitalize the country's transportation sector, hence the importance of private sector participation.

The Philippine National Railways (PNR) will likewise allot P2.6 billion – as loan proceeds from Korea Export-Import Bank, to fund North Rail and South Rail linkage project. The PNR South Rail project, which is currently under planning and consultancy stage, will develop a 60 kilometers railway system connecting the Caloocan-Alabang phase (Phase I) and the Alabang-Calamba phase (Phase 2). The PNR is allocating P70.6 million as consultancy payment, which includes project planning and design, etc. to the south rail project.

Water Supply. The President's Priority Program on Water (P^3W) adheres to the government's thrust of providing safe and potable water to identified 432 waterless[7] municipalities outside of Metro Manila *(see Table 6.8)*. The project will apportion P500 million each year during the medium term (from 2005 to 2010) to help alleviate poverty problems in the country. This is complementary to the "Patubig ni GMA" project, which provided potable water through mobile tankers to almost a million waterless households in Metro Manila, and the provinces of Rizal, Cavite, Bulacan and Laguna.

TABLE 6.8
NUMBER OF WATERLESS COMMUNITIES/HOUSEHOLDS UNDER THE P^3W PROGRAM (BY REGION)

REGION	No. of Waterless		% to Total	No. of Waterless	% to Total
	Municipalities	Barangays	Barangays	Households	
Philippines	**432**	**10,066**	**24.0**	**2,486,261**	**16.3**
CAR	8	129	11.0	19,582	7.4
Region I	12	263	8.1	60,006	7.2
Region II	29	630	27.3	141,355	25.5
Region III	10	165	5.3	50,280	3.1
Region IV	28	603	11.0	141,177	5.9
Region V	28	677	19.5	167,374	18.7
Region VI	74	1,765	43.6	515,438	42.5
Region VII	36	897	29.9	268,089	23.7
Region VIII	22	620	14.1	103,808	14.5
Region IX	34	809	42.5	162,169	27.2
Region X	28	596	29.5	117,076	21.6
Region XI	14	254	21.9	112,746	10.6
Region XII	19	480	40.2	191,568	38.2
CARAGA	15	293	22.4	84,363	21.5
ARMM	75	1,885	76.7	351,230	89.3

Source: National Anti-Poverty Commission (NAPC), 2004 PSY

[7] Waterless communities (outside of Metro Manila) – identified by the Water and Sanitation Coordinating Office (WASCO), are areas with less than 50% of total households having access to potable water.

From the 2005 budget of the P³W, actual release of funds from the DBM as of August 2005 reached P134.7 million to finance the first batch of the water provision project; out of the P140.6 million endorsed by the DPWH *(see Table 6.9)*.[8] A total number of 82 municipalities nationwide are expected to benefit from the first batch of fund release. The program is required to graduate 72 municipalities yearly if it aims to provide water supply to 432 municipalities in six years up to 2010.

TABLE 6.9
2005 REGIONAL ALLOCATION OF THE P³W FUND, (FIRST BATCH)

REGION	No. of Beneficiary LGUs	Allocation
CAR	3	6,395,400
Region I	3	725,400
Region II	--	--
Region III	14	4,373,400
Region IV-A	7	5,493,600
Region IV-B	4	15,647,700
Region V	4	12,753,900
Region VI	11	22,002,000
Region VII	5	16,600,600
Region VIII	--	--
Region IX	17	35,555,200
Region X	1	103,700
Region XI	2	3,797,100
Region XII	3	5,427,800
Region XIII	2	5,774,900
ARMM	6	5,906,900
Total	**82**	**140,557,600**

Source: DPWH
a/ The P359.4 million balance allocation out of the P500 million is allotted for the 2nd batch water supply projects under preparation;

However, reports on the P³W program raise issues on the rationality and transparency of the criteria set in the identification and approval of project beneficiaries. Data from the DPWH revealed that only 55% of the actual beneficiaries of the fund were part of the list of waterless municipalities originally identified by the Water and Sanitation Coordinating Office (WASCO) of the National Anti-Poverty Commission (NAPC). Additionally, there are project-funding

[8] The P5.907 million budget for the ARMM provision for potable water (covering Lamitan, Lantawan, Maluso, Sumisip, Tipo-tipo and Tuburan municipalities in Basilan), was held in abeyance pending the lifting of the election ban on August 2005 pursuant to the Omnibus Election Code.

requirements for various municipalities/barangays that exceed standard costing of Level 1 and Level II water supply system of not more than P2 to P3 million.

The ranking made by the NAPC of these waterless communities was perceived to guide the government on how it should prioritize targeted areas in implementing the program. Ideally, government water supply projects should be initiated first in the ARMM as the incidence of households with less access to safe drinking water is in huge proportion – about 83.3% of the entire households. Eight (8) out of the top 10 waterless communities are from the provinces of Lanao del Sur, Tawi-tawi, Sulu. The other two municipalities in the top rank – Quezon and Magsaysay, are from the provinces of Quezon and Palawan, respectively.

Meanwhile, capability building among beneficiary LGUs in developing plans and implementing programs that will address water access gaps in their areas should be supported well by the involved national agencies, local water districts, and the private sector.

Rural Electrification. The Expanded Rural Electrification Program of the government is a collaborative effort of the National Electrification Administration (NEA), the private investor-owned utilities (PIOUs) and the local government utilities, to ensure wider access to electricity through the electrification of barangays and sitios or pockets of small villages all the way to the household level. Expanding access to electricity especially in the rural areas forms part of the government's effort to alleviate poverty and achieve sustainable economic growth. A joint study made by the United Nations and Development Program (UNDP) and the World Bank showed the benefits of rural electrification in the country across a wide range of activities including increasing literacy, reducing time spent in performing household chores, increasing entertainment possibilities, raising business productivity, and improving health.[9]

Based on the Annual Poverty Indicator Survey (APIS) in 2002, there are 15.9 million families or 21.0% of total have no access to electricity. The poor bear the brunt of having low access to electricity with 44.1% coming from the families in the bottom 40% income group, as compared to the 5.6% of the families in the upper 60% income class. Most of them are in the rural areas, with five (5) out of ten (10) of the families belonging to the lowest 40% income stratum having no electricity. Majority of these poor families who have no access to electricity are in the ARMM, Western Mindanao, CAR, Western Visayas, Central Visayas and Eastern Visayas.[10]

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[9] Based on the joint UNDP and WB study entitled Rural Electrification and Development in the Philippines: Measuring the Social and Economic Benefits;

[10] More than 50% of the households in these regions have no access to electricity based on the APIS 2002.

The national summary on the status of energization shows gradual improvement in the number of households with access to electricity, growing by an average of 5.1% from 2002 to 2004 *(see Table 6.10)*. Across the country, the NCR has the highest energization level with 93.2% of the entire households having access to electricity. On the other hand, the regions that have the least percentage of families with access to electricity *(or an average energization level below 50%)* in the said period are ARMM, Central Mindanao, and Western Mindanao. Interestingly, efforts to strengthen energization in these regions is encouraging especially in the ARMM and MIMAROPA, and will hopefully generate increases in the number of households with access to electricity.

As of June 2005, the National Electrification Administration (NEA) has energized 33,138 barangays out of the targeted 36,003 barangays nationwide. The NEA has exceeded its target of energizing 600 barangays in 2004, and it is expected to surpass again its targeted 200 barangays this year.

TABLE 6.10
STATUS OF ENERGIZATION

Region	Targeted No. of Households	Energization Level (Cumulative)			Energization Rate[a] – in Percent (Cumulative)			Average Annual Growth Rate[b]
		2002	2003	2004	2002	2003	2004	2002-2004
Philippines	**17,100,355**	**10,960,393**	**11,448,044**	**12,095,565**	**64.1**	**66.9**	**70.7**	**5.1**
NCR	2,290,538	2,037,288	2,076,859	2,134,765	88.9	90.7	93.2	2.4
CAR	293,823	181,297	191,182	204,034	61.7	65.1	69.4	6.1
Region I	914,234	673,653	699,038	726,622	73.7	76.5	79.5	3.9
Region II	620,754	390,378	410,506	443,115	62.9	66.1	71.4	6.5
Region III	1,932,419	1,471,981	1,527,209	1,609,237	76.2	79.0	83.3	4.6
Region IV-A	2,356,162	1,818,637	1,922,819	2,046,901	77.2	81.6	86.9	6.1
Region IV-B	512,084	236,574	252,443	270,364	46.2	49.3	52.8	6.9
Region V	961,992	535,904	568,336	601,485	55.7	59.1	62.5	5.9
Region VI	1,298,910	658,133	692,050	743,690	50.7	53.3	57.3	6.3
Region VII	1,294,460	745,379	786,613	856,821	57.6	60.8	66.2	7.2
Region VIII	760,470	374,139	400,252	436,075	49.2	52.6	57.3	8.0
Region IX	587,008	257,946	274,405	287,061	43.9	46.7	48.9	5.5
Region X	738,834	446,802	471,228	497,047	60.5	63.8	67.3	5.5
Region XI	833,916	453,539	468,821	478,231	54.4	56.2	57.3	2.7
Region XII	635,061	269,787	276,815	290,020	42.5	43.6	45.7	3.7
CARAGA	428,505	278,361	292,393	314,366	65.0	68.2	73.4	6.3
ARMM	641,185	130,595	137,075	155,731	20.4	21.4	24.3	9.3

Note:
a/ Refers to the percentage of total households energized or provided with access to electricity;
b/ Annual average growth rate of energization level in 2002-2004;
** Targeted number of households and percent energization rate are CPBD computations based on the consolidated report on electrification from electric cooperatives (Ecs), private investor-owned utilities (PIOUs), local government utilities, others.*
Source: NEA

In 2006, the NEA allotted P1.3 billion to pursue its rural electrification program for 200 barangays. This budget is more than twice the P509 million allocation last year. The huge bulk of the fund – P1 billion, is sourced from the corporate earnings – through its collection of receivables from PSALM, and borrowings of NEA as loan releases for participating electric cooperatives. Government subsidy to the NEA amounted to P276 million to finance the electrification of the targeted 200 barangays.

Given the current budgetary constraint as a result of the fiscal consolidation, the government is hard pressed to accelerate its rural electrification program especially in the poverty-stricken areas. Hence, it is encouraged to be more cost-efficient and effective, as well as resort to strategic implementation of the electrification program in support for its anti-poverty campaign primarily targeting those areas with the highest incidence of poverty.

E-Government Fund. The government needs to sustain the momentum toward exploiting the benefits of information and communications technology (ICT) and strengthening its role in national development. Undoubtedly, the comparative advantage of the country's ICT sector is recognized worldwide backed by its skilled and competitive workforce.

In the latest United Nations (UN) Global E-Government Readiness survey, the Philippines global ranking fell from 33rd in 2003 to 47th in 2004 *(see Table 6.11)*. While this is not a welcome news for the government, the country's E-Government ranking is one of the highest in Asia, better than Thailand, China, Indonesia, and even India. The E-Government Readiness index assesses not only the website development patterns of member countries but also the levels of access and utilization of ICT as a tool for socio-economic development and cultural empowerment of the citizens.

Additionally, the Philippines also ranked 26th of the 38 countries that offers Stage IV features or those that have transactional web presence. Stage IV website features allows two-way interactions between the citizens and the government, which includes options for payment of taxes, applying for IDs, birth certificates, passports, licenses and renewals online.

Out of the estimated P4 billion budget earmarked for E-Government Fund in 2003, 24 ICT projects from different government agencies endorsed to the Commission on Information and Communications Technology (CICT) were approved amounting to P3.0 billion.[11] In

[11] Per National Budget Circular 487 (dated 20 May 2003), the government approved the imposition of 15% reserve on non-personnel services items in GAA, of which 1/3 or approximately P4 billion was earmarked for the E-Government Fund. The amount earmarked in 2003 was available for two (2) years until the end of 2004. No separate amount was allotted in 2004 for the E-Government Fund.

2005, when the E-Government Fund was institutionalized and provided with P1 billion allocation, five (5) ICT projects were already approved as of date amounting to P592 million *(see Table 6.12)*. Most of these are continuing projects from those approved in the 2003 budget. This translates to an estimated balance in 2003 and 2005 of approximately P1.4 billion, which will still be tapped for future ICT project proposals.

TABLE 6.11
E-GOVERNMENT READINESS RANKING
SELECTED COUNTRIES IN SOUTH & EASTERN ASIA

Country	Global Ranking	
	2004	2003
Republic of Korea	5	13
Singapore	8	12
Japan	18	18
Malaysia	42	43
Philippines	47	33
Thailand	50	56
Brunei	63	55
China	67	74
Indonesia	85	70
Vietnam	112	97
Myanmar	123	126
Cambodia	129	134

Source: 2004 Global E-Government Readiness Report

The national campaign to intensify information and communications technology (ICT) usage in the country as a tool for economic growth should be initiated by the government through the use of Voice over Internet Protocol (VoIP) between and among government offices, which can substantially reduce communications costs and could result to huge savings for the cash-strapped government.[12]. This proposal may be implemented exclusively for government-to-government transactions (G2G) between national and regional offices, including local government units. In the long term, widespread use of VoIP technology will help in developing a universal telecommunication infrastructure allowing access to basic telecommunication services to unserved and underserved areas of the country.

[12] Palawan Representative Abraham Mitra recommended the bureaucracy to institutionalize the use of VoIP – which allows one to place calls on the Internet for free with the aid of the computer. This will spare the user "long distance" and mobile phone charges (Philippine Daily Inquirer: October 17, 2005)

TABLE 6.12
2005 E-GOVERNMENT FUND PROJECTS

AGENCY	PROJECT	APPROVED AMOUNT
DILG	Public Safety Information System	176,000,000
DTI	Philippine Business Registry	175,761,600
CICT	Community E-Center	200,000,000
NCC	ELGU Project	20,196,605
LTFRB	Frontline Unit Services Enhancement & Upgrading Project	20,000,000
Total		**591,958,205**

Source: CICT

Airports and Ports. Development fund to improve the country's airports, navigational facilities, ports and lighthouses are essential to ensure safe flights and sea voyages in the country, as well as facilitate trade and tourism activities especially in the countryside. Funding support from the government to establish new ports/airports, or improving existing ports/airports in strategic areas will spur economic development leading to huge concentration of passengers and tourists, and allowing new businesses to flourish.

Some P5 billion under the Department of Transportation and Communications (DOTC) is proposed to fund airports improvement next year, through new constructions and capital outlay expenditures of the identified 144 domestic and international airports nationwide *(see Table 6.13)*. This budget is almost four (4) times larger than the P1.3 billion allocation in 2005. The 2006 airport budget is composed of P3.2 billion locally funded projects and P1.8 billion foreign-assisted projects.

Various airport development projects is lumped under the nationwide item of the DOTC budget amounting to P1.5 billion, which includes feasibility studies of Daan-Bantayan, Cebu, and Santa Barbara airport, Pangasinan, as well as the rehabilitation of various trunk line and secondary airports. Foreign-assisted airport projects include Laguindingan Airport Development Project in Misamis Oriental (P5 million), the upgrading of air transport service in Iloilo province (P975 million), and selected airports development project (P792.9 million).

Funding from the national government for ports development amounting to P209 million consists of P110 million locally-funded projects for 96 identified seaports nationwide, and foreign-assisted project for feeder ports improvements amounting to P149 million *(see Table 6.13)*. The Philippine Ports Authority is also allotting P3.5 billion to fund various port infrastructure developments, which include Batangas Port Development Project (P1.7 billion), local port projects (P1.4 billion), among others.

TABLE 6.13
NG BUDGET ALLOCATION FOR PORTS & AIRPORTS
(BY REGION)

PARTICULARS	Airports & Navigational Facilities	Ports & Lighthouses
Philippines	**4,967,505,000**	**259,000,000**
Foreign-Assisted Projects	**1,772,949,000**	**149,000,000**
Locally-Funded Projects	**3,194,556,000**	**110,000,000**
Nationwide	1,517,500,000	3,000,000
NCR	275,156,000	--
CAR	12,500,000	--
Region I	81,700,000	5,000,000
Region II	117,400,000	1,500,000
Region III	12,000,000	6,500,000
Region IV	224,300,000	21,000,000
Region V	144,100,000	7,000,000
Region VI	111,600,000	6,000,000
Region VII	72,200,000	2,000,000
Region VIII	126,900,000	27,000,000
Region IX	95,000,000	6,000,000
Region X	123,800,000	3,500,000
Region XI	34,100,000	2,000,000
Region XII	73,600,000	--
Region XIII	66,400,000	7,000,000
ARMM	106,300,000	12,500,000

Source: Details of Selected Programs and Projects, DBM

THE BIGGER TASK AHEAD: COMBATING CORRUPTION

The bigger challenge for the government aside from merely increasing public allocation for infrastructure provision is to urgently address the systemic corruption in various levels of government infrastructure projects. Public infrastructure projects especially civil engineering projects, are perceived to be highly susceptible to corrupt activities given the huge amount of money involved in these projects. One reason that explains this is that government budgetary allocation for capital projects is subject to political influence.

Corruption is a disincentive to economic growth as public funds that would have otherwise been channeled for social services – education, public health, and poverty alleviation – are siphoned off for personal gains. It also results in inferior quality of infrastructure projects – roads, bridges, buildings, etc., which will require higher costs for maintenance and rehabilitation.

The perception of corruption in the Philippines is increasingly cited as pervasive and deep-rooted, a factor that inhibits domestic and foreign investments which may potentially erode the overall competitiveness of the country. In the 2004 survey of the Transparency International (TI), the Philippines ranking in the Corruption Perception Index (CPI) slid by ten notches to 102nd place from 92nd in the previous year indicating the worsening incidence of corruption in the country.[13]

One basic example of the perceived pervasiveness of corruption in the government is the case of DPWH, the infrastructure arm of the government. The DPWH has been consistently cited by the public and businesses as one of the most corrupt agencies in the Philippines.[14] This presents an alarming situation, which could imperil and put to waste billions of pesos of infrastructure allocation due to suspected unabated corruption.

Several related literatures recognizing not just "perceptions" but also prevalence and adverse impact of corruption in the Philippines infrastructure development, are as follows:

- Serafica cited corruption as the single most important factor that can set back all efforts to improve the state of infrastructure in the Philippines. He noted that the existence of consumption externalities imply that every peso that is diverted from infrastructure results in a loss of more than one peso worth of benefits to users and the society in general (Serafica:1998)

- According to the Office of the Ombudsman, the government lost an estimated $48 billion to corrupt practices over the last twenty years (as cited by World Bank from the study conducted by the Office of the Ombudsman: June 2000);

- The Philippine Center for Investigative Journalism (PCIJ) estimated that kickbacks from major infrastructure projects is estimated at 36% of the entire project cost (based on the presentation of Sheila Coronel entitled Democracy and Its Discontents: The Philippine Experience);

- The misuse of resources in public works accounts for 20% to 40% of the total project cost. Also, regional directors of central agencies are said to receive 10% commission and DBM officers get 15%, on certain procurement and infra projects (as cited by World Bank from the study conducted by Azfar & Gurgur: 2000);

Hence, it is imperative for the government to undertake a vigorous anti-corruption strategy and an extensive oversight program to support the government's pro-poor and pro-growth

[13] The 2004 corruption perception index of the TI is based on series of surveys from 146 countries worldwide.
[14] DPWH is always in the bottom five (5) in terms of the net sincerity rating in fighting corruption based on the SWS survey of Enterprises on Corruption 2000-2005.

stance. Progress in the implementation of the Government Procurement Reform Act (R.A.9184), Ombudsman Act (R.A.6770) and other measures that address poor accountability in the implementation of infrastructure projects should be sustained and improved.

A strong monitoring in the implementation of various government infrastructure projects should be undertaken to see to it that the funds being provided for are used efficiently and prudently in promoting infrastructure development. Collaborative efforts among different stakeholders – civil society, non-government organizations, academe – engineering schools and colleges, etc., in coming up with a menu of basic infrastructure projects with their corresponding benchmark costs is one way to improve monitoring and oversight in the implementation of government infrastructures. Through this intervention by private groups, the government will be forced to weed out transactions with unscrupulous contractors, avoiding overpriced infrastructure projects, and allowing only those that are not detrimental to the general welfare of the people.

Far more important is to fast-track the prosecution and imposition of sanctions to public officials who are allegedly involved in graft and corruption cases. This action will assure the public that the government is serious in curbing and ultimately eradicating all sorts of corruption and irregularities in government transactions.

CONCLUSION

Despite the current fiscal constraint faced by the government, public sector infrastructure budget is increased in 2006 in response to the commitment set forth by the government to effect broad based infrastructure growth in the Philippines. This strategy is pinned in the hope that advancements in infrastructure especially in the poorest areas will stimulate economic growth and will support the poverty alleviation efforts of the government through the delivery of basic social services. Progress in dispersing infrastructure development – roads and bridges, water supply; is also evident with much of the public funds diverted from the National Capital Region to regions with huge infrastructure backlogs – CARAGA, CAR.

These observations are just basic profiles of the public sector infrastructure budget in 2006. The bigger challenge, however, in assessing the public infrastructure budget is on how this allocation is implemented and effected into actual infrastructure projects as planned, without compromising its quality and long-term use by the public. Implementation of anti-graft measures along with proper monitoring and oversight of these infrastructure projects should be sustained and should gain some headway, through the coordinated efforts of the government, constituents and private organizations.

Chapter 8

IMPROVING OUTCOMES IN BASIC EDUCATION

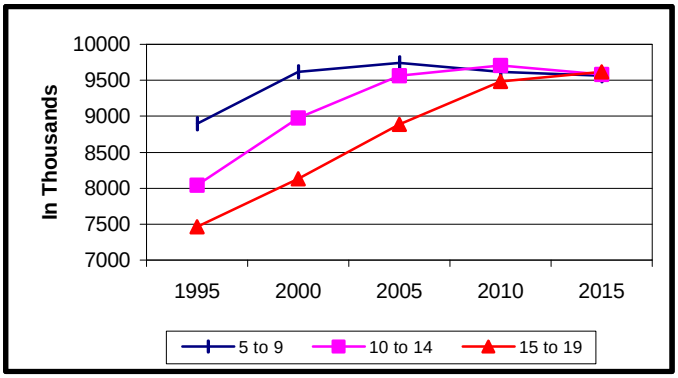
The demand for educational services by an increasing school-age population continues to strain public resources for primary education. Despite nominal increases in education expenditures annually, real per capita spending has been declining over the past five years. Consequently, the country's quality of basic education pales comparably with that of our Asian neighbors. Resources gaps in terms of educational facilities and personnel will continue to grow unless limited resources are allocated more efficiently across levels and programs.

INCREASING DEMAND FOR EDUCATION

The school-age population (5 - 19 years) of the Philippines grew by 9.24% from 1995 to 2000 or an average of 451,000 a year. This is in stark contrast with the 3.32% average growth rate of school-age children in the Asian region. By 2005, the school-age population of the Philippines is expected to reach 28.19 million or about 34.64% of total population. Although this growth is expected to decline over time according to the National Statistics Office (NSO) population projection—from 6.16% in 2005 to a minimal growth of 0.42% in 2010, the demographic momentum that was the result of high growth rates in the past will keep the population growing. Evidently, the slow decline in fertility and the country's rapid population growth has meant rapid growth of school-age population *(see Figure 8.1)*.

High proportions of school-age children, characteristic of developing countries, will undoubtedly put additional strain on existing education and health facilities. In the absence of even more robust growth in government revenues or major shifts in government spending priorities, the population pressure tends to depress public expenditures per student.

FIGURE 8.1
SCHOOL-AGE POPULATION, 1995-2015
(IN THOUSANDS)



Source: National Statistics Office

In the basic education level, it is estimated that in 2005 there are 12.16 million eligible for elementary schooling and 5.21 million for secondary schooling. The average growth rates for each level over the last five years (from 2000 to 2005) are 0.87% and 15.67%, respectively. To meet the huge demand for educational services, the government has responded to this growth by expanding resources for education in order to ensure high levels of school participation rates. Elementary schooling is compulsory and, in 1988, the government adopted the policy of free public secondary education.

Accordingly, participation rates in the elementary level from 2002 to 2003 are considerably high at an average of 94.02%, suggesting that universal education had been nearly achieved in the Philippines. Based on such indicator as the proportion of the relevant school-age group enrolled in elementary education, the Philippines actually ranked relatively above most countries in Asia. Even Department of Education (DepEd) enrollment projections indicate that such trend will continue.

EDUCATION OUTCOMES

Low Internal Efficiency. While enrollment rates are high, the educational system is marred by low internal inefficiency. This is apparent in the low cohort survival rates, low achievement scores, as well as regional and economic differentials in educational attainment. This is perhaps the effect of the limited budget accorded the basic education. The national priority to provide universal education has taken its toll on the quality aspect.

Out of every 100 students that enter Grade 1 in 2003, six of them dropped out of school. Of the 94 remaining, only 63 of them graduated from grade school. Transition rates are usually high with almost all students finishing grade school entering the next level. However, what is particularly alarming is the increasing number of dropouts in high school—about 40% of total enrollees. This means, out of every 100 students that enter Grade 1, only 38 are able to finish basic education. Indeed, government intervention is urgently needed to improve completion rates *(see Table 8.1)*.

TABLE 8.1
PERFORMANCE INDICATOR IN BASIC EDUCATION

PARTICULARS	Students Entering				Students Leaving			
	1994	1997	2000	2003	1994	1997	2000	2003
Total number of entrants	**100**	**100**	**100**	**100**				
Elementary	87	95	97	94	13	5	3	6
Completing elementary	56	65	64	63	31	30	33	31
Secondary	54	64	64	63	2	1		
Completing secondary	44	46	47	38	10	18	17	25
Total school leavers					**56**	**54**	**53**	**62**

Source of basic data: Department of Education

There are also differences in access to education by income strata and region. Survey data from the Annual Poverty Indicator Surveys (APIS) in 1999 and 2000 showed that differences in elementary participation rates *(see Table 8.2)* of poor and rich families are not that significant. There is even a marked improvement in 2000 as the attendance in elementary school increased by 10.96% for the lowest 40% income group and 7.04% for the highest 60% income group.

The disparity, however, becomes evident in the secondary level. Only 67.1% of families in lowest 40% income bracket have children enrolled in high school while the richer 60% families account for 83%. Driven by poverty, these poor families would rather have their children work to augment family income. Based on the 1999 APIS, 18.7% of the families in the lowest income bracket have working children aged 5-17 years old compared to only 8.7% in the higher income bracket. However, there is modest improvement in 2000, which means that both income groups were able to send more of their children to school for basic education.

Also, it has been observed that the elementary drop out rate for the lowest quintile increases through the grade levels. This particular group had a drop out rate of 1.70% in Grade 1, increasing to 12.20% in Grade 6.

In terms of regional distribution, the ARMM had the lowest cohort survival rate of 47.49% and the lowest completion rate of 42.91% in 2002 – 2003 despite having the highest participation rate of 91.37%. ARMM's cohort survival rate is way below the national level of 68.31%. Likewise, its completion rate is also way below the national level of 65.79%.

TABLE 8.2
MINIMUM BASIC NEEDS INDICATORS
PERCENT OF FAMILIES 2002

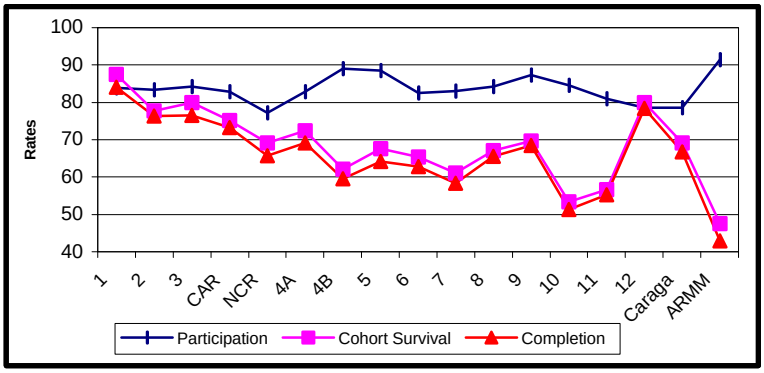
MBN INDICATORS	Income Strata		Lowest 40%		Highest 60%	
	2000	1999	2000	1999	2000	1999
% With Children:						
6-12 years old in elementary	91.2	91.1	91.1	82.1	91.2	85.2
13-18 years old in high school	77.0	69.9	67.1	45	83	66.5
5-17 years old, working	12.6	15.2	18.7	20	8.7	11.4

Source: 2002 Annual Poverty Indicators Surveys (APIS)

Region 1 (Ilocos Region) ranked first in both cohort survival rate and completion rate, at 87.47% and 84.09%, respectively. However, with respect to participation rate, Regions 4B (MIMAROPA) and 5 (Bicol Region) fared better than Region 1 with 89.09% and 88.45%, respectively. For all the indicators, Regions 6 (Western Visayas), 7 (Central Visayas) and 11 (Southern Mindanao) placed below the national averages. Interventions in these regions need to be intensified *(see Figure 8.2)*.

The increasing gap in the share of enrollment between public and private schools is another concern that needs to be addressed. The increasing number of students shifting from private to public schools also exerts additional pressure on public resources. The share of public enrollment to total enrolment continues to expand, especially in high school. Over the last six years, (1999-2004) public enrollment in elementary and high school increased by 4% and 23%, respectively. Of the yearly incremental increase in enrollment, about 85% opts to enter public schools. The migration of students to public schools has been largely attributed to steep increases in tuition fees in private schools. Tuition fees in private schools average 12 % per annum.

FIGURE 8.2
REGIONAL PERFORMANCE INDICATORS
SCHOOL YEAR 2002-2003



Source: Second Philippines Progress Report on MDG

On Achievement Levels. Based on the 2003 Functional Literacy Education and Mass Media Survey (FLEMMS), basic or simple literacy stood at 93.4%, one of the highest in Southeast Asia. Across regions, the NCR posted the highest literacy rate at 99.0% while ARMM registered the lowest at 70.2%.

The achievement levels for both elementary and secondary schools based on mean scores on the National Elementary Assessment Test (NEAT) and National Secondary Assessment Test (NSAT) were low for all subjects, with mean percentage scores of only about 54% from 1998 to 2000.

The national averages based on 2002 National Diagnostic Test (NDT) and 2003 National Achievement Test (NAT) showed similar results. Only 2% of graduating high school students passed the NAT. About 90% of all the students scored below 50%. The average score of students in English was 50% *(see Table 8.3)*.

On the High School Readiness Test, 92% of examinees failed, only 8% got a score of 50% and above. Only 0.6% got a score of 75% and above. Half of the total number of examinees scored below 30%.

In international competitions, Filipino high school students performed way below average. The 2003 Third International Mathematics and Science Study (TIMSS) participated in by 42 countries ranked them at 41st and 42nd in the science and mathematics examinations. This indicated an almost unchanged status from the 1999 TIMSS.

TABLE 8.3
ACHIEVEMENT RATES, SY 2002-2003

PARTICULARS	National Diagnostic Test	National Achievement Test
Elementary	39.99	43.55
English	42.14	41.80
Science	39.38	43.98
Mathematics	38.45	44.84
Secondary	28.04	36.13
English	29.67	41.48
Science	27.75	34.65
Mathematics	26.71	32.09

Source: Department of Education

ACHIEVING MEDIUM-TERM TARGETS

Millennium Development Goals' Targets. As it stands, the Philippines has mix performance in achieving its MDG commitments. In terms of net enrollment ratio, there is medium probability of reaching the target given the current rate of progress. While there is relative success in enrolling school-age children, there is a huge challenge of keeping them from dropping out. The cumulative effect of dropout can be measured by a cohort analysis that monitors a group of children through primary school *(see Table 8.4)*.

TABLE 8.4
MDG RATE OF PROGRESS IN ELEMENTARY EDUCATION
(IN PERCENT)

PARTICULARS	Participation	Cohort Survival
Baseline (1990)	85.10	68.40
Current Level (2002/2003)	90.05*	69.80
Target by 2015	100.00	83.30
Average Rate of Progress	0.45	0.13
Required Rate of Progress	0.77	1.04
Ratio of Required Rate to Average Rate	1.70	8.16
Probability of Attaining the Targets	Medium	Low

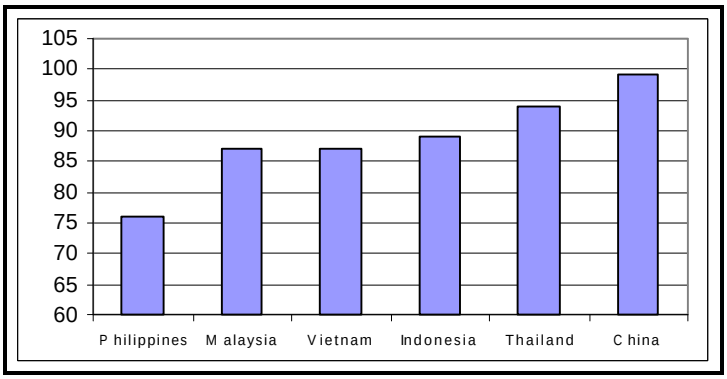
**Based on the age group consisting of 6-11 years old for elementary*
Source: Second Philippines Progress Report on MDG

It was noted in a joint UN-ADB report (2005) that some key factors associated with higher enrollment and cohort survival rates are (1) higher government expenditure on education, and (2) higher per capita income. Accordingly, a 1% increase on education expenditure increases

enrollment rate by 1.5%. Income per capita, on the other hand, reflects the ability of families to pay education expenses and manage their children's works.

Based on the 2005 Human Development Report, only 76% of school entrants in the Philippines make to Grade 5. This proportion is far behind the rest of Asia. This shows that the Philippines may have greater difficulty in achieving the MDG target for cohort survival. It is in this area that immediate intervention is needed in order to speed up progress and reach the 83.3% target rate by 2015. For more than a decade, cohort survival rates have barely moved from the 1990 level *(see Figure 8.3)*.

FIGURE 8.3
CHILDREN REACHING GRADE 5, 2001-2002
(IN PERCENT)



Source: Human Development Report, 2005

Medium-Term Philippine Development Program (MTPDP). Performance indicators for 2003 indicate a high probability of meeting the indicative targets for 2005 under the MTPDP. Policy measures have been in place to ensure this. The net enrollment ratio at the elementary level already stands at 94.02%, which is way above the 2005 target. Meanwhile, at the secondary level, the 2005 target of 67.48% is only 4-percentage point shy of the 2003 level.

The cohort survival rates for both the elementary and secondary levels need to improve from 67.13% to 73.00% and 63.88% to 67.96%, respectively. Likewise, dropout rates need to go down from 7.34% to 5.52% for the elementary level and 13.10% to 11.24% for the secondary level *(see Table 8.5)*.

TABLE 8.5
EDUCATION TARGETS, 2005 AND 2010
(IN PERCENT)

INDICATOR	Baseline	Indicative Target	
	2000	2005	2010
Early Childhood Education			
1. Gross Enrolment Rate (public and private, SY2003-2004)	77.00	80.00	100.00
Day Care Centers (1,392,268:23.73%)			
Pre-schools: public (408,596:10.37%)			
2. Percentage of Accredited ECE Providers/Workers			
Percentage of accredited providers:23,665	55.80	71.00	86.00
Percentage of accredited workers:23,610	55.00	70.00	85.00
3. Percentage of pre-school teachers having attained required academic qualifications	100.00		100.00
Formal Basic Education			
4.Net Intake Rate in Grade 1			
Public and private (6 yrs. Old)	47.10	52.38	61.19
5. Net Enrolment Ratio			
Elementary (6-11 yrs. Old)	90.05	91.02	93.01
Secondary (12-15 yrs. Old)	58.03	67.48	83.73
6. Cohort Survival Ratio			
Elementary (Grade 6)	69.84	73.00	78
Secondary (Yr. 4)	65.83	67.96	71.51
7. Drop Out Rate (School Leavers Rate)			
Elementary	7.34	5.52	4.32
Secondary	13.10	11.24	8.14

Source: Medium-Term Philippine Development Plan, 2004-2010

EXPENDITURES ON EDUCATION

Expenditures on education as a percentage of gross domestic product (GDP) did not improve significantly from 1990-2001. From 2.9% of GDP in 1990, it slightly increased to 3.2% of GDP in 2001. Public expenditures on education as a percentage of GDP are higher in Malaysia, India and Thailand, which stand at 5.2%, 3.9%, and 3.5% respectively. Only Nepal and Bangladesh spend much lower share than the Philippines at 2.0% and 1.5%, respectively.

As a percent of total government expenditures, however, the Philippines appears to give education the highest priority than other countries in the region. From 1990-2001, the Philippines' public expenditure on education grew by as much as 63.4%, following closely Nepal's 63.5%. Thailand came next with 55% and India with 40.98% *(see Table 8.6)*.

TABLE 8.6
PUBLIC EXPENDITURE ON EDUCATION
SELECTED ASIAN COUNTRIES

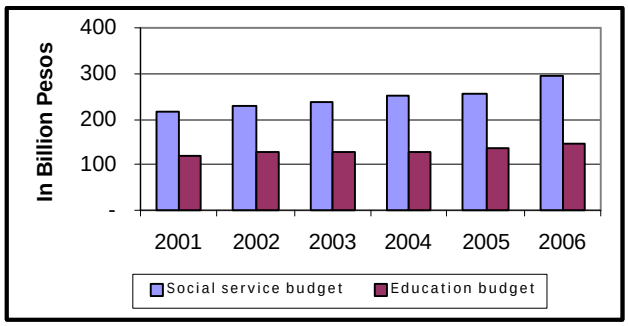
COUNTRY	As % of GDP		As % of Total Government Expenditures	
	1990	1999-2001	1990	1999-2001
Thailand	3.5	5	20	31
Malaysia	5.2	7.9	18.3	20
Philippines	2.9	3.2	10.1	16.5
India	3.9	4.1	12.2	12.7
Nepal	2	3.4	8.5	13.9
Bangladesh	1.5	2.3	10.3	15.8
Korea	3.5	3.6	22.4	17.4

Source: Human Development Report 2004

For fiscal year 2006, the education sector will receive P146.45B or 8.12% increase from the previous year. Over the past years, the education sector continues to be the priority of the government as it receives a significant portion of the national budget, second to debt servicing. Apparently, the percentage share of education to total budget has been decreasing—from 14.85% in 2004 to 13.90% of the proposed 2006 budget.

On the other hand, the share of debt servicing has jumped from its 2004 level of 30.90% to 32.28% in 2005. There was a 20% jump in budget for debt servicing while that of education had only a 5.17% increase.

FIGURE 8.4
SHARE OF EDUCATION IN
SOCIAL SERVICE SPENDING, 2001-2006



Source of basic data: 2006 BESF (DBM)

The nominal share of education in social service spending continues to decline compared to the high level of 54.54% in 2001. For 2006, the share of the proposed education budget to the total social services appropriation is 49.82% *(see Figure 8.4)*.

In terms of expenditures by level of education, basic education accounts for the bulk of the education expenditures. Over the past five years, allocation for basic education has been increasing on the average of 0.7% yearly. However, in real terms the decline in spending averaged 4.42% yearly. The increasing number of shiftees from private to public schools (in both elementary and high school) plus the incremental increases in new public enrollees means an ever-shrinking expenditure per student.

By item of expenditures, personnel services (PS) still remain the biggest single item in any education budget. But for 2006, only PS will incur negative growth in real terms from P79.58 billion in 2004 to P72.16 billion in 2006. On the other hand, Maintenance and Other Operating Expenses (MOOE) will increase by 55.57% from P6.10 billion in 2004 to P9.49 billion in 2006. Likewise, Capital Outlay (CO) will rise by 26.03% from P2.19 billion in 2004 to P2.76 billion in 2006 *(see Table 8.7)*.

The budget for the School Building Program (SBP) will be maintained at P1 billion, which is 50% less than in 2004. This does not augur well since in real terms this is translated to less than three-fourths its nominal value.

TABLE 8.7
DEPED BUDGET, BY OBJECT OF EXPENDITURES

PARTICULARS	Nominal (In Billion)			Percent Share			Real Terms (Base year = 2000)		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Personal Services	95.97	98.73	100.95	90.57	88.91	85.49	79.58	75.87	72.16
Maintenance & Other Operating Expenditures	7.36	8.73	13.27	6.94	7.86	11.24	6.10	6.71	9.49
Of which, GASTPE	2.00	1.83	1.96	27.18	20.96	14.74	1.66	1.41	1.40
Capital Outlays	2.64	3.59	3.86	2.49	3.23	3.27	2.19	2.76	2.76
Total	**105.97**	**111.05**	**118.09**	**100.00**	**100.00**	**100.00**	**87.87**	**85.33**	**84.41**
SBP	**2.00**	**1.00**	**1.00**				**1.66**	**0.77**	**0.71**

Source of basic data: 2006 BESF and NEP (DBM)

As percent of total education budget, the share of PS has been decreasing from 90.57% in 2004 to 88.91% in 2005. It will still go down further to 85.49% in 2006. MOOE, on the other hand, will be increasing from 6.94% in 2004 to 11.24% in 2006. Allocation for Government Assistance for Students and Teachers in Private Education (GASTPE), however, is declining rapidly from 27.18% to 14.74% for the same period. Budgetary allocation for CO remains at a very low level even if it slightly increased.

Based on total budget, per capita expenditure in public elementary and high schools in real terms have been decreasing from P5,142 in 2004 to P4,782 in 2006. However, based on the MOOE budget, per capita expenditure would increase from P357 in 2004 to P387 in 2006. The operations budget falls below the 15% of total budget prescribed by World Bank to have a good quality of basic education *(see Table 8.8)*.

TABLE 8.8
PER CAPITA SPENDING IN BASIC EDUCATION

PARTICULARS	2004	2005	2006
Public enrolment	17,087,631	17,357,616	17,652,695
PCC based on total budget			
Nominal	6,202	6,398	6,689
Real	5,142	4,916	4,782
PCC based on MOOE			
Nominal	431	503	752
Real	357	386	537

Sources of basic data: 2006 BESF (DBM) and DepEd

It is interesting to note that an increase in per capita spending on MOOE (e.g. textbooks and other instructional materials) corresponds with marked improvements in the mean scores in the achievement test in Math, Science and English subjects *(see Table 8.9)*.

TABLE 8.9
ELEMENTARY ACHIEVEMENT RATE
VIS-À-VIS PER CAPITA SPENDING

PARTICULARS	2003	2004
PCC based on total budget (real)	5,142	4,929
PCC based on MOOE (real)	357	387
Math	44.84	59.45
Science	43.98	52.59
English	41.8	49.92

Source: Department of Education

CLOSING THE RESOURCE GAPS

Textbooks and Teacher Gaps. The 2005 allocation for new teacher items was able to cover much of the backlog from 2004. It financed 10,000 teacher items and purchased 18 million textbooks, leaving 113 unfunded teacher items and a backlog of 7 million textbooks. This remaining backlog in teachers and textbooks will be accommodated in the 2006 allocation. However, government should include additional textbooks and teachers brought about by increase in enrollment *(see Table 8.10)*.

TABLE 8.10
TEXTBOOKS AND TEACHER GAPS, FY 2005
(IN MILLION PESOS)

Particulars	Gaps		GAA		Remaining Backlog	
	Number	Cost	Number	Cost	Number	Cost
Textbooks in millions	25	1,180	18	810	7	315
Teacher items at 1:50	10,113	1,710	10,000	970	113	
TOTAL		4,454		1,780		

Textbooks = P45
Source: Department of Education

School Building Program (SBP). Closing the classroom gap means the construction of 6,000 classrooms annually, adoption of multi-shift classes, and the expansion of Educational Service Contracting (ESC) scheme under GASTPE program where financial assistance is given to high school students to study in private schools.

The proposed 2006 budget allocation for SBP still remains at P1B. This is 50% lower than the P2B allocation in 2004. This cut for two consecutive years poses problems in terms of eliminating the backlog in classrooms by 2008. DepEd estimated the funding requirement to be P2B annually.

The share of the GASTPE in the 2005 MOOE budget declined to 23.26% from last year's share of 27.01%. The decline in GASTPE allocation does not affect ESC share since it remains at the same level throughout 2010. However, it would have been more helpful if the ESC budget is doubled since that amount assures accommodation of 475,000 high school students (at P4, 000 per student) in the private sector *(see Table 8.11)*.

TABLE 8.11
CLOSING THE CLASSROOM GAP, 2004-2010

PARTICULARS	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Shortage at beginning of SY	8,684	3,203	1,150	-	-
Class size	50	50	50	50	50
Requirements	3,515	4,438	4,499	4,509	4,955
Classrooms provided	79,996	5,491	4,875	4,746	4,490
Regular SBP	4,785	4,579	4,445	4,316	4,190
FAPS	2,112	496	-	-	-
Other SBPs	1,099	416	430	430	300
GASTPE-ESC share	1,000	1,000	1,000	1,000	1,000
Shortage at end of SY (at 2 shifts)	3,203	1,150	-	-	-
Inflation rate(%)	4.5	4.5	3	3	3
Cost per classroom (DPWH)	418,000	436,810	449,914	463,411	477,313
Funding requirement SBP(PhP million)	2,000	2,000	2,000	2,000	2,000

Source: Department of Education

CONCLUSION AND RECOMMENDATIONS

The provision of basic education services remains to be the responsibility of the national government. Percent share of MOOE to department budget (11.24%) is still below international standards. A World Bank and Asian Development Bank Study indicates that at least 15% of budget should be devoted to MOOE.

This explains the deteriorating quality of basic education in the country. Furthermore, the poor quality of teaching and lack of school initiative to raise standards add to the deterioration. This sector, despite being allocated the second largest share of the national budget, continues to be plagued by the same issues of lack of classrooms and textbooks and poor quality of instructions that lead to poor achievement rates of students.

The following measures are recommended to address the deteriorating quality of basic education in the country:

ON LOW INTERNAL EFFICIENCY

- Give the schools relative autonomy but with accountability. This will promote greater efficiency and accountability in managing resources by letting the local school heads perform administrative and instructional leadership functions critical in making their schools cost-effective and cost-efficient.

- Empower the Local School Boards to formulate alternative and innovative programs that would take into consideration the causes of the poor state of basic education in their local districts. The programs will not only help address the low performance but also foster opportunities that would reduce incidence of poverty.

- Equip public school principals and teachers with proper management skills to address after school-level issues and problems

- Widen the use of tested and cost-effective, non-conventional, or alternative learning strategies and delivery systems.

- Institute measures that would eliminate or decrease wastage and corruption to maximize the use of funds.

- Amend the Fair and Equitable Access to Education Act of 1994 (RA 7880) to allow for the construction of school buildings by entities other than the Department of Public Works and Highways. More importantly, change the formula in the allocation of fund, i.e., increase from 20% to 70% the weight assigned to the classroom shortage criteria; decrease from 50% to 20% the weight assigned to student population criteria.

- Engage services of private sector and NGOs to build government funded school projects at a lower cost. Allow existing building specifications to be modified as long as structural integrity is not compromised.

- Expand further the ESC under GASTPE. This may prove to be more economical than to construct classrooms, which entails overhead and maintaining expenses.

- Improve system of monitoring and evaluation at all levels by formulating sets of indicators and a relevant timely database.

ON INCOME AND REGIONAL DISPARITY

- Undertake effective assessment of the reasons for low performance rates in specific areas and provide intervention programs to address these issues. A good example of an intervention program is school feeding. This program will help raise the participation and cohort survival rates as well as the student achievement rates.

- Employ alternative learning systems to reach children in remote or conflict-affected areas. Engaging the cooperation of Local Government Units (LGUs) and Non-Government Organizations (NGOs) in those areas is vital in order to provide continuous learning opportunities.

ON ACHIEVEMENT LEVELS

- Internship program in public schools should be made a requirement in teacher education programs.

- Policy reforms such as amending the Localization Law to enable transfer of teachers and removal of mandatory election duties to devote more time to teaching.

- Tap the Special Education Fund (SEF), representing 1% of the LGU's Internal Revenue Allotment (IRA), and the private sector to fund textbooks and other school requirements. Hence, there is a need to fast track passage of the bill increasing the share of SEF from the IRA. More funds would be able to address more of the concerns. In addition, support initiatives towards improving textbook development, publishing and printing capacities of the private sector and other devices to make teaching-learning experience more meaningful to both teachers and students.

- Continue the implementation of the optional high school bridge program. This will enhance the readiness of elementary school graduates for secondary education.

Chapter 9

RATIONALIZING PUBLIC HIGHER EDUCATION

While higher education is generally a high priority in stimulating economic development, public investment to sustain expansion of higher education systems has remained limited. But as the demand for higher education grows due to increasing tertiary enrollees, even more resources will be necessary to improve the quality and access of public higher education. Government needs to respond to this situation by increasing efficiency in the system—by giving education institutions greater autonomy and responsibility, and making them more accountable to certain performance standards.

INCREASING DEMAND FOR HIGHER EDUCATION

The face of development is changing as knowledge replaces physical capital and labor as major input to production. Technology is driving much of this process with information technology and other innovations leading to remarkable changes in the way our economies work.

As knowledge becomes important, so does higher education. Countries need to educate more of their young people to a high standard—a degree is now a necessary requirement for many skilled jobs. The quality of knowledge produced by the higher education institutions and its availability to the college-age population, has become the cornerstone for national competitiveness.

This poses a serious challenge to our higher education system and its ability to respond to the enormous opportunities as well as threats that the knowledge revolution offers. Clearly, the pressure for expanding education opportunities is building up—participation and completion rates in the primary and secondary education has been increasing steadily due to population

growth, and the recognition of positive gains to be realized from progressing to and completing secondary-and tertiary-program levels.

However, the country faces constraints in meeting the cost of expanding higher levels of educational opportunities. Expanding education systems would imply a corresponding increase in resources, but the government is increasingly unable to cope with the rising costs. This underscores the policies that should allow for greater efficiency in the system while maintaining quality and equity in the access to higher education.

Equally important is the need to recognize that public and private provision of higher education can be complementary and that both can work together towards the same end. It is essential that the competition private institutions bring should create greater diversity and choice for students, as well as serve a powerful incentive for public universities to innovate and modernize. It is unfortunate that the current trend in Philippine higher education has not been supportive to these desired outcomes. Instead, the unhealthy competition brought by the unfettered proliferation of SUCs may worsen the declining quality of higher education.

HIGHER EDUCATION OUTCOMES

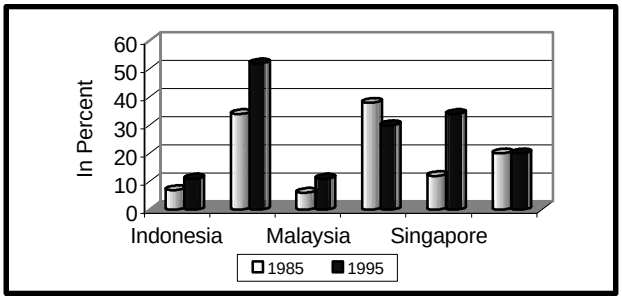
Based on international statistics[1], the provision of higher education in the Philippines is relatively much better than most countries in Asia. In 1995, the country's gross enrollment ratio[2] in the tertiary level (at 30%) was higher than that of Malaysia or Thailand at 11% and 20%, respectively *(see Figure 9.1)*. The country was even ranked 24th worldwide on proportion of higher education enrollment to the general population (2,981 students per 100,000 population in 1995). It is also important to note that the country's attainment rates[3] for the population over age 25 in 1995 was considerably high at 23%—the average for East Asia and the Pacific was only at 3%. The transition rate from completion of high school to vocational or higher education was also significant at 89.3% in 2001 (CHED Statistical Bulletin, 2004), so that most of the students who finish high school get to enter a college or university.

[1] "Higher Education in Developing Countries" published by the Task Force on Higher Education and Society of the World Bank, 2000.

[2] Gross enrollment ratio is defined as the total enrollment at a given educational level, regardless of age, divided by the population of the age group that typically corresponds to that level of education.

[3] These rates measure the highest level of education in which individuals were enrolled. The data reflect the attainment rates for the population that is over age 25. Attainment rates do not imply that all students completed this level of education.

FIGURE 9.1
GROSS ENROLLMENT RATIO
IN TERTIARY LEVEL (SELECTED COUNTRIES)



Source: World Bank, 2000

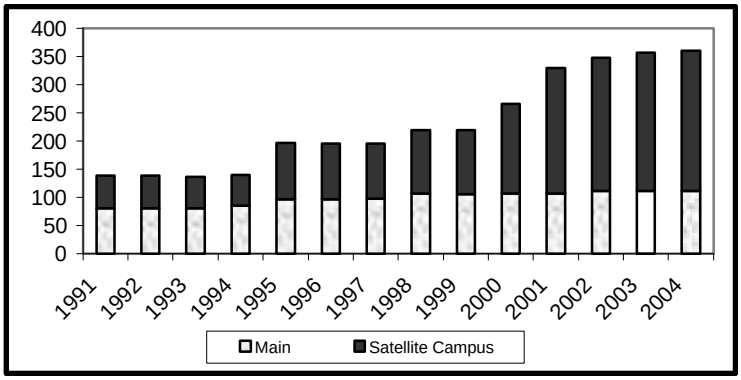
It is therefore surprising that in spite of these positive features, the higher education system, in particular with public institutions, is beset with persistent problems of equity in access, as well as deteriorating quality.

Proliferation of State Universities and Colleges. The total number of higher education institutions (HEIs) in the Philippines has reached 1,787 (with satellites) in 2004. About 1,363 (or 76.3%) are private while 424 (or 23.7%) are public-run institutions. The bulk of the public higher education system is composed of state universities and colleges (SUCs) that accounts for 85%.[4] As of academic year (AY) 2003-2004, there are 360 SUCs—111 main and 249 satellite campuses in the country. Since 1990 the number of SUCs has considerably increased by as much as 160% *(see Figure 9.2)*.

It has been observed that the creation/conversion of SUCs which has been the legislative mandate of the Philippine Congress, is a highly politicized activity. Hence, one of unintended consequences of this political exercise is the proliferation of substandard HEIs and the conversion of overgrown high schools into state colleges as well as conversion of state colleges into universities. This unfettered proliferation of public institutions is problematic for several reasons. First, as public funds available for higher education get scarce, creating more SUCs further dissipates available resources. In 2004, SUCs accounted for 13.71% of the national education budget, down from over 15% in 1999. In contrast, the number of SUCs has expanded by 64% from 219 in 1999 to 360 in 2004. As a result, the share of each SUC decreases not only because the total budget for the sector has decreased, but also because of the growing number of SUCs that have to be financed.

[4] CHED-supervised institution (CSIs) and local universities and colleges (46) are also part of the public higher education system. In 1998, originally there were 102 CSIs. As of 2003, there are only two CSIs remaining; the rest were integrated as a campus of the nearest SUC in their respective region. There are about 46 local colleges and universities (LCUs) that are operated, supported and maintained by local government units. These institutions are established by virtue of an ordinance passed by their respective local government units.

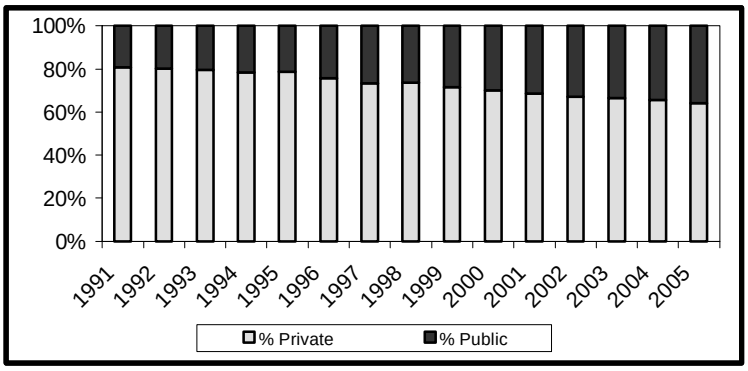
FIGURE 9.2
NUMBER OF SUCS
(MAIN AND SATELLITE CAMPUSES)



Source: CHED Statistical Bulletin

Second, the public institutions crowd out the private institutions. In many cases, the SUCs are located in the same geographic region where there is already a high density of private institutions (Bernardo, 2003). Take for instance, regional distribution of higher education institutions. Among the regions, Regions IVA and V ranked second and fourth in terms of the number of private HEIs yet both also account for 20% of all state universities and colleges in the country. The distribution of public institutions does not seem to address the areas or regions that are being neglected by the private sector.

FIGURE 9.3
ENROLLMENT DISTRIBUTION
OF HIGHER EDUCATION, 1991-2005



Source: Basic data from CHED

Moreover, as the tuition and fees of the SUCs are much cheaper than most private institutions, the former end up crowding out the latter. In fact, the share of public HEIs to total enrollment has doubled from 19% in 1991 to 36% in 2005 *(see Figure 9.3).* And as the number of enrollees in SUCs continues to grow due to increasing number of graduates in the

secondary level, more public resources will be needed to ensure that access and quality of higher education are sustain.

Third, proliferation results in an increasing number of SUCs that are very small by international standards. An international multi-faculty university typically enrolls 10,000 or more students. As of AY 2003-2004, there are some 46 (or 43%) of SUCs that have enrolled fewer than 4,000 students. Moreover, only 25 of 111 institutions were able to meet the criterion.

Inequitable Access to Public Institutions. Typically, SUCs should cater to the poorer or underprivileged students. But, more often than not, they fail to get accepted. Because of almost free tuition, SUCs have to ration admissions. Entry is usually based on merit rather than need. Thus, students from poor families are less likely to succeed in merit-based selection processes than students from less poor families who have attended better secondary schools, and have an extra year of prior schooling before entry to higher education. It has been shown that of the total HEI enrollees, only 24% belong to the poor income groups (Preddey and Nuqui, 2001) *(see Table 9.1)*.

TABLE 9.1
EDUCATIONAL ATTAINMENT
BY GENDER/INCOME (2000) IN PERCENT

PARTICULARS	Male		Female		Total
	Poor	Non-Poor	Poor	Non-Poor	
Elementary	85	92	87	92	88
Secondary	46	71	62	78	64
Higher	9	26	15	33	24

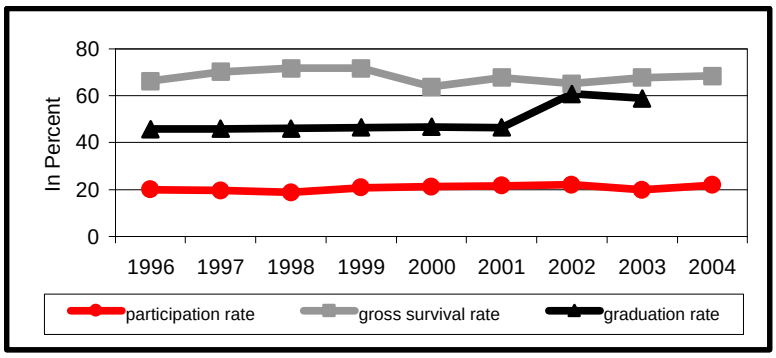
Source: Preddey and Nuqui, 2001

Tuition fees set by SUCs are generally low by international standards. Public HEIs in South and East Asia set tuition fees that meet 20% to 30% of recurrent cost (Preddey and Nuqui, 2001). On other hand, SUC revenues (mostly from tuition fees) averaged only 10% of recurrent cost (PS+MOOE) in the national budget from 2001 to 2005. This situation may actually increase inequity by providing almost ‘free’ education to students from relatively well-off families and denying access to students from poor families.

Low Internal Efficiency. An indicator of low efficiency of the higher education system is the average graduation rate of 49%. Between 1996 and 2001, out of every 100 who enter first year in college, about half of them were able to finish their course within the prescribed duration. This implies that half of these students either dropped out altogether or finished their course over the prescribed duration.

On other hand, there has been no marked improvement in the participation rates for the past 8 years. From 1996 to 2004, the participation rate—which stands at 21% in 2004—grew by only 1.4%. At this rate of progress, it may be difficult to meet the medium-term target of increasing the participation rate of college-age population (from 16-21 years) to 27.2%.[5]

FIGURE 9.4
PERFORMANCE INDICATOR IN HIGHER EDUCATION



Source: CHED

The most frequently used indicator of quality is the performance in licensure examinations in the various disciplines and professions. While the number of graduates in both private and public institutions has grown by as much as 30% between 1995 and 2003, the overall passing rates for the past nine years have barely changed from 41.6% in 1995 to 41.7% in 2003.

The programs/disciplines that enjoy high levels of enrollment are unfortunately also those where the students perform badly in the licensure examinations. For example, the disciplines on engineering, education and teacher training and business administration and related programs already accounts for more than half of total enrollment yet average passing rate (1995-2003) in accountancy is only 18%, for teacher education at 32% and civil and electrical engineering at 35%. It should be noted that there is wide variation in performance among the various higher education institutions. Some elite institutions have consistently high percentage of board passers. On the other hand, there are 293 institutions that have zero passing rates from 1993 to 1997 (Bernardo, 2003).

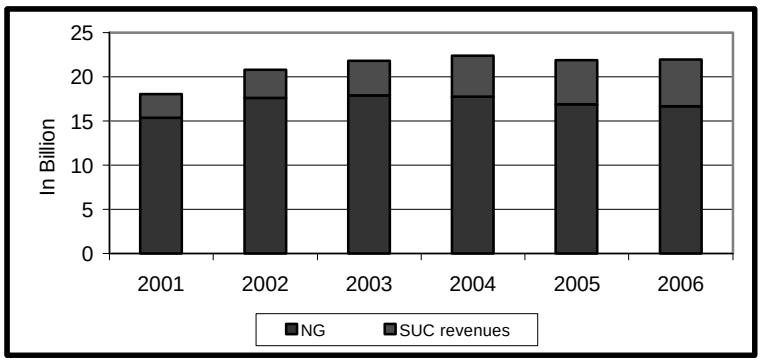
[5] Philippine Education Sector Roadmap, CHED

Dependence on Government Subsidy. SUCs depend mostly on government support for their operations. On the average, about two-thirds of SUCs financing are sourced from the national budget. Since these institutions vary in size, this subsidy for some SUCs accounts for 90-95% of total financing. Over the last five years, the share of national government in SUCs financing has been declining from 85% in 2001 to 77% in 2005. Hence, the diminishing support from the government poses a huge challenge to public institutions to be more efficient in their service delivery.

As cited earlier, the levels of tuition and fees in the SUCs are generally low as compared to the tuition levels in South and East Asia that are able to meet 20% to 30% recurrent costs. However, it must be noted that SUC revenues, in particular from tuition fees, have been steadily increasing for the past five years. From P1.2 billion in 2002, revenues from tuition jumped to P2.31 billion in 2005. Nonetheless, the 2005 figure represents only 14% of the P16.6 billion of current operating expenditure (COE or PS+MOOE) from the national budget. It must be noted that the comparison is being made with COE (which excludes CO) instead of total appropriations because COE represents the 'recurrent' portion of SUC appropriations.

Out of the 111 SUCs with income data, only 36 institutions have total incomes representing 20% or higher of their COE from the GAA. A total of 61 institutions have incomes equivalent to 15% or below of their COE.

FIGURE 9.5
RECEIPTS OF SUCS , 2001–2005



Source: 2006 BESF (DBM)

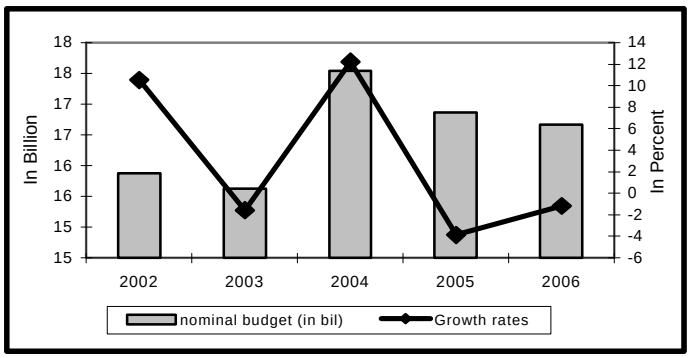
PUBLIC FINANCING OF SUCS

For fiscal year 2006, national government allocation to education at all levels will be P138.27 billion that is 5.28% higher than this year's level. Of this amount, P16.67 billion will be

obligated to the SUCs that accounts for 12% of the total sectoral budget. From a high growth of 10.5% in 2002, nominal budget for SUCs has been registering negative growth rates in 2005 at –3.85% and 2006 at –1.2%. Likewise, percentage share of higher education budget has been declining from 13.9% in 2004 to 12.1% in 2006. This may reflect discrete efforts by the Department of Budget and Management (DBM) to rationalize allocation using performance as indicator, in contrast to earlier practices of determining SUC budget allocations based on increments to past budgets (World Bank, 2004).

Putting together the estimated enrollment data from AY 2005-2006 and GAA COE figures from 2006 reveals that the average COE per students is about P18,080. This is the recurring appropriation granted by the national government per student. In real terms (based on 2000 prices), SUC spending per student has considerably declined from P17,000 in 2004 to P12,930 in 2006 or a 23% decline for the said period. It is important to note that within the system, there is a wide disparity in COE per student, as well as wide disparity in enrollment profiles and quality among SUCs.

FIGURE 9.6
SUCS NOMINAL BUDGET AND GROWTH RATES: 2002-2006



Source: 2005 & 2006 BESF (DBM)

By object of expenditures, personal services (PS) will receive the bulk of next year's SUC allocation at 86% (or P14.3 billion). However, there is noticeable slowdown in the growth of PS allocations from 8% in 2004 to 0.07% in 2006. Between 2001 and 2005, the MOOE budgets of the SUCs from the national budget increased by almost 6% from P2.1 billion to 2.2 billion. Comparing year-on-year increases, there have been modest increases in 2001-2002 (3.8%) and 2003-2004 (22.2%). However, this was followed by a reduction in 2004-2005 by as much as 11%.

In terms of sources of financing, more than 90% of spending in personal services of SUCs come from the national budget while the balance is culled from SUC internal revenues. The SUCs, however, have increased its counterpart spending in their PS from 4%in 2001 to 10% in 2006. This is quite different in the case of MOOE and CO of SUCs. For the same period, the SUCs accounted for more than half of their MOOE and CO budget. This positive trend has been observed since the SUCs were allowed in 1998 to retain all their income and trust funds. Moreover, these institutions can immediately use these funds and they do not have to be spent within the year. Typically, SUC income and trust funds are used to supplement MOOE and CO outlays, including equipment purchase.

During budget implementation, PS appropriations (especially for permanent positions) are usually exempted from reductions when budget reserves have to be imposed but not MOOE and CO. Hence, it is imperative for SUCs to consider setting realistic tuition fees that will help them finance their operations, otherwise they will have to contend to dwindling government subsidy that is subject to policy changes.

CONCLUSION AND RECOMMENDATIONS

The public higher education system continues to be hounded by problems related to low quality of programs offered, crowding out of private provision, dwindling budgetary support and institutional inefficiencies. All these point out to the urgency to rationalize the public higher education system

The move to rationalize the system should be anchored on the need for a more efficient, equitable and strategic use of limited public funding for higher education with the expectation that private institutions can the carry the main burden of meeting increasing student demands. It should be emphasized that government invest in higher education to: ensure access for the poor, offer programs/courses that are not better serve by private institutions, and provide regional access not serviced by the private sector.

Specifically, key policy measures are proposed that will help rationalize the system in terms of—program, location, student cost, governance and budgetary support. Given these measures, it is expected that there will be a natural reduction in the number of public higher education institutions.

ON PROGRAM

- CHED should continue to phase out programs that consistently perform below the national passing average for three years in the various licensure examinations, or that do not meet DBM's breakeven point in terms of enrollment.

- For program offerings by SUCs that are not accredited or do not meet the policies, standards and guidelines of CHED, it is proposed that public subsidy and other forms of government support be reduced or discontinued.
- Extension programs and services should facilitate the transfer of technology, foster leadership and promote self-reliance among the less privileged and share SUC resources with the community, e.g. capability building activities and management consultancy.

ON LOCATION

- As an incentive for SUCs for pursuing rationalization, they should be allowed to retain savings arising from the closure of satellite campuses and the discontinuation of degree programs and to use these savings for recurring expenditures such as personal services.

ON STUDENT ACCESS AND COST

- Ensuring greater accessibility through student assistance in the form of student loans. Government financial institutions will be tapped to provide them with soft loans through the schools.

- Advocating greater contributions by students and their families to the costs of their own higher education since many of its benefits accrue to private individuals.

ON GOVERNANCE

- CHED should come put with tighter standards, rules and regulations for the creation of state universities or the elevation of state colleges to state universities. Likewise, the Commission should come out with a more rational classification or typology of HEIs using internally accepted standards. Such new classification should be able to correct defective nomenclature, particularly those which have been converted to "Universities".

ON GOVERNMENT BUDGETARY SUPPORT

- The present budgetary process or input financing—in which allocations are based on historical data (past budget allocations)—is perceived to be inefficient and inequitable because it does not consider actual performance of public institutions such as quality of programs and passing rates in board exams. In this case, implementing normative or output-based budgeting to enable redistributing financial resources from less efficient to more efficient SUCs should be adopted.

  Normative financing is a scheme of granting public subsidy that is based on a clear criteria on what outputs public institutions are trying to produce. In brief, SUCs are financed for their contribution (through their financed outputs) to Philippine higher education, not according to their negotiating skill or access to political base. With normative financing, budget allocations will be predictable and will allow for sensible and financial planning to take place. Given this efficiency in the system, government can achieve less dependence by the SUCs on the public subsidy for higher education.

Chapter 10

EFFECTING FURTHER HEALTH GAINS

The Medium-Term Philippine Development Plan (MTPDP) 2004-2010 aims to make health care delivery responsive to the needs of the population, especially the poor. Meeting this goal, however, may prove difficult given the country's high population growth, which puts more pressure on already tight government fiscal position. Unless the government makes major decision shifts on population policy, improves revenue mobilization and effectively targets its health spending to the most vulnerable sectors, there is no guarantee of the health objectives coming to fruition. This paper analyses budgetary implications of health and population trends and recommends measures to achieve health goals.

HEALTH STATUS AND TRENDS

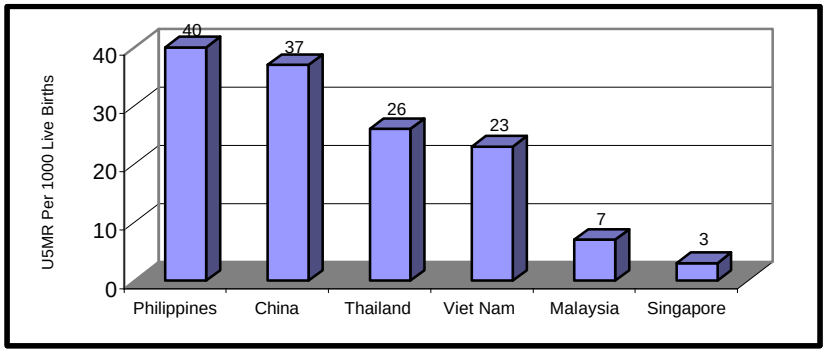
The health of Filipinos has improved significantly over the past years, as evidenced by the key health indicators. Infant and child mortality rates have declined, and so did the maternal mortality rate. Morbidity rates caused by leading diseases have also shown encouraging improvements, albeit minimally. All these and other equally important factors resulted in longer life expectancy for most Filipinos. Most of the health indicators, however, still pale vis-à-vis select Asian countries and the Millennium Development Goals (MDG) on health.

Infant and Under-five Mortality Rates. Infant mortality rate (IMR) has declined from 34 in 1993 to 29 per 1,000 live births in 2003. Under-five mortality rate (U5MR) also fell from 54 to 40 per 1,000 live births during the same period. Childhood mortality rates, however, would have been lesser where it not for the repeated decline in the rates of immunization and vaccination. The Maternal and Child Health Survey revealed a three-percentage point decline in immunization rate from 65% in 2000 to 62% in 2002—the target immunization rate is 90%

to achieve "herd immunity" for children against diseases like measles *(Herrin, 2004).* The 2003 National Demographic and Health Survey also indicated that almost 3 in 10 children age 12-23 months have not received the recommended vaccinations. From around 73% in 1993 and 1998, full vaccination has declined to 70% in 2003.

Data shows the decreasing trend in the number of immunized children was due to: 1) inadequate outreach particularly in hard-to-reach areas; and 2) shortages in vaccines in 2000-2001 due to untimely deliveries caused by changes in the procurement system. Across the region, the Philippines had the highest U5MR (40) while Singapore had the lowest (3). Malaysia and Vietnam had an U5MR of 7 and 23 respectively *(see Figure 10.1).* This suggests very strongly that the Philippines has a lot of catching up to do in paring down childhood mortality rates, thus necessitating for, among others, sustained and well-targeted vaccination/immunization efforts.

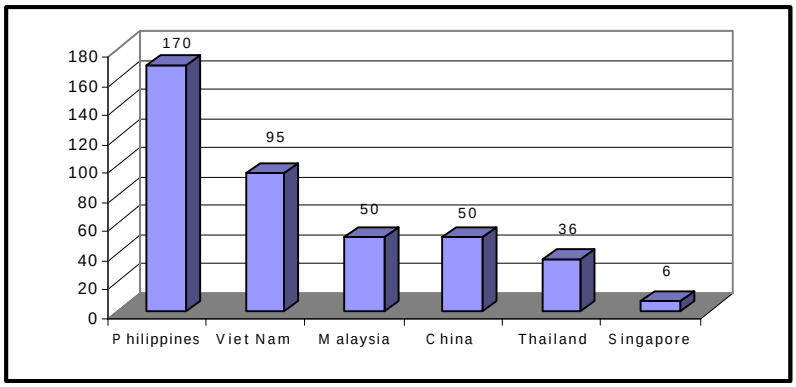
FIGURE 10.1
U5MR FOR SELECTED ASIAN COUNTRIES, 2003



Source: Human Development Report 2005 except for Philippine U5MR, which was taken from the 2003 NDHS

Maternal Mortality Rate. From 209 per 100,000 live births in 1990, maternal mortality rate was down to 172 in 1998. Since then however, no substantial reduction of maternal mortality rate has taken place. Not surprisingly, the Human Development Report (UNDP, 2005) showed that from 1985-2003 the Philippines had the highest maternal deaths, surpassing Vietnam by nearly double and Malaysia and China by more than triple *(see Figure 10.2).* Thus, a joint ADB-UNDP assessment report titled Tracking the Millennium Development Goals in Asia and the Pacific (2005) rated the country "slow" on maternal mortality. This suggests that, while the country is expected to hit the target (MDG target by 2015 of 52.2 per 100,000 maternal mortality rate), this can happen only after 2015.

FIGURE 10.2
MATERNAL MORTALITY RATIO
PER 100,000 LIVE BIRTHS, (1985-2003)

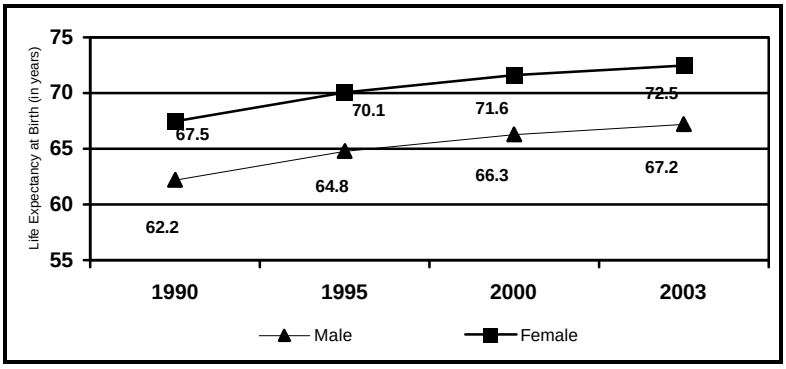


Source: Human Development Report, UNDP 2005

Morbidity Rates Due to Diseases. Deaths caused by the leading diseases have also exhibited declining trend in the past decade, except for pneumonia that grew 54% *(see Table 10.1)*. Pneumonia has claimed the most number of lives in 2002 (924 per 100,000 population) followed by diarrhea (914). Diarrhea, which remained fatal today among small children, was the number one killer disease 10 years ago. Malaria, too, is a cause for alarm as it is endemic in 65 provinces. Cases of malaria is high in Mindanao (53%), followed by Luzon (46%) and Visayas (1%).

Ratio of Physicians to Population. The country may be fairly endowed with doctors, outranking Thailand, Malaysia and Viet Nam in physicians to population ratio *(see Figure 10.3)*. This proportion, however, may likely decline as the exodus of health workers continue unabated. Data from the POEA revealed that approximately 55,000 nurses had already left the country from 1995 to 2002. A UP study also showed that 90% of nursing alumni of the UP College of Nursing and 65% of doctors from the UP College of Medicine are working outside the country. This indicates the forthcoming shortage of health personnel in the country, thus compromising the capacity of health care system. Testimony to this is the recent warning of the Alliance of Health Workers that the Philippine health care system will collapse within the next two to three years as dismal working conditions and low wages continue to drive local doctors and nurses abroad.

FIGURE 10.4
PHILIPPINE LIFE EXPECTANCY AT BIRTH (IN YEARS)



Source: NSCB, 2003

FACTORS BEHIND POOR HEALTH INDICATORS

While there may be a host of other factors, the country's high population growth and the relatively low health expenditure are just too revealing and strong to account for the poor health performance of the country.

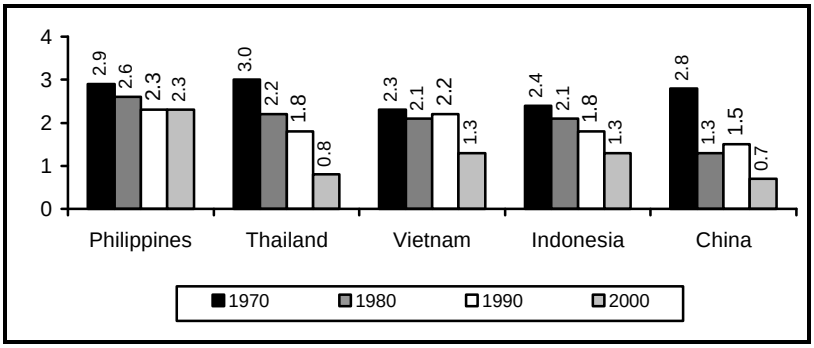
Population Growth Rate. The country ranks among Asian nations with high population growth rate. From 2.9% in 1970, the country's annual average growth rate declined to 2.3% in 2000. But other countries such as Thailand, Vietnam, Indonesia and China had a much faster growth rate decline during the said period *(see Figure 10.5)*.

TABLE 10.2
LIFE EXPECTANCY AT BIRTH (IN YEARS)
FOR SELECTED ASIAN COUNTRIES, 2003

Country	Male	Female
China	69.0	73.0
Indonesia	65.0	69.0
Malaysia	71.0	76.0
Philippines	67.2	72.4
Thailand	68.0	75.0
Viet Nam	67.0	72.0

Source: www.UNESCAP.org./stat/data 2004

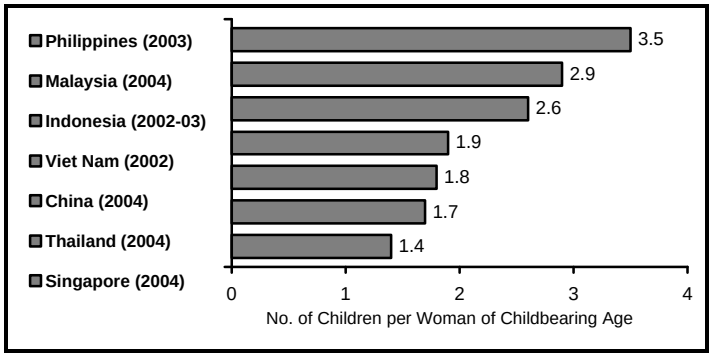
FIGURE 10.5
AVERAGE ANNUAL POPULATION GROWTH RATE FOR SELECTED ASIAN COUNTRIES (1970-2000)



Source: WDI database

Fertility Rate. The country's high population growth rate stems in part to high fertility level. Filipino women of childbearing age have an average of 3.5 children, the highest fertility level in the region *(see Figure 10.6)*. The 2003 National Demographic and Health Survey noted that if Filipino women had achieved their average desired fertility rate of 2.5 children, there would have been half a million births fewer in 2003 alone. This could have saved the government million of pesos in terms of immunization shots and micronutrients supplementation.

FIGURE 10.6
TOTAL FERTILITY RATES SELECTED ASIAN COUNTRIES



Source: Philippines 2003 National Demographic and Health Survey

The high population growth rate and high fertility rate posed critical challenge to both the working population and the government. This is on the observation that a country with high birth rates will have a relatively young population and a high age-dependency ratio[1]. A higher proportion of dependents is likely to experience slower economic development due to the

[1] Defined as the proportion of the dependent ages (below 15 years and above 64 years) to the working-age population (15-64 years).

drag on resources to provide for these age groups (*Balisacan, 2004*). In other words, the larger the dependency ratio, the greater the responsibility of the working-age population to provide for those who are dependent. In times, however, of high unemployment and underemployment rates and rising private health care costs, the government may be compelled to assume greater responsibility in providing the public basic social services like health.

AGE STRUCTURE AND DEPENDENCY RATIO

In 2000, there were 31.2 million dependent age Filipinos (below 15 years and above 64 years) and 45.3 million working age (15-64 years), thus a dependency ratio of 69.0. This means there were nearly 70 dependents for every 100 working age people. From 2005 to 2010, the dependency will gradually decline to 57 *(see Table 10.3)*. The number of Filipino dependents, however, will increase 5.14% or an increment of more than 1.7 million. This corresponds to 342,000 people annually for the next five years that have to be provided health care by the government and private sector.

Cost Implications of Additional Dependents. Assuming the national government targets basic health care provision to poorest 30% only of this additional dependents (numbering 102,600) and allots the same per capita health expenditure in 2003 (amounting to P277.5 in nominal terms), this is an up front P28.5 million a year from 2006 to 2010 or an aggregate of P142 million. However, it is not only the new dependent age groups that will pull funds from the government purse but all age groups of the population that will build up through time.

TABLE 10.3
PROJECTED DEPENDENCY RATIO*
(IN THOUSAND)

AGE DISTRIBUTION	2005	Increment		2010	Increment		2015
		Yearly	'05-'10		Yearly	'10-'15	
Dependent Age							
0-14	29,688	209	1,043	30,731	277	1,384	32,115
65+	3,602	133	667	4,269	210	1,048	5,317
Sub-Total	**33,290**	**342**	**1,710**	**35,000**	**487**	**2,432**	**37,432**
Working Age							
15-64	51,948	1,398	6,992	58,940	1,290	6,450	65,390
TOTAL	**85,238**	**1,740**	**8,702**	**93,940**	**1,777**	**8,882**	**102,822**
Dependency Ratio (%)	**64.1**			**59.4**			**57.2**

**Population projection based on medium assumption*
Source of Basic Data: NSO

Cost Implications of Poorest Population. By considering all the population age groups but focusing only on the poorest 30% of them, and assuming the same per capita health expenditure of P277.5 in 2003 is allotted, the national government would have to raise and set aside P7.8 billion in the next five years or P1.6 billion a year beginning 2006 until 2010 *(scenario 1).* If, on the other hand, the subsidy target shifts to the poorest 20% only of the population, then the health bill will be lesser by 33% or P2.6 billion *(scenario 2).*

SCENARIO 1
BUDGETARY IMPLICATIONS
OF POOREST 30% OF THE POPULATION*
(IN THOUSAND)

AGE DISTRIBUTION	Level			Budgetary Requirement		
	2005	2010	2015	2005	2010	2015
0-14	8,906	9,219	9,635	2,471,526	2,558,356	2,673,574
15-64	15,584	17,682	19,617	4,324,671	4,906,755	5,443,718
65+	1,081	1,281	1,595	299,867	355,394	442,640
TOTAL	**25,571**	**28,182**	**30,847**	**7,096,064**	**7,820,505**	**8,559,932**

**This is assuming the NG targets only the poorest 30% of the total population, and assuming further that it allocates the same per capita health expenditure in 2003, which was P277.5 in nominal terms*

SCENARIO 2
BUDGETARY IMPLICATIONS
OF POOREST 20% OF THE POPULATION*
(IN THOUSAND)

AGE DISTRIBUTION	Level			Budgetary Requirement		
	2005	2010	2015	2005	2010	2015
0-14	5,938	6,146	6,423	1,647,684	1,705,571	1,782,383
15-64	10,390	11,788	13,078	2,883,114	3,271,170	3,629,145
65+	720	854	1,063	199,911	236,930	295,094
TOTAL	17,048	18,788	20,564	4,730,709	5,213,670	5,706,621

**Uses the same assumptions similar to scenario 1*

The need to carefully target the poor as beneficiaries of government health services is a must given the observed problems in the health sector. A study by Herrin (UP, 2004) and World Bank Filipino Report Card on health services show limited access of the poor to health services. The same studies also indicate that health services are pre-empted by the non-poor or least poor. Simply put, government health services leak to and availed more by the least targeted (the *haves*) and leave out a large majority of the impoverished and disadvantaged group (obviously the *have nots*).

REFOCUSING HEALTH INTERVENTIONS TO VULNERABLE AGE GROUPS

But the government hardly affords to fully subsidize basic health owing to its poor fiscal condition. Thus, refocusing of funds may have to be considered for vulnerable sectors only or age groups where severity of health and nutrition problems are markedly and persistently high. In particular, these refer to women and young children deemed high risk or at precarious condition.

O-4 Years. Of the young population, sustained interventions would have to be made for the specific age category 0-4. This demographic group is where malnutrition/prevalence of underweight, infant and under-five mortality are disturbingly high, thus demanding expansion of existing government programs on vaccination and immunization, micronutrients supplementation and feeding. This age band dominates the population base of the country and will continue to do so in the coming years. From an estimated 10.3 million in 2005, the 0-4 year-old children will expand to 10.8 million by 2010, or a whopping increment of 546,000 *(see Table 10.4)*.

Reproductive Years. The reproductive or childbearing years (15-49) is likewise of critical concern since this is the age band where cases of reproductive problems are high. The United Nations Common Country Assessment of the Philippines (2004) reveals that unwanted pregnancies and their attendant complications are common among the 15-19 age group. Young mothers in the 15-24 age group also account for 17% of induced abortion. Moreover, the number of HIV infections has been reported rising among males in the 20-39 year-old-group. There is also the pressing concern of high unmet family planning (FP) needs, about 17% or 2.3 million married women who are sexually active and not using any contraceptive method (*2003, NDHS*). This unmet FP need is seen as one of the causes of unusually high maternal mortality rate and unwanted pregnancy. Under the Local Government Code of 1991, the local government units have part responsibility to meet FP needs of the local population. The childbearing age group will swell by 38% to 54 million by 2015 from 39 million in 2000.

TABLE 10.4
PROJECTED PHILIPPINE POPULATION
BY FIVE-YEAR AGE GROUP
(IN THOUSAND)

AGE GROUP	2000*	2005	2010	2015
All Ages	76,503	85,238	93,940	102,822
0-4	9,670	10,316	10,862	11,241
5-9	9,695	9,737	10,173	10,736
10-14	8,950	9,635	9,696	10,138
15-19	8,017	8,923	9,600	9,667
20-24	7,069	7,959	8,875	9,556
25-29	6,071	7,055	7,902	8,820
30-34	5,546	6,058	6,994	7,843
35-39	4,901	5,521	5,993	6,929
40-44	4,163	4,816	5,441	5,916
45-49	3,330	4,082	4,719	5,343
50-54	2,622	3,236	3,965	4,595
55-59	1,904	2,514	3,098	3,809
60-64	1,633	1,784	2,353	2,912
65+	2,932	3,602	4,269	5,317

** actual census*
Source: NSO

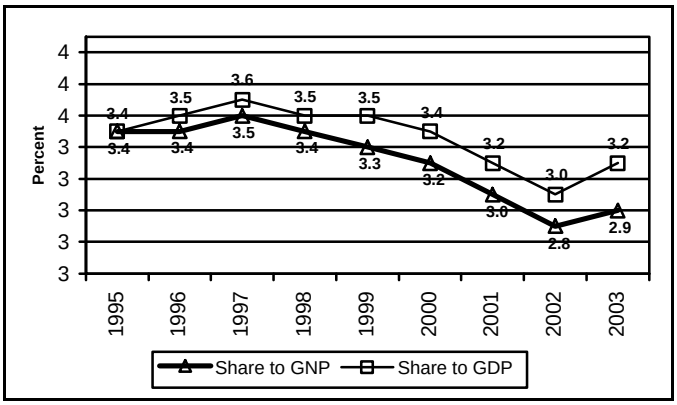
HEALTH SPENDING IN THE ECONOMY

The resources poured on health tell so much about the wellness of the people. To some extent, it provides an indication of the quality of life, the scale of human development. It also reflects the degree of importance the public and private sectors give to such a necessity. The following provides a picture of how the people and the government regard health, especially in terms of spending and budgeting.

Spending Patterns. The share of total health expenditure[2] to GNP has generally declined through the years *(see Figure 10.7)*. From a high of 3.5% in 1997, it shrunk to 2.8% in 2002. In 2003, the share inched up slightly to 2.9%. However, this is still way below the 5% norm set by the World Health Organization (WHO) for developing countries. The share of health spending to GDP also dropped for most part of the years, from 3.6% in 1997 to 3% in 2002. It soared a little to 3.2% in 2003. In 2001, the country stood next to Indonesia as among Asian countries with low health share to GDP *(see Table 10.5)*. China and Viet Nam had the highest share at more than 5%.

[2] sum of public and private spending on goods and services for the preventive, curative, therapeutic and rehabilitative care of the human population for the primary purpose of improving health.

FIGURE 10.7
SHARE OF HEALTH EXPENDITURE TO GNP AND GDP, (1995-2003)



Source: 2003 PNHA, NSCB

TABLE 10.5
HEALTH EXPENDITURE IN ASIAN COUNTRIES, 2001

COUNTRY	% of GDP
China	5.5
Indonesia	2.4
Malaysia	3.8
Philippines	3.2
Singapore	3.9
Thailand	3.7
Viet Nam	5.1

Source: 2003 PNHA, NSCB

Total Health Expenditure. The country's health sector regained strength in 2003 from the successive low health spending of the preceding years *(see Table 10.6)*. Total health expenditure in 2003 reached P136.0 billion, indicating a 16% growth in nominal terms. In real terms, this amounted to P119.5 billion or a 12% increase.

TABLE 10.6
TOTAL HEALTH EXPENDITURES IN NOMINAL AND REAL TERMS, 2000-2003

INDICATORS	2000	2001	2002	2003
In Nominal Terms				
Total Health Expenditure *(PB)*	114.9	116.6	117.2	136.0
Health Expenditure, Growth Rate (%)	9.6	1.5	0.5	16.0
In Real Terms				
Total Health Expenditure *(PB)*	114.9	109.2	106.5	119.5
Health Expenditure, Growth Rate (%)	-	(5.0)	(2.4)	12.2

Sources of basic data: BESF (DBM) and NSCB

Health Expenditure Per Capita. Per capita health spending in nominal terms also jumped 13.7% or from P1,462 in 2002 to P1,662 in 2003 *(see Table 7)*. The P200 increase translates to a near 10% growth in real terms.

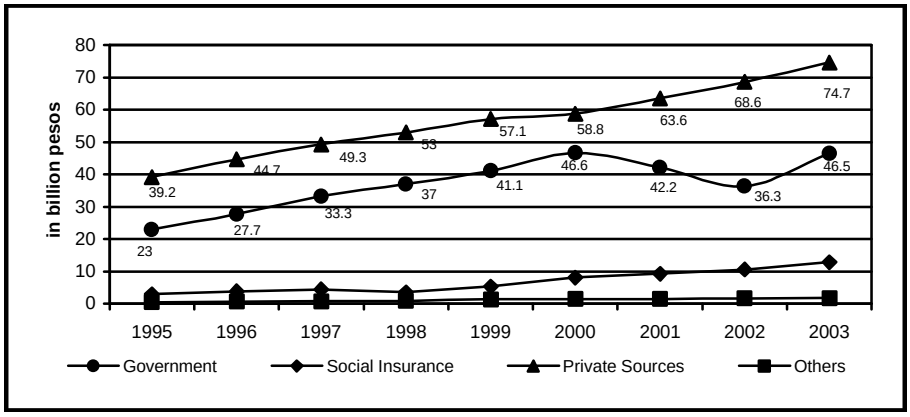
TABLE 10.7
HEALTH EXPENDITURE PER CAPITA
IN NOMINAL AND REAL TERMS

YEAR	Population	Health Expenditure Per Capita *(in pesos)*		Health Expenditure Per Capita Growth Rate	
		Nominal	Real	Nominal	Real
2000	76.8	1,496	1,496.0	8.6	-
2001	78.6	1,484	1,389.5	(0.8)	(7.1)
2002	80.2	1,462	1,329.1	(1.5)	(4.3)
2003	81.8	1,662	1,460.5	13.7	9.9

Sources of basic data: BESF (DBM) and NSCB

Sources of Health Funds. The private sector emerged the biggest health spender followed by the government, both national and local *(see Figure 10.8)*. Health spending by the government, however, fell 9.4% or from a high of P46.6 billion in 2000 to P42.2 billion in 2001. The national government wholly caused the cut in health spending (from P24.4 billion in 2001 to P20.0 billion in 2001). The year that followed also saw government health spending dipping further to P36.3 billion but with the local governments this time causing the biggest cutback (from P22.2 billion in 2001 down to P17.8 billion in 2002).

FIGURE 10.8
HEALTH EXPENDITURE BY SOURCE OF FUNDS



Source: 2003 PNHA, NSCB

NG SHARE TO TOTAL HEALTH SPENDING

Although the national government (NG) health spending was high by 23% in 2003 to P22.7 billion from P18.5 billion in 2002, its share to total health expenditure was low compared to shares exhibited during 2000 and 2001 *(see Table 10.8)*.

TABLE 10.8
SHARE OF NG TO TOTAL HEALTH SPENDING

PARTICULARS	2000	2001	2002	2003
Total Health *(PB)*	114.9	116.6	117.2	136.0
National Government *(PB)*	24.4	20.0	18.5	22.7
Share in %	21.2	17.2	15.8	16.7

Source: BESF (DBM)

NG Per Capita Health Spending. The national government spent more on the health of individual Filipinos in 2003. Per capita health spending was up P47 or 20%, therefore dashing out the successive negative growths experienced during the past two years. In real terms, the amount corresponds to an additional P34 spent for personal healthcare *(see Table 10.9)*.

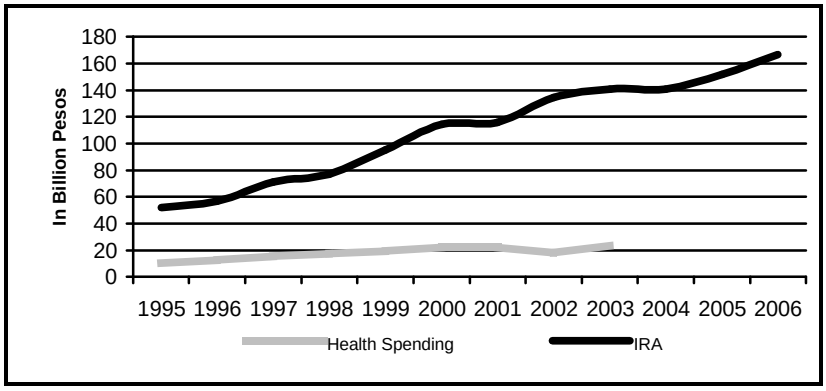
TABLE 10.9
NG HEALTH EXPENDITURE PER CAPITA

YEAR	Health Expenditure Per Capita *(in pesos)*		Health Expenditure Per Capita Growth Rate	
	Nominal	Real	Nominal	Real
2000	317.7	317.7	-	-
2001	254.5	238.3	(19.9)	(25.0)
2002	230.7	209.7	(9.4)	(12.0)
2003	277.5	243.8	20.3	16.3

Sources of basic data: BESF (DBM) and NSCB

Local Gov't Share to Health Spending. Health expenditures of the local governments have been rising from 1995 to 2003, exhibiting an average annual growth rate of 11.99% (this should be expected though since health is a devolved function under the Local Government Code of 1991 *(see Figure 10.9).* The increasing trend in local health spending is consistent with the LGUs' rising internal revenue allotment (IRA), averaging 13.58% annually during the same period. From 1995-2003, LGU health spending accounted for more than 19% of IRA.

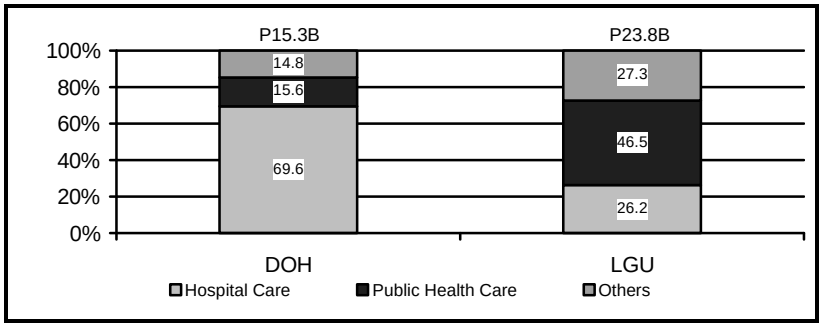
FIGURE 10.9
LOCAL GOVERNMENT
HEALTH SPENDING VIS-À-VIS IRA



Source: 2003 PNHA; BESF

Much of the LGU health spending goes to public health care *(see Figure 10.10)*. Of the P23.8 billion it spent for health in 2003, P11.1 billion or 46.5% went to public health care. This is high compared to the share of the Department of Health (DOH), which was 15.6 % or P2.4 billion. A large chunk of DOH health spending in 2003, about 69.6% or P10.6 billion, went to hospital care. As to what constitute hospital care, the DOH may have to make explicit elaboration and clarification on this.

FIGURE 10.10
COMPARISON OF DOH
AND LGU HEALTH SPENDING, 2003



Source: DOH Presentation of the proposed 2006 budget

TRACKING THE GOALS, IDENTIFYING LAPSES AND ESTIMATING COSTS

While the MTPDP and the MDGs differ in their health goals and target years, both complement in improving the health and welfare of the Filipino population, especially the vulnerable children and women sectors. Table 10 outlines the progress made thus far insofar as key health indicators are concerned.

TABLE 10.10
HEALTH PROGRESS
VIS-À-VIS MTPDP AND MDG TARGETS

INDICATORS/GOALS	Baseline (1990 or closest year)	Current Level ('02/'03)	MTPDP 2010 Target	MDG 2015 Target	Average Rate of Progress[a] ('90-'02/'03)	Required Rate of Progress[b] ('02/'03-'15)
Eradicate extreme poverty & hunger						
Proportion of population below subsistence (food) threshold	24.3	13.8		12.5	-0.88	-0.14
Poverty threshold	45.3	30.4		22.65	-1.24	-0.65
Proportion of families below subsistence (food) threshold	20.4	10.4	8.98	10.20	-0.83	-0.02
Poverty threshold	39.9	24.7		19.95	-1.27	-0.40
Prevalence of malnutrition among 0-5 year-old children (% underweight) – Based on international reference standards	34.5	27.6	21.6	17.25	-0.53	-0.86
Proportion of households with per capita intake below 100% dietary energy requirement	69.4	56.9		34.70	-1.25	-1.85
Reduce child mortality						
Infant mortality rate (per 1,000 live births)	57	29	17	19	-2.15	-0.83
Under 5 mortality rate (per 1,000 children)	80	40	32.24	26.7	-3.08	-1.11
Improve maternal health						
Maternal mortality rate (per 100,000 live births)	209	172	90	52.2	-4.63	-7.05
Increase access to reproductive health services						
Prevalence of men and women/couples practicing responsible parenthood	40	48.9	60	70	0.89	1.76
HIV prevalence	1%	1%	1%	< 1%	0.00	0.00
Halt and begin to reverse the incidence of malaria and other diseases						
Malaria morbidity rate (per 100,000 population)	123	48	24	24	-5.77	-1.83

[a] *per MDG team tracking*
[b] *per MDG target*
Sources: MTPDP 2004-2010 and Second Philippines Progress Report on the MDGs (June 2005)

MTPDP CONCERNS

Notwithstanding the improvements achieved, the MTPDP reiterated several concerns, key of which are the unmet family planning needs, poor access to low-priced medicines and limited social health insurance coverage.

Unmet Family Planning Needs. About 20% of close to 20,000 women surveyed in 2002 were not using any method of family planning and did not want any more children or preferred to space births. This gives an estimated 2 million women with unmet family planning needs, of which 50-70% might be classified poor.

Poor Access to Low-Cost Medicines. The distribution, accessibility and availability of low-priced medicines remain a problem to many, especially the impoverished sector. Thus, the MTPDP plans reducing the cost of medicines commonly bought by the poor to half of their 2004 prices and make these available nationwide. It also proposes making these medicines available in facilities and outlets of the public sector nationwide and not just to the present 72 DOH hospitals and 530 LGU hospitals and health centers.

Limited Coverage of Social Health Insurance. The coverage of social health insurance has also remained limited. Data shows that at the moment health insurance covers only 78% of the population. The government plans to expand coverage to 85% of the total population by 2007 and sustain such coverage to 2010. Spreading out health insurance benefits will ease crowding of public hospitals and make private hospitals and clinics more accessible and convenient to many.

MDG CONCERNS

Proponents of the MDGs, led by the United Nations Team and the Government of the Philippines, also called for sustained actions to address inefficiencies, inadequacies and policy gaps that get in the way of achieving the goals, to wit:

On Reducing Child Mortality

- Enforce Food Fortification Law of 2000. National Government Technical assistance to the LGUs should be directed toward enhancing the continuing efforts to enforce and promote the fortification of more products in the market;

- Amend Milk Code to address problems on breastfeeding, thus enhancing women and child health and nutrition;

- Strengthen department capacities to deal with maternal, newborn and child health programs.

On Improving Maternal Health

- Finance and implement Safe Motherhood Program to reduce infant and maternal deaths;
- Step up Family Planning Program to address unmet family planning needs and promote reproductive health;
- Review the compensation, incentives and benefits of health workers and work towards a more attractive compensation package to address "brain drain" or exodus of health workers outside the country.

On Improving Access to Reproductive health Services

- Pass Reproductive Health Act to address fertility and population problems and meet objectives of Family Planning;
- Expand coverage of National Health Insurance Program and include to it all reproductive health services.

On Combating Malaria and Other Diseases

- Sustain funding support for DOH's *Malaria Control Program* and *National Tuberculosis Control Program.*

RESOURCE REQUIREMENT

For FY 2006, the DOH estimated an additional funding requirement of P1.3 billion for specific program to meet MDGs on health *(see Table 10.11)*. This is on top of other budgetary requirements of the Department's priority programs such as the promotion of reproductive health, anti-filaria drugs, schistosomiasis, increasing hospital capacity, Botika ng Barangay and Magna Carta benefits for DOH personnel, which summed up to P3.9 billion.

TABLE 10.11
DOH ESTIMATED FUNDING GAP FOR 2006
(IN THOUSAND PESOS)

MDG HEALTH GOALS	Funding Req't
Reduce Child Mortality	586,000
Improve Maternal Health	195,000
Combat HIV/AIDS, Malaria, and Other Diseases	471,000
TOTAL	**1,252,000**

Source: DOH 2006 Budget Presentation

Following, however, the computations made by Manasan in 2002 *(see Table 10.12)*, resource requirement for 2006 was placed at P9.1 billion.

TABLE 10.12
ESTIMATED BREAKDOWN OF 2006
RESOURCE REQUIREMENT FOR BASIC HEALTH

PARTICULARS	Amount *(in million pesos)*
EPI for Women and Children	595
Micronutrients	216
TB	225
Malaria	75
Schistosomiasis	40
Other Public Health Programs	4,081
Degenerative Diseases	223
Local Health System Dev't	1,307
Planning, Policy, Reg. Services, Sup.to Oper. & Emer.	590
Premium Contribution to health	1,221
Basic Hospital Care	489
TOTAL	**9,061**

Source: Manasan, 2002

Inasmuch as the estimation was carried out three years ago, the resource requirement may be higher given the pace of inflation, the resource gaps and the population growth. Table 10.13 shows the total budgetary requirement of the country to meet the MDG health goals. It indicates the annual obligation that has to be allotted for all health interventions and programs.

TABLE 10.13
RESOURCE REQUIREMENT TO MEET MDG ON BASIC HEALTH
(HIGH COST ASSUMPTION—MTPDP, IN MILLION PESOS)

Year	EPI for Women & Children	Micro-Nutrients	TB	Malaria	Schistosomiasis	Other Public Health Programs	Degenerative Diseases	Local Health System Development	Planning, Policy, Reg. Services, Sup to Oper. & Emer	Premium Contribution to Health	Basic Hospital Care	Total	Total % of GNP
2002	435	138	193	72	41	5,794	174	1,088	479	320	380	9,113	0.22
2003	475	159	202	73	40	4,278	185	1,139	505	542	405	8,002	0.17
2004	517	182	211	74	39	3,603	197	1,192	531	669	432	7,647	0.15
2005	557	208	218	74	40	3,836	210	1,248	560	879	460	8,291	0.15
2006	595	216	225	75	40	4,081	223	1,307	590	1,221	489	9,061	0.14
2007	635	235	231	75	40	4,342	238	1,368	621	1,483	520	9,787	0.14
2008	677	260	237	75	39	4,619	253	1,432	654	1,573	553	10,371	0.13
2009	723	289	240	74	38	4,913	269	1,499	689	1,621	589	10,945	0.13
2010	772	322	237	73	35	5,227	286	1,569	725	1,919	626	11,791	0.12
2011	823	357	230	72	31	5,560	304	466	764	2,129	666	11,404	0.11
2012	879	395	220	70	27	5,915	324	490	805	2,208	709	12,042	0.10
2013	938	437	207	67	20	6,293	344	516	848	2,213	754	12,636	0.09
2014	1,001	482	189	64	21	6,694	366	543	893	2,016	802	13,070	0.09
2015	1,068	532	156	59	23	7,121	390	571	940	1,931	853	13,645	0.08
2002-2015	10,094	4,213	2,996	997	474	72,276	3,763	14,428	9,602	20,726	8,236	147,804	0.12

Source: Manasan, 2002

ANALYSIS OF FY 2006 PROPOSED HEALTH BUDGET

The health sector was allotted P13.7 billion for FY 2006. While this amount shows a slight improvement from the 2005 budget (6.2% or P800 million higher than last year's), this is only P9.8 billion in real terms, the lowest in five years *(see Table 10.14)*.

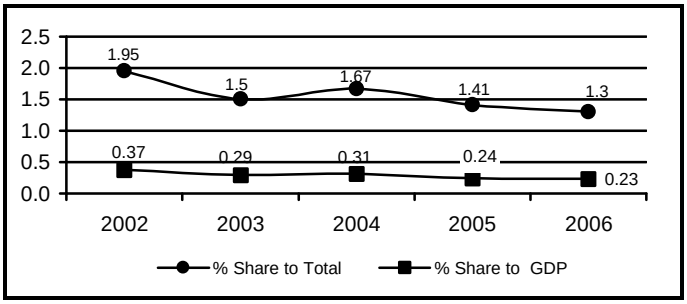
TABLE 10.14
NG ALLOCATION TO HEALTH
(IN BILLION PESOS)

YEAR	Nominal Terms	Real Terms (2000 = 100)
2002	14.5	13.2
2003	12.4	10.9
2004	14.5	12.0
2005	12.9	9.9
2006	13.7	9.8

Source: BESF

The declining share of health budget to total NG expenditures and to GDP also reflects the fall of health budget in real terms. From a high of 1.95% in 2002, the share of health budget to total NG expenditures tumbled to 1.3% in 2006 *(see Figure 10.11)*. Health as a percentage of GDP also slid down from 0.37% to 0.23% during the same period.

FIGURE 10.11
SHARE OF HEALTH SPENDING
TO TOTAL NG BUDGET AND GDP



Source of basic data: BESF (DBM)

The DOH accounts for most of the basic health expenditures of the NG, taking in P10.58 billion or 77% of total NG health allocation. In nominal terms, this is higher than last year's budget but far lower than the 2004 in both nominal and real terms. Having been the trend, the agency's budget goes mostly to Personal Services (PS) or to paying salaries and benefits of personnel and officials *(see Table 10.15)* or and leaves very little for construction of new health facilities for the poverty-stricken rural areas (CO).

TABLE 10.15
NG ALLOCATION TO DOH BY EXPENSE CLASS
(LEVELS IN BILLION PESOS, SHARES IN %)

PARTICULARS	2004 Actual		2005 Adjusted		2006 Proposed	
	Level	Share	Level	Share	Level	Share
PS	6.05	54.65	5.93	57.46	5.95	56.24
MOOE	4.32	39.02	4.00	38.76	4.10	38.75
CO	0.70	6.33	0.39	3.78	0.53	5.01
TOTAL DOH						
Nominal Terms	11.07	100.00	10.32	100.00	10.58	100.00
Real Terms *(2000 = 100)*	9.18		7.93		7.56	

Source: BESF

CONCLUSION & RECOMMENDATIONS

There have been significant improvements on the health status of Filipinos as evidenced by the increasing life expectancy and declining child/maternal mortality and morbidity rates. However, there were pockets of inefficiencies such as the repeated decline in child vaccination and immunization, unmet family planning needs and poor monitoring of maternal mortality (such that the latest figure available was in 1998). The migration of doctors and nurses for greener pasture also typifies government inadequacy to improve the lot of public health workers. All these are but partly outcomes of high population growth and continuing budget deficit facing the government. The following imperatives have to be considered therefore to effect further health gains:

- Pursue a stronger population management program or variants that will slow down high population growth. The high population growth rate that now prevails indeed makes the task of poverty reduction more difficult and the financial cost of poverty alleviation more restrictive.

- Pursue training/skills upgrading programs for all government health workers to prevent the future collapse of health care system due to shortage of health personnel. Relatedly, the government will have to strictly monitor and upgrade quality of medical and allied education in the country to increase availability of skilled and licensed health workers.

- Pass a reproductive health care act that will address unmet family planning needs. Passage of this bill is crucial to achieving many of the MDG on health particularly those that relate to child and maternal welfare.

- Strengthen DOH capacity to adequately and sustainably implement vital public health interventions such as Safe Motherhood Program, Expanded Program on Immunization, Micronutrients Supplementation for children and pregnant/lactating mother, and dengue, malaria and tuberculosis control programs.

- Pass a bill ensuring that a minimum standard of health service is met at the LGU level. Such bill should also indicate accountability of local chief executives and local health boards on health services. This measure will somehow ascertain the localization of MTPDP-MDG goals on health.

- Pass a bill granting autonomy to government hospitals to collect user fees and earmark the same for their MOOEs. This measure will ease burden on the NG to allocate budget for health.

Chapter 11

TOWARDS AN INCREASED SHELTER SUPPLY AND EFFICIENT SUBSIDY MECHANISM

A relatively high unmet housing need continues to be observed in the country's housing sector While this could be partly an indication of limited budget for housing, this is also an outcome of policy and institutional weaknesses. This chapter discusses in brief the NG budget as well as policy and institutional arrangements relating to housing.

HOUSING NEED

The Housing and Urban Development Coordinating Council (HUDCC) estimates the country's housing need at 3.75 million units for the period 2005-2010 *(see Table 11.1)*. This need consists of 1.17 million units in total housing backlog plus some 2.58 million units to accommodate formation of new households due to population increase. These figures are slightly higher than the 3.36 million units housing need estimated during the preceding plan period 1999-2004, where 1.14 million units in total housing backlog and 2.22 million units for new households were recorded. More than the statistical difference, the two shelter plan periods reveal that housing backlog is persistently high, and so is the demand of new households. Both the plan periods also indicate the difficulty of the government to meet the need, much less the backlog. Indeed, historical performance of the government housing institutions shows that they can only address some one-third or 30% to 40% of the country's housing need (*Alonzo, 2004*), thus leaving about two-thirds or 60% to 70% to the private sector to fill. Recent performance of the Arroyo administration on housing typifies this difficulty.

TABLE 11.1
HOUSING NEED, 2005-2010
(IN UNITS)

CATEGORY	Total
Housing Backlog	**1,170,800**
Doubled-Up Housing	387,315
Replacement/Informal Settlers	588,853
Homeless	8,298
Substandard (Upgrading)	186,334
New Households	**2,585,272**
TOTAL	**3,756,072**

Source: HUDCC

SIGNIFICANT SUPPLY BUT SHORT STILL OF DEMAND

During the shelter plan period 2001-2004, the Arroyo administration targeted to provide shelter security[1] to 1.2 million households. Of this target, the housing sector (which includes such active industry players as Pag-IBIG, GSIS and SSS) provided some 882,823 shelter security units or an accomplishment rate of 74% *(see Table 11.2)*. Of this total output, some 493,496 units or 56% went to socialized housing where 44% (219,268 units) benefited the informal sector or nonmembers of the Pag-IBIG, GSIS and SSS. During the same period, the informal dwellers also benefited from the government-private sector program for slum-dwellers where total production of shelter security units reached 382,285 (*see Table 11.3*). This provision plus the other 219,268 units that went to the informal sector would total to 601,553 shelter security units. This amounts to a modest 53% response rate to the total housing backlog registered then (1.14 million units).

TABLE 11.2
HOUSING TARGETS AND ACCOMPLISHMENTS
(2001-2004)

HOUSING PACKAGE	Target Households	Actual Accomplishments				
	2001-2004	2001	2002	2003	2004*	2001-2004
Socialized (below P225,000)	880,000	207,940	118,987	84,716	81,853	493,496
Low Cost (P225,000-P2M)	320,000	54,447	74,306	114,507	146,067	389,327
TOTAL	**1,200,000**	**262,387**	**193,293**	**199,223**	**227,920**	**882,823**

**Figures as of June 2004*
Source: HUDCC

[1] defined as a lot, house or house and lot package.

TABLE 11.3
PROGRAM FOR SLUM DWELLERS

PROGRAM	No. of Household Beneficiaries			
	2001	2002	2003	TOTAL
HUDCC Asset Reform Program	133,900	68,820	1,000	203,720
NHA Housing Programs	47,771	25,356	15,205	88,332
NHMFC Community Mortgage Program	28,474	19,529	11,453	59,456
National Government Center East-West Project	8,739	2,049	410	11,198
North and South Rail Relocation	-	7,350	3,250	10,600
Gawad Kalinga (GK 777)	1,000	1,032	2,963	4,995
Habitat for Humanity	1,878	1,087	1,019	3,984
TOTAL	**221,762**	**125,223**	**35,300**	**382,285**

Source: MTPDP 2004-2010

NG BUDGET FOR HOUSING

The national government (NG) allocation for housing and community development for the period 2002-2006 exhibits a generally increasing trend *(see Table 11.4)*. From P800 million in 2002, budgetary support to housing went up by 275% to P3.0 billion in 2003. However, the year that followed saw housing budget cut by nearly half (the reason could have been that funds were channeled to other priority social service sectors such as land distribution, social welfare and health that saw budget climbed by 722%, 15% and 17% respectively). By 2005, budget for housing rose by 6% and by a hefty 65% under the 2006 proposal.

Aside from direct spending on housing, the NG also provides funding assistance to the housing sector through internal revenue allotment (IRA) to LGUs and subsidies to beneficiaries and developer-participants of the government's housing programs. Among city LGUs for instance, actual expenditure on housing went up from 2.9% of total expenditure prior to 1992 to about 7% after 1992. According to Ballesteros (PIDS, 2002) the amount comes primarily from IRA and grants. Ballesteros also noted that the government has probably spent substantially more on housing subsidies than on any other welfare program in the country. As a case in point, public retail mortgages exposure in the Philippines, including developer guaranty amount to about 4.5% of GDP for the period 1994-1999.[2]

[2] As cited by Ballesteros from Duebel A (2000), "Separating Homeownership Subsidies from Finance: Traditional Mortgage Market Policies, Recent Reform Experiences and Lessons for Subsidy Reform", The World Bank.

TABLE 11.4
NATIONAL GOVERNMENT ALLOCATION TO HOUSING AND COMMUNITY DEVELOPMENT

Year	Amount *(Billion pesos)*	Growth (%)
2002	0.8	(55.56)
2003	3.0	275.00
2004	1.6	(46.67)
2005	1.7	6.25
2006	2.8	64.71

Source: BESF 2000-2006

The NG budget for housing are spread to various agencies (*see Table 11.5*) — from the HUDCC that ensures accomplishment of the National Shelter Program to four other key shelter agencies (KSAs) that have direct role in shelter production. These KSAs are the Home Guaranty Corporation (HGC) that mobilizes private sector funds, the National Home Mortgage Finance Corporation (NHMFC) that serves a major role in community mortgage financing, the National Housing Authority (NHA) that provides housing assistance to low and marginal income groups, and the Housing and Land Use Regulatory Board (HLURB) that functions as the regulatory body for housing and land development. Except for the HUDCC that suffered 9.52% cutback on its 2006 budget compared from last year, all KSAs either retained their previous years' support or had minimal increase.

TABLE 11.5
TOTAL NG BUDGETARY SUPPORT TO SHELTER AGENCIES (IN MILLION PESOS)

Year	HUDCC	HGC	NHMFC	NHA	HLURB
2002	57	-	764	245	166
2003	50	1000	-	460	161
2004	84	1000	500	1000	157
2005	72	-	500	1000	164
2006	65	1000	500	1000	165

Source: BESF and NEP 2004-2006

Budgetary requirement for 2006 shelter target is higher though than what is allotted. Per HUDCC costing, the NHMFC will require P761 million for its nearly 16,000 CMP-targeted household beneficiaries (*see Table 11.6*). Unless the NHMFC pours in own funds, the 34% or

P261 million shortfall is certain to hurt target, thus preventing chances for 2,000 or so informal household dwellers to own shelter security units. The same problem awaits beneficiaries of NHA and HUDCC, which respectively have 72% (P2.5 billion) and 35% (P35 million) fund deficiency. To meet their targets, these shelter agencies will either have to utilize their existing funds, be resourceful to obtain grants from other sources or boost collections from existing home lending programs.

TABLE 11.6
2006 COMPARATIVE RESOURCE REQUIREMENT OF GOVERNMENT SHELTER PROGRAM

SHELTER AGENCIES	Target Household	*Levels in Million*	
		Values	2006 Proposed Budget
NHMFC-CMP	**15,860**	**761**	**500**
NHA Total	**57,211**	**3,532**	**1,000**
Socialized Housing	54,241	3,151	-
Economic Housing	2,970	381	-
HUDCC Total	**58,692**	**100**	**65**
Presidential Proclamation	35,000	30	-
Special Projects	23,692	70	-

Source of basic data: HUDCC and DBM

The HGC receives equity infusion from the NG owing to Republic Act 8763 or the Home Guaranty Corporation Act of 2000, which increases its authorized capital stock from P2.5 billion to P50 billion in a span of 50 years. The increase is directed toward strengthening its credit guaranty capacity. The Corporation, however, had a record of fund misuse when it illegally guaranteed and ended up shouldering P550 million worth of loans incurred by two private corporations that built 21 high-class villas at Subic, purportedly for delegates of the 1996 APEC meeting.[3]

Likewise, the NHMFC had a record of poor fund management. In the 80s and 90s, the home lending program it administered (Unified Home Lending Program or UHLP) suffered low collection efficiency. Its collection rate in 1985 was about 60% and tumbled to 55% in 1996. For this reason, the NHMFC was twice declared insolvent (first in 1985 and second in 1997). The year 1996 also marked a dark period in the history of the NHMFC when the UHLP funders (SSS, GSIS and Pag-IBIG) refused to contribute further to the UHLP, thus causing their abandonment of the program.

[3] Philippine Daily Inquirer, July 15, 1999.

In mid-1997, the NHMFC owed these big three government financing institutions some P42 billion worth of uncollected loans from homebuyers. As of late 2004, the Corporation has about P13 billion worth of bad loans (INS, 2004).

The NHMFC continues operating as collecting arm for the failed UHLP and as administrator of *Abot-Kaya Pabahay Fund* (AKPF) and Community Mortgage Program (CMP), variants of the government's social housing programs. The administration of AKPF and CMP, however, was already transferred to the Social Housing Finance Corporation (SHFC), a body corporate created via Executive Order 272 issued on January 20, 2004. The EO states that the SHFC shall be the lead government agency to undertake social housing programs that will cater to the formal and informal sectors in the low-income bracket and shall take charge of developing and administering social housing program schemes, particularly the CMP and the AKPF Program. .

The creation of the SHFC was a recommendation of the HUDCC to the President. The HUDCC saw the need for the NHMFC to devote full attention to its mandate to develop and provide a secondary market for home mortgages granted by public and/or private home financing institutions. Thus, it advised creation of the SHFC to handle the administration, management and development of the CMP and the AKPF Program, as well as other social housing functions of the NHMFC.

POLICY AND INSTITUTIONAL ISSUES

Rapid urbanization abetted by in-city migration and high population growth have indeed contributed to the perennial housing shortage. Beyond these, however, are policy and institutional factors that trigger the problem.

Undeveloped Rental Market. Government housing programs mainly emphasize homeownership. While most families would prefer homeownership, not all can afford it. Other households are more mobile and prefer renting to ownership. The rental could thus serve as a "staging area" for these families. However, the country has for many years pursued a rent control policy, supposedly to encourage the development of affordable housing for the lower income brackets). Up until this time, Congress has succeeded to extend such law (the latest being RA 9161) through series of legal amendments.

Studies have shown that while rent control is meant to protect residents from undue price increases, it harms far more citizens by driving out affordable housing and creating housing shortages. Data gathered by Tucker (Cato, 1997) from 18 North American cities revealed that

in cities without rent control, the available housing units are almost evenly distributed above and below the census median. In rent-controlled cities, most available units are priced well above the median. In other words, inhabitant in cities without rent control have far easier time finding moderately priced rental units than do inhabitants in rent-controlled cities. Likewise, there can be no doubt that rent control produces housing scarcity. Vacancy rates in rent-controlled cities have been below 7%. In cities without rent control, vacancy rates were above 15%.[4]

However, it is not only the citizens that bear the brunt of rent control but the government as well. With rent control, its income from real property tax decline. In a referendum held in selected places in the United States, property owners argued that the costs of rent control were being borne by other taxpayers. When landlords start losing money because of low rents, they are usually able to get their property assessments lowered. This leads to a general decline in property values in a rent-controlled city and thus less revenue going to the governments.

In the Philippines, a study by Ballesteros (PIDS, 2001) carried varied thoughts and findings about rent control. For one, Ballesteros doubted the assertion that rent control leads to a supply-demand gap. It is more probable, she said, that investors confidence on rental investment is dampened by property taxes, limited demand for "used" housing, which constrains financing for rental investments, and the possibility of being unable to capitalize on rising property values.

The study also showed that: 1) many poor and low-income households in Metro Manila have benefited from rent control; 2) the distributional effects of rent control are minimal since non-poor families have equal access to rent-controlled units; and 3) rent control results in higher rents for new and short-term tenants, smaller increases for sitting tenants leading to lower rents for long-stayers.

The study raised the need for rent control to be strictly enforced to be effective. Thus, government has to ensure that those who have access to these "low cost rental housing units" are the low-income sector. This, unfortunately, is hard to monitor given institutional weaknesses in identifying legitimate beneficiaries of subsidies. In this case, rent control becomes a poor mechanism for income transfers.

[4] William Tucker, "How Rent Control Drives Out Affordable Housing", Cato Policy Analysis No. 274, May 21, 1997.

High Cost of Land. The real property boom in the early 1990s has caused rapid increases in land prices. In Manila, the average annual housing price increase was computed at 32%, the highest among major cities in Asia *(see Table 11.7)*.

On the other hand, the cost of servicing raw land increases to five times its amount. In the outskirts of Metro Manila for example, the P60/sq m raw agricultural land rises by 2.5-3.0 times when zoned for urban use. When developed, it rises further by 5.3-6.7 times the zoned land price. The high, and at times exorbitant increases in land prices, is partly a result of undefined/conflicting land uses.

TABLE 11.7
RATE OF CHANGE IN HOUSING PRICE IN SELECTED ASIAN CITIES*, (ANNUAL)

COUNTRIES	Rate of Change (%)
Manila	32
Bangkok	26
Hong Kong	18
Singapore	6
Kuala Lumpur	14

**observed over the five-year period 1986-1990*
Source: United Nations Human Settelements as cited by Ballesteros.

Off-Target Subsidy. Housing subsidies leak to non-poor or least targeted beneficiary. A World Bank study has shown that about 95% of the beneficiaries of government housing assistance have been urban households (the majority of which are in the NCR). Rich and middle-income households have captured most of the assistance, with only 21% of the beneficiaries coming from the poor. A study by the Philippine Institute for Development Studies analyzing the income profile of the beneficiaries of housing programs validated this WB finding. It indicated that higher income households (or the non-poor) are the main beneficiaries of government subsidies *(see Table 11.8)*. This pattern is observed even in the case of community-based programs such as the CMP. Compared to other programs, CMP has the most number of low-income beneficiaries but middle-income beneficiaries comprise the bulk of households that benefit from the subsidy.[5]

[5] This portion benefited largely from Dr. Marife Ballesteros' study.

TABLE 11.8
INCIDENCE OF HOUSING SUBSIDIES
(% OF TOTAL BENEFICIARIES)

HOUSING PROGRAMS	Income Groups		
	Low	Middle	High
Unified Home Lending Program	38	33	29
Expanded Housing Loan Program	12	67	21
Community Mortgage Program	39	49	12
Group Land Acquisition and Development Program	17	56	27
Land Tenurial Assistance Program	27	54	19

Source: Ballesteros, 2002

MTPDP GOALS AND ACTION PLANS

The Medium-Term Philippine Development Plan 2004-2010 positions the housing sector to adopt a strategic framework anchored on a multi-stakeholder/tripartite market-based, private sector and LGU-led reforms and approaches the meet the goals of: 1) job generation; 2) shelter security for the different market segments; and 3) MDG of improving the lives of slum dwellers. It also places the sector as one that will work towards the decongestion of Metro Manila by developing new centers for communities outside the metropolis.

Thus, the MTPDP has lined up the following legislative agenda that are crucial to meeting the goals set for the country's housing sector:

- ***Operationalizing Social Housing Finance Corporation.*** This shall be the primary institution responsible for addressing the housing needs of the bottom 30% poor households. It shall have an authorized capital of P15 billion and shall enter into loans or issue bonds and other debentures to raise funds for housing construction.

- ***Instituting the National Land Use Policy.*** This shall integrate efforts, monitor development relating to land use and evolve policies, regulations and directions of land use planning processes. This policy shall also categorize land uses according to protection land use, production land use, settlements development and infrastructure development.

- ***Establishing Local Housing Boards in Every City and Municipality.*** The Board shall be tasked, among others, to ensure compliance with the 20% balanced housing requirement in the Urban Development and Housing Act (RA 7279), which

provides that in every housing development project, at least 20% of the units or project cost should be for socialized housing.

- ***Creating the Field of Land Title Insurance.*** This will help build confidence of financial institutions and individuals to proceed and deal with real property transactions, knowing that, should it later turn out that the title sold or mortgaged was a fake, the financial institution or individual will be reimbursed by the insurance company for the losses. If passed, this law will pave way for the development of the secondary mortgage market as it promotes investor confidence in mortgage-backed assets.

CONCLUSIONS AND RECOMMENDATIONS

Policy and institutional weaknesses have, to some extent, contributed to inefficient functioning of the country's housing sector, thus resulting in a relatively high unmet housing need. The rent control policy, for example, has dampened investors confidence to venture into low-supply but high-demand low to medium-income housing, thus restricting the growth of housing stock. Likewise, the existing subsidy mechanisms have led to substantial leakage of government support to the non-poor, thus rendering many of them still homeless or held up in dilapidated and doubled-up dwellings. While there may be other institutional shortcomings that may be inadvertently missed out in this chapter, it would do well the housing sector if Congress begins addressing some of these failings mentioned here. Following are the proposed measures that will certainly increase housing supply and pave way for an efficient government housing subsidy mechanism:

- Pursue/explore development of the rental housing market, thus allow any standing rent control policy to expire as scheduled.
- Establish a Housing Assistance Fund or Socialized Housing Fund as an on-budget subsidy mechanism that would replace the existing off-budget subsidy scheme, where even the non-poor can avail of below-market interest rates on mortgage loans.
- Pass a National Land Use Policy that will classify land according to protection land use, production land use, settlements development; and infrastructure development. This will ensure availability of land for housing development and stabilize undue or exorbitantly high land price increases.
- Set standards through the IRA that will ensure LGUs meet at least minimum goals for socialized housing programs for the poor and low-income households.

Chapter 12

CONCLUDING REMARKS

The national budget typically provides a clear statement of intent—often more accurate than the policies or plans on which they are based—about priorities and commitments that a government wants to adhere to. In this context, the President's 2006 proposed National Budget is sending a clear [and strong] signal that keeping the fiscal house in order still remains the top priority of the government.

Last year's ratings downgrade from international agencies had sharply and painfully underlined the critical need of achieving meaningful fiscal consolidation for enhancing stability and growth prospects over the medium term. Thus, reducing the fiscal deficit and public debt to manageable levels continues to be most urgent and critical task facing our country today, and raising fiscal revenues has been the government's main strategy for achieving this.

From a macro perspective, closing the fiscal gap will help raise the level of national saving, free up funds for investments, prevent a buildup of inflation expectations, reduce domestic interest rates, and restore investor confidence in the country's macroeconomic fundamentals. It will also enable the government to have enough fiscal space for key budget items such as infrastructure, education, health and other basic services.

Coming from a very difficult period of large and persistent fiscal overhang, the government embarked on aggressive campaign towards fiscal consolidation, by way of intensified tax administration and vital new tax measures as well as expenditure control. Overall, the impact of these reform measures has yielded positive results. The budget deficit stood at P146.5 billion for 2005, well below the target of P180 billion for the period and much lower than the

187.1 billion shortfall in 2004. This figure already represents one of the lowest budget shortfall since 2001. The nation has not had a balanced budget since 1997. In addition, netting out the interest payments in the expenditures, the government recorded a primary surplus amounted to P153.3 billion for the year or 107% higher than the amount recorded last year.

Both the equities and the foreign exchange market were buoyed as a result of the progress made on the fiscal front. The local equities market have gained while the peso was the best performing currency for 2005 and continues its upward streak this early 2006.

However, these matters should not divert our attention from the remaining challenges if we are to attain our fiscal targets over the medium term. Notwithstanding the full implementation of the expanded value-added tax this month, the government has to renew its commitment of protecting its revenues from being eroded by inefficiency and graft and corruption. Apparently, collection performance by the revenues agencies in 2005 has not been very encouraging. The two agencies—BIR and BOC—failed to gain significant revenue yields from recent measures, including the attrition law, the sin tax law, and the reformed value-added tax law.

Hence, continuing efforts towards fiscal consolidation must be pursued that will pave the way for additional reform measures that would further improve tax administration. Moreover, fiscal reforms should be effectively accompanied by structural reforms to boost growth prospects. Historical experience suggests that it is difficult to bring down deficits and public debt levels without an accompanying robust economic growth. This means that fiscal consolidation efforts are best undertaken within the larger context of a broad-based agenda of structural economic reforms that will help guarantee the continued growth of the economy.

Another important signal that the 2006 National Budget has underlined was about “alleviating the pain”—which reflects the government’s desire to create enough fiscal space in order to deliver political and social commitments.

At first glance, the proposed budget seems to reflect these intentions to give the economy a boost and deliver on its anti-poverty promises because of increases in allocation for economic and social services. A closer look, however, reveals that these increases are very minimal and in effect limits the funds that can be used to implement programs and projects under the MTPDP and the 10-Point Agenda.

In terms of sectoral expenditures, the following concerns and recommendations are worth highlighting:

- Notable increase in economic services signifies the government's effort to address the infrastructure backlog in the country. For 2006, more funds are expected to support flood control and highway projects, as well as, the construction and rehabilitation of ports and airports nationwide. Undertaking these projects can generate additional employment and can improve the investment climate in the country.

- While allocation for health and education increased in the 2006 budget, these represent a small percentage of the total GDP, compared to debt servicing. Public investments in education should be concentrated in basic education, especially in improving academic achievements in these levels up to the secondary level. Delivery of health services particularly to children and women in difficult situation, and the promotion of an effective population control program should also be addressed.

- Expenditure items in the social and economic sectors should also be prioritized based on economic and social benefits they generate. In the case of agriculture, resources should be allocated to improving its productivity through expanded irrigation, stronger research and extension system, and improved rural infrastructure and market accessibility. These impact positively on output and rural incomes.

- Government has adequate funding for its housing program since sources for this come from various government agencies, including local government units through their IRA. However, there is a lack of coordination among its agencies regarding the allocation of this fund that those who desperately need housing assistance are not benefited. Congress may look into establishing a Housing Assistance Fund that would replace existing off-budget subsidy scheme.

- Aside from improving the distribution of its budget to the social sector, government must also consider promoting certain policy reforms. These include the passage of vital legislation on land use, population management, rural infrastructure, and health delivery as well as institutional reforms in agencies that deal with these sectors.

Given the political environment, it is important to acknowledge that the government has signaled a strong commitment to fiscal consolidation by passing new tax measures while pursuing continued expenditure management. But it must be realized that such fiscal adjustments often entail short-term political and economic costs. Obviously, compressed

public spending is usually problematic when there are urgent social needs and serious infrastructure deficiencies that can impede long-term growth. Hence, better-focused expenditure targeting the sectors that need it most can be useful, as will an increase in the tax base and greater efficiency in tax collection

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