INCLUSIVE AND SUSTAINABLE GROWTH ASSESSMENT

A. Recent Growth, Poverty, Inequality, and Environmental Dynamics

1. Economic Performance

1. The gross domestic product (GDP) of the Philippines increased by 6.2% per year on average from 2011 to 2017, compared with average growth of 4.7% for the period 2000–2010. Such strong uninterrupted growth was achieved during a period of global economic stagnation and volatility. Structural reforms in support of monetary and fiscal stability and lessons learned from the painful boom-and-bust pattern of growth during the 1970s and 1980s helped lay the foundation for a more resilient economy. Domestic demand has been a key driver of this growth. Household spending benefitted from higher local employment, remittance inflows from overseas workers, and low inflation coupled with a low interest rate environment. Investments have overtaken household consumption as a main contributor to GDP growth in 2013, 2016 and during the first half of 2018. The investment to GDP ratio improved to 25.0% in 2017, the highest since 1983, though still behind those of Indonesia and Lao People’s Democratic Republic.

2. The average share to GDP of the service sector from 2011 to 2017 is 58.0% (Figure 1), followed by industry at 31.1% (of which manufacturing contributed 20.3%). Agriculture’s share at 11.0% is the lowest among the sectors, but still accounts for close to a third (29.8%) of total employment over the same period. Manufacturing’s share has decreased slightly since the 1960s and comprises only an average share of 8.3% of total employment from 2011 to 2017. Development literature has shown that moving labor resources from low to high productivity activities can be a key driver of overall growth. This translates to an increasing share of industry in total employment, based on the assumption that manufacturing and other industrial subsectors are more productive and therefore offer greater potential for output expansion than agriculture or some service subsectors. The Philippines in the past decades has largely skipped the development of the manufacturing sector. The services sector has dominated since the 1960s except for a short period in the 1970s, but at lower per capita incomes than other service economies, while the agriculture sector continued to decline in share. This is in contrast with the structural transformation in economies such as the People’s Republic of China (PRC), Malaysia, and Viet Nam, but similar to the pattern in India and Pakistan, which missed out the industrialization stage. This phenomenon raises the issue of labor productivity overall and the economy’s capacity to boost growth and sustain it beyond the current average growth of 6%. Low labor productivity implies low real wages, which partly explains the slow pace of poverty reduction.

3. The monetary and external policy environment provided the macroeconomic stability to keep the economy resilient amid global financial volatility. Bangko Sentral ng Pilipinas (BSP) provided effective measures to keep inflation largely within the preferred band, while keeping a market-determined peso exchange rate as a matter of policy. BSP’s participation in the foreign exchange market is limited to tempering sharp fluctuations in the exchange rate and closely monitoring its impact on domestic inflation. The current account provided a healthy surplus over the years, supported by transfers from remittances abroad and revenues from business process

---

3 ADB. 2013. Asia’s Economic Transformation: Where To, How, and How Fast? Special Chapter of the Key Indicators for Asia and the Pacific 2013. Manila. This report also cited the different structural pattern in Indonesia and Thailand, which both transitioned from traditional agriculture-based economy toward agribusiness (pp. 7, 12–13, 73).
outsourcing (BPO). Remittances from overseas Filipinos, at an equivalent of about 9.6% of GDP during 2011–2017, have been a consistent source of funds for household consumption and investments in housing, education, and health. Along with service exports (particularly from BPO), remittances have mitigated the merchandise trade deficit, as strong import demand—largely consumer and capital goods—has outpaced exports. The capital account provided some cushion, with steady increases in foreign direct investment and portfolio investments, although the latter has been subject to short-term volatilities. In addition, national government debt declined to 42.1% of GDP by the end of 2017, the lowest in over a decade, largely denominated in local currency.

4. Despite these gains, improving market competitiveness to reduce the country’s vulnerability to uncertainties in the global economy continues to be a challenge. The slowdown in global markets, including the Philippines’ top trading partners (the European Union, Japan, the PRC, and the United States), affects the performance of industry and services, including trade. The country’s exports are concentrated in a few products and markets; and domestic firms lag in technology and innovation processes. Most businesses are also exposed to natural hazards and are unable to manage the adverse effects proactively. The new administration is prepared to face these challenges and aims to increase spending on badly needed investments in infrastructure, health, and education; build the enabling environment for business, and efficient and sustainable agriculture; and support small and medium-sized enterprises.

2. Poverty

5. The national poverty incidence fell from 25.2% of the population in 2012 to 21.6% in 2015. The reduction of 3.6% over 3 years is the fastest poverty decline over the period beginning starting

---

2006—much more rapid than the 1.1% decrease recorded from 2009 to 2012. The subsistence incidence, or the proportion of the population whose income falls below the food threshold (which measures extreme poverty), fell by 2.3% from 10.4% in 2012 to 8.1% in 2015. Government poverty figures are corroborated by the Social Weather Stations (SWS) self-rated poverty survey results. The SWS reported that 44% of households felt poverty in 2016, a record-low annual average, surpassing the previous record of 47% in 1987.

6. Since 2009, 1.4 million poor people have been lifted above the poverty threshold, yet the current poverty rate translates to 21.9 million poor people. Challenges remain, especially since the country’s total population grew by nearly 9 million in just 5 years, a rate higher than some Association of Southeast Asian Nations (ASEAN) neighbors (Table 1). The population dynamics remain an important factor for the country’s persistently high absolute number of poor.

Table 1: Average Population Growth in Association of Southeast Asian Nations Countries and 2015 Population Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>1.4</td>
<td>1.4</td>
<td>258.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.1</td>
<td>1.7</td>
<td>31.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.9</td>
<td>1.7</td>
<td>103.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.6</td>
<td>0.4</td>
<td>67.5</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>1.2</td>
<td>1.1</td>
<td>92.7</td>
</tr>
</tbody>
</table>


7. High poverty continues to be recorded in some regions in the Visayas and Mindanao, with rates of more than 35%. Lack of and poor quality infrastructure have resulted in the inefficient delivery of services and have increased the costs of production and distribution of goods. This has also discouraged investments, which are needed for an economic area to compete. The vulnerability of these regions to disasters triggered by natural hazards, including extreme weather events and (in some areas) intermittent armed conflict, has negatively affected agricultural productivity, the predictability of rural incomes, and the stability of food prices.

3. Income Inequality

8. The income of the poor achieved the highest growth among all income groups. From 2012 to 2015, per capita income in the poorest 30% of the population grew by 24.3%. This growth exceeds the average for all income groups (15.8%) and is double the average for the richest 20% of the population (12%). The rise in the growth of nominal per capita income was accompanied by an easing of consumer price inflation, from 12.1% in 2009–2012 to 9.5% in 2012–2015, thus

---

7 In 2015, the national average poverty line was PHP 9,064 (about $199) per month for a family of five, while the average food threshold was PHP 6,329 (about $139). This translates to a poverty line of about PHP 60 ($1.32) per person per day, and a food threshold of just under PHP 42 ($0.92) per person per day. The average exchange rate was 1 PHP = 1.3252 in 2015. Food represents 70% of the total poverty threshold, with 30% allocated to non-food needs. Analysis of the spending pattern of the poorest 30% of the population shows that 60% of total expenditure goes to food, while the share of expenditure on food among the upper 70% of the population is just 39%.

8 Self-rated poverty is a bottom–up indicator, while poverty measures based on the government-determined poverty line are a top–down indicator. The SWS was established in 1985 as a private non-stock, nonprofit social research institution.

9 SWS. 2017. Fourth Quarter 2016 Social Weather Survey: Families rating themselves as Mahirap or Poor at 44%; Families Food-Poor at 34%. 18 January.
increasing real income faster in 2012–2015. The income gap—or the average income required by a poor family to cross the poverty line, when expressed as a share of the poverty line—fell from 26.2% in 2012 to 24.6% in 2015. However, while the Gini coefficient fell from 0.46 in 2012 to 0.44 in 2015, the degree of inequality in the Philippines is still higher than its Southeast Asian counterparts. 

4. **Job Creation, Youth Demographics, and Gender Issues**

9. Growth in services (e.g., tourism, BPOs, retail trade) and industry sectors (including construction and manufacturing) has supported job creation. However, while strong economic growth has led to a reduction in the unemployment rate, continued efforts to raise the quality of jobs needs to be prioritized. In January 2018, the unemployment rate improved to 5.3%, while a slight improvement was recorded for the underemployment rate—18.0% from 18.3% in 2016 and 18.5% in 2015. The underemployment rate translates to one out of every five employed persons still seeking additional jobs, which indicates a high number of laborers in informal employment, low labor productivity, and insufficient compensation. The agriculture sector, despite reported job losses in recent years, still accounts for a quarter of national employment (26.0% as of January 2018). Based on January 2018 data, the share of the manufacturing sector to employment slightly increased to 8.5%, while the share of services has fallen to 55.9%.

10. **Youth unemployment.** About 13.5% of youth aged 15–24 (males, 12.7% and females, 14.9%) are unemployed, more than twice the national unemployment rate. The jobless youth make up nearly half of all unemployed in the labor force. The challenge of finding work is particularly pronounced for those without post-secondary schooling—college graduates took about a year to find work and high school graduates took up to 3 years—where many drift into informal work, often part-time and poorly paid, or remain unemployed. Thus, one in four young people are not in employment, education, and training (NEET), the second highest in Southeast Asia behind Indonesia. The rapid growth in the tourism, BPO, and similar service industries in the Philippines partly explains the greater demand for college-educated workers. Among the youth, females have greater difficulty in finding work than males: 28.6% of young women against 17.1% among young men were NEET in 2015. High adolescent childbirth, which doubled over the past decade, has also kept young women from joining the labor force.

11. **Gender issues in employment.** While overall unemployment continues to be slightly lower among women (5.2% vs. 6.0% among men in 2017) except for the youth, a large gender gap of 27.2% persists in the labor force participation in favor of men (76.2% vs. 46.2% for women in 2017). Women are still largely responsible for and the main providers of unpaid care and domestic work. In 2015, women made up 90% of the economically inactive as a result of

---

10 On average, a poor family would need an additional ₱2,230 ($49) per month to move out of poverty.
11 Gini coefficients were lower for Indonesia (0.39), Viet Nam (0.38), Cambodia (0.31), and the Lao People’s Democratic Republic (0.38); World Bank, World Development Indicators.
12 PSA. 2018, Employment Situation in January 2018 (Final Results), Manila.
15 PSA. 2014, Philippines National Demographic and Health Survey 2013, Manila. One in ten young Filipino women aged 15–19 had begun childbearing.
16 Demographic Research and Development Foundation and University of the Philippines Population Institute. 2014. The 2013 Young Adult and Fertility Survey, Quezon.
17 These estimates were based on the results of the January, April, and July 2017 rounds of the labor force survey of the PSA and preliminary results of the October 2017 round.
household and/or family duties, which shows how gendered and disproportionate allocation of care and domestic work can constrain women’s participation in paid work.

12. Women, who relatively have higher education levels than men, enjoy an advantage in technical and service sector jobs, including public sector employment, tourism, and BPOs. Apart from these, however, many women who work are found in vulnerable employment as unpaid family workers (15.5% women against 7.7% men in 2014) or in occupations lacking decent work conditions (i.e., long working hours for minimal pay, with little social protection) and social mobility. About 42.8% of women workers can be found in the informal economy (compared with 36.3% of men), with many of them operating microenterprises that have very limited capital and low productivity. Women account for almost 68% of those engaged in unregistered or unregulated microenterprises in the country. The share of workers in vulnerable jobs and the gender gaps are generally higher in the Mindanao regions—e.g., 31.6% labor force participation rate for women in the Autonomous Region in Muslim Mindanao (ARMM) (footnote 13).

5. Launching Efforts to Achieve the Sustainable Development Goals

13. Contribution toward the Millennium Development Goals. While achieving notable progress in reducing extreme poverty, some goals fell short of targets. Highlights include:

(i) The prevalence of malnutrition has declined since 1990 but the 21.5% prevalence of underweight children under 5 years of age in 2015 remains short of the 13.3% target.

(ii) Targets for cohort survival and completion rates in primary schools fell short. In 2015, cohort survival was recorded at 87.1%, while the completion rate reached 83.4%. The quality of education still needs to be improved.

(iii) Significant gains have been achieved in empowering girls and women. Girls consistently have higher rates in school participation, cohort survival, and completion. The proportion of elective seats held by women has also increased to 27.2% in 2015, although it is far from the desired 50%.

(iv) Infant and under-five mortality rates have been reduced considerably. Nevertheless, the reduction in maternal mortality (114 deaths per 100,000 live births – modeled estimate 2015) remains an unfinished agenda as the country was not able to achieve the target of reducing the maternal mortality ratio to 52 by 2015. Only 87% of the births in 2014 were attended by skilled health personnel versus the 100% target. While the total fertility rate has been decreasing, a rising trend in teenage pregnancy and delivery has been observed (para. 10).

(v) Morbidity (i.e., sickness) and mortality rates associated with malaria have improved. The incidence, prevalence, and mortality rates associated with tuberculosis (TB) remain a serious challenge; and the Millennium Development Goal (MDG) target of zero cases appears unlikely to be met. The most recent data available record cases associated with TB at 322 (2015 data) for morbidity and 24

---


20 PSA. The Philippines MDGs. Statistics at a glance of the Philippines’ Progress based on the MDG indicators, as of November 2017, with updated indicators from the World Bank’s World Development Indicators (accessed 13 August 2018).

21 Cohort survival is the percentage of enrollees at the beginning grade in a given school year who reached the final grade of the level.

(2013 data) for mortality. The number of new HIV cases has been increasing, although prevalence is estimated to be less than 1%.

The country surpassed its 83.8% target of increasing the proportion of families with access to basic sanitation to 93.7% in 2015. However, the proportion of families with access to safe water supply only reached 82.8% in 2015, short of the 86.5% target.

14. Since the adoption of the 2030 Agenda for Sustainable Development in September 2015, the government and its partners have made efforts to build awareness and engage stakeholders in the new agenda, supporting the 17 Sustainable Development Goals (SDGs). Initiatives are being taken by policy makers and stakeholders to provide the policy and enabling environment for SDG implementation, particularly on securing commitments to incorporate SDGs into the national framework, improve indicators and data, and develop institutional mechanisms. SDGs are embedded in the country’s long-term vision and goals; and are being integrated into the national, sector, and subnational plans and frameworks.

15. **Challenges.** Continuous efforts will need to be taken in filling up gaps in available data, disaggregated information, common definition of terms, alignment of indicators across SDG goals, and measurement methods for some indicators.

6. **Environment, Climate Change, and Disaster Risk Issues**

16. **Climate and disaster risks.** With its location in the tropics along the western rim of the Pacific Ring of Fire and the Pacific typhoon belt, the Philippines is at high risk from climate change and natural hazards such as typhoon, flood, storm surge, landslide, earthquake, volcanic eruption, and drought. The country experiences significant disaster-related losses, affecting communities and the local and national economy. From 2000 to 2016, natural disasters in the Philippines caused over 23,000 deaths and affected about 125 million people. The associated socioeconomic damage was about $20 billion, with average annual damages of $1.2 billion. This includes the effects of Typhoon Yolanda in 2013, which resulted in more than 12.2 million people affected and damage and losses amounting to $12.9 billion.

17. The frequency of disasters is positively correlated with poverty, as communities living in typhoon- and flood-prone areas are highly vulnerable to chronic poverty. The national poverty incidence was estimated to increase by as much as 3% in 2009 in the most affected areas of Luzon and 0.5% nationwide following Typhoons Ondoy and Pepeng. With climate change, an increase in temperature, coupled with changes in precipitation patterns and hydrological regimes, is expected to exacerbate the country’s existing vulnerabilities, threatening sustainable development.

18. **Sector impact.** The effects of climate change and disasters progressively impact sectors that are strategically important for economic growth—such as agriculture, water resource management, and infrastructure. Disasters, mainly typhoons, are estimated to have damaged

---


over 6 million hectares of crops during 2006–2013, with total damage and loss estimated at $3.8 billion.\textsuperscript{28} Infrastructure and urban development are likewise impacted by disasters. Typhoons Ondoy and Pepeng caused damage and loss in the transport sector amounting to $159.8 million. Intense rains caused extensive flooding in urban areas, especially during Typhoons Ondoy and Pepeng, which largely affected business operations through power and water shortages; damaged machinery; damaged or lost inventories, raw materials, and crops; and absent employees.\textsuperscript{29} The impacts are increased because of limited advance financial planning for post-disaster response at both the national and subnational level to provide timely relief and early recovery and reconstruction interventions—increasing the indirect and secondary social and economic consequences of direct physical damage.

19. **Increasing climate and disaster risk.** Disaster and climate risk in the Philippines will increase in the near and medium term. This is largely due to improper development, which leaves communities at risk by increasing their exposure and vulnerability to natural hazards. For example, rapid urbanization has resulted in environmental degradation and the proliferation of unplanned and informal settlements, often in hazard-prone areas. The deficit in urban infrastructure (such as water supply, sanitation, flood control, and solid waste management systems) has aggravated the vulnerability of urban areas to hazards including recurrent flooding, sea-level rise, and land subsidence.\textsuperscript{30} The increased risk to floods and landslides is partly due to unrestrained illegal logging, mining, shifting cultivation, and land conversions. Forest cover declined from 17 million hectares in 1934 to approximately 7 million hectares in 2010. The vulnerability to storm surges and sea level rise has increased because the country’s coastline—one of the longest in the world—has become bare from decades of mangrove destruction. Aquaculture and commercial fish farming, human settlement, and economic infrastructure have reduced mangrove cover in the Philippines from 500,000 hectares in 1918 to 263,137 hectares in 2010. Moreover, changing spatial and temporal hazard patterns accompanying climate change will affect the population, especially the poor and vulnerable, with impacts resulting in loss of assets, income, and food security. Among the poor, women are particularly vulnerable to the impacts of climate change and disasters because of social and economic factors. Thus, if efforts to reduce poverty and increased development in the Philippines are to be sustained, investments across sectors—agriculture, water resources, transport, energy, urban development, social protection, and finance—should factor in climate change and disaster risk considerations.

20. **Progress in strengthening resilience.** The government has undertaken proactive measures for strengthening climate change and disaster resilience by putting in place legislative, policy, institutional, and financing mechanisms. The passage of the Climate Change Act, 2009 and the National Disaster Risk Reduction and Management Law, 2010 form the basis for the development of policies, plans, and investments to strengthen climate and disaster resilience through different sectors and to strengthen the institutional setup for climate change and disaster risk management at the local government level. To steer growth in a resilient manner, government has undertaken initiatives to put in place policy frameworks to embed climate change and disaster risk considerations in comprehensive land use planning and development planning processes. On disaster risk financing, government is identifying strategic priorities for forecasting financial instruments for national, local, and individual levels. However, challenges exist in the implementation of the policies and strategies, largely because of the lack of availability and understanding of climate change and disaster risk information, inadequate capacity for

\textsuperscript{28} Food and Agriculture Organization of the United Nations. 2015. *The Impact of Natural Hazards and Disasters on Agriculture and Food Security and Nutrition. A Call for Action to Build Resilient Livelihoods.* Rome.

\textsuperscript{29} World Bank. *Philippines: Typhoons Ondoy and Pepeng Post Disaster Needs Assessment: Executive Summary.* Washington, DC.

mainstreaming of resilience considerations in sector and local development processes, limited investments in climate change adaptation and disaster risk reduction, and limited investments in developing a comprehensive suite of disaster risk financing instruments targeting all levels.

B. **Key Impediments to Inclusive and Sustainable Growth**

21. Judging by the country’s global competitive index, the Philippines has enjoyed an upward trend since 2009. Where it ranked 87 among 140 countries in 2009, the country was ranked 56 out of 137 countries in the 2017–2018 Global Competitiveness Report.\(^{31}\) Notwithstanding this marked progress, challenges remain in key areas that include infrastructure, peace and order, disaster preparedness, gender, energy, access to credit, as well as sustained fiscal policy and good governance.

1. **Infrastructure Constraints**

22. Insufficient infrastructure inhibits the country’s ability to meet the needs of a fast-growing economy in all its regions. High attendant economic costs arise from “insufficient capacity relative to demand, poor connectivity, and low quality.”\(^{32}\) Based on the National Economic and Development Authority (NEDA) updated Comprehensive and Integrated Infrastructure Program, 2013–2016 and beyond,\(^{33}\) investment funding requirements on over 3,500 identified projects total ₱7.27 trillion. As the country continues to experience severe infrastructure deficits brought about by decades of underinvestment—less than 3% of its GDP in infrastructure spending compared with the 5%–9% average of its Asian neighbors—inadequate transport, communication, water, and energy infrastructure will continue to inhibit the development of existing industries and limit the country’s ability to attract needed investments compared with other countries in the region (Table 2).\(^{34}\)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Viet Nam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of roads</td>
<td>64</td>
<td>23</td>
<td>104</td>
<td>2</td>
<td>59</td>
<td>92</td>
</tr>
<tr>
<td>Quality of railroads</td>
<td>30</td>
<td>14</td>
<td>91</td>
<td>4</td>
<td>72</td>
<td>59</td>
</tr>
<tr>
<td>Quality of ports</td>
<td>72</td>
<td>20</td>
<td>114</td>
<td>2</td>
<td>63</td>
<td>82</td>
</tr>
<tr>
<td>Quality of air transport</td>
<td>51</td>
<td>21</td>
<td>124</td>
<td>1</td>
<td>39</td>
<td>103</td>
</tr>
<tr>
<td>Available airline seat kilometers</td>
<td>14</td>
<td>23</td>
<td>27</td>
<td>21</td>
<td>15</td>
<td>28</td>
</tr>
<tr>
<td>Quality of electricity supply</td>
<td>86</td>
<td>36</td>
<td>92</td>
<td>3</td>
<td>57</td>
<td>90</td>
</tr>
<tr>
<td>Fixed telephone connectivity</td>
<td>104</td>
<td>71</td>
<td>105</td>
<td>27</td>
<td>91</td>
<td>96</td>
</tr>
<tr>
<td>Mobile telephone connectivity</td>
<td>18</td>
<td>28</td>
<td>88</td>
<td>23</td>
<td>5</td>
<td>44</td>
</tr>
<tr>
<td>Overall</td>
<td>68</td>
<td>21</td>
<td>113</td>
<td>2</td>
<td>67</td>
<td>89</td>
</tr>
</tbody>
</table>


23. Since 2011, higher revenues generated from strong private sector growth and improved tax collection have not led to stronger government spending. Despite budget increases, government spending rose only slightly from 16.0% of GDP in 2011 to 16.8% of GDP in 2015. Based on a previous target of 5.1% of GDP by 2016, infrastructure spending reached 4.5% of GDP.

---


\(^{34}\) Public infrastructure spending averaged 2.1% of GDP during 2011–2015. Government of the Philippines, Department of Budget and Management (DBM). *National Government Disbursement Performance, as of December 2016*. 
GDP in 2016 but improved to 5.4% of GDP in 2017.\textsuperscript{35} Slow growth in infrastructure spending is partly due to structural weaknesses of key government agencies in planning, program and project design, and procurement.

24. As the country works toward bridging this investment gap, increased infrastructure investments will be needed. Limited budgetary resources relative to projected infrastructure needs and limited availability of long-term financing instruments have been identified as key constraints. Increasing the government’s ability to generate sustainable sources of financing for the country’s investment requirements will supplement ongoing efforts to increase private sector participation and open opportunities to integrate better into regional markets.

2. Wide Regional Disparity

25. Analysis of growth and poverty trends across the country’s regions exposes wide disparities that highlight areas where increased attention may be directed.\textsuperscript{36} Marked improvements were noted in the Davao region (where poverty fell by 8.7% from 2012 to 2015) and Soccsksargen (the provinces of Cotabato, North Cotabato, Sarangan, and Sultan Kudarat, where poverty fell by 7.4%). Faster growing regions have the least number of poor. In contrast, ARMM (53.7%) and Eastern Visayas (38.7%) continued to account for the highest poverty incidence in 2015.

26. Apart from Negros Oriental, the poorest areas of the country are those frequently hit by typhoons and those with peace and order concerns (Figure 2). If no measures are taken to address poor and insufficient connectivity infrastructure, limited access to social services, and weak governance, the cycle of insufficient growth, low investments, and vulnerability will likely persist in these provinces.

3. Human Development Constraint

27. To reconcile strong economic growth with positive gains in poverty reduction, persistent and transient forms of poverty must be minimized. Transient forms of poverty refers to the large number of non-poor that are highly vulnerable to falling back into poverty because of income and price shocks, health-related shocks, as well as current and future shocks and stresses stemming from climate change and disasters. A 2013 study on income volatility found that 19.3 million or 23.5% of Filipinos were vulnerable to shocks, resulting in their moving into and out of poverty.\textsuperscript{37}

28. Lifting the rate of wage employment growth is critical to reduce vulnerabilities and provide opportunities for a more stable source of income. Access to quality education, particularly at the secondary level, continues to be a key constraint to creating a competitive workforce. National net enrollment rates for secondary schools, while improved, remain low at 68.2% in 2015. Improved cohort survival rates for secondary schooling still indicated that about 21% of students dropped out nationally (average 2010–2014 data). Underinvestment in education is greater in Western Mindanao and ARMM. In 2015, this is reflected in the decline of net enrollment rates for secondary schools in ARMM, which regressed to 32.4% in 2012 from 37.2% in 2010.\textsuperscript{38} The slow

\textsuperscript{35} Based on obligations recorded by the DBM.
\textsuperscript{36} Regional compositions are described in PSA. Philippine Standard Geographic Code. List of Regions.
school-to-work transition for young high school graduates reflects weak links between the education and training systems and the labor market. It also reflects a widening skills mismatch arising from labor market transformation, as employer demand continues to shift toward hiring college-educated and highly-skilled workers. Other challenges include ensuring sufficient schools, as well as full immunization and deworming, and universal access to sexual and reproductive health services, including information and education, especially for young women.

**Figure 2: Geographic Dimension of Poverty—20 Poorest Provinces, 2015**

<table>
<thead>
<tr>
<th>Province</th>
<th>Poverty Incidence (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lanao Sur</td>
<td>71.9</td>
</tr>
<tr>
<td>Maguindanao</td>
<td>57.2</td>
</tr>
<tr>
<td>Northern Samar</td>
<td>56.2</td>
</tr>
<tr>
<td>Saranggani</td>
<td>55.2</td>
</tr>
<tr>
<td>Sulu</td>
<td>54.9</td>
</tr>
<tr>
<td>Bukidnon</td>
<td>53.6</td>
</tr>
<tr>
<td>Siquijor</td>
<td>52.9</td>
</tr>
<tr>
<td>Zamboanga del Norte</td>
<td>51.6</td>
</tr>
<tr>
<td>Sultan Kudarat</td>
<td>48.0</td>
</tr>
<tr>
<td>Agusan del Sur</td>
<td>47.3</td>
</tr>
<tr>
<td>Western Samar</td>
<td>46.9</td>
</tr>
<tr>
<td>Eastern Samar</td>
<td>46.3</td>
</tr>
<tr>
<td>Masbate</td>
<td>45.4</td>
</tr>
<tr>
<td>Negros Oriental</td>
<td>45.0</td>
</tr>
<tr>
<td>Lanao del Norte</td>
<td>44.3</td>
</tr>
<tr>
<td>Catanduanes</td>
<td>43.4</td>
</tr>
<tr>
<td>North Cotabato</td>
<td>41.4</td>
</tr>
<tr>
<td>Sorsogon</td>
<td>41.3</td>
</tr>
<tr>
<td>Occidental Mindoro</td>
<td>41.2</td>
</tr>
<tr>
<td>Surigao del Sur</td>
<td>40.1</td>
</tr>
</tbody>
</table>

*Note: The top 20 poorest provinces are shaded in orange with degrees of darkness that correspond to poverty incidence in their population.*

Source: Philippines Statistics Authority

4. **Institutional and Policy Challenges**

29. The government’s public financial management (PFM) system is characterized by tasks being distributed among several oversight agencies in a manner that is unusual by international
standards. For instance, the dual external auditing and accounting roles of the Commission on Audit are considered conflicting, while the division of tasks (e.g., fiscal, budgetary, cash, and debt management) between the Department of Budget and Management (DBM) and the Department of Finance overlap.39 In September 2016, the government responded to this challenge by establishing a Public Financial Management Committee to oversee the implementation of the Philippine PFM reform road map, 2011–2015.40 The comprehensive PFM reform agenda aims to clarify, simplify, improve, and harmonize the financial management processes and information systems of the Philippines’ civil service.

30. The reform program has strengthened the capacity of central agencies such as the DBM in budget development and transparency, but this has not been matched by reform improvements in the capacity of line agencies to provide accurate and timely reporting. Urgent reforms associated with technology need to increase substantially in scope to enable line agencies to manage financial transactions in compliance with regulations and budget intentions and to obtain real-time financial reporting in line with service delivery requirements.

31. **Local governance and service delivery.** Intergovernmental relationships under the Local Government Code of 1991 have been hindered by the tendency of the national government to use the intergovernmental fiscal system to foster patronage connections with local governments. Implementation of the code has not adequately clarified service delivery roles and responsibilities between the national government and local government units (LGUs), leading to claims that unfunded mandates for LGUs had been multiplying whereas the current 40% LGU share in national internal revenues (known as internal revenue allotment) is unchanged.41 The internal revenue allotment has also been criticized for two main problems: (i) failure to equalize revenue across LGUs, at the expense of poorer municipalities and provinces in comparison with comparatively wealthy urban areas; and (ii) acting as a disincentive to local revenue generation.

32. **Accountability.** The government has taken important initiatives to professionalize PFM within the LGUs. Reforms include (i) increased transparency and accountability through the enactment of the Full Disclosure Policy;42 (ii) improved budget planning based on performance indicators, monitored in part by civil society; and (iii) establishing performance-based competitive incentive structures (i.e., the Performance Challenge Fund) for good local governance in financial management. Opportunities to build on these reforms have been identified. The process of unifying budget documents and methodologies should be formalized across the national and local governments, and the bottom–up budgeting process must be expanded. Specific guidelines are required to harmonize budget priorities and investments at the national level with those of the LGUs. In addition, the government needs to continue building its system for electronic disclosure to provide stakeholders with the tools to monitor and evaluate the effectiveness of local budgeting, and the responsiveness of local policy makers. Government efforts must be elevated in providing civil society with more sensitive feedback mechanisms and to raise the capacity of local officials to implement these reforms. In particular, efforts to ensure that women benefit from the reforms and participate in the process should be increased by all stakeholders.

---


41 For example, devolved functions such as road repair and maintenance and health and social services now form part of LGU deliverables.

42 In July 2016, the Office of the President issued *Executive Order No. 2, s. 2016*, which mandates freedom of information to enhance transparency and accountability in the executive branch.
5. Challenges to Social Protection and Poverty Reduction Programs

33. While the country has improved in protecting the poor from various risks and shocks through a convergence of livelihood and social protection programs managed by the government, opportunities remain to expand the reach of government’s efforts. The country’s current conditional cash transfer program, the Pantawid Pamilyang Pilipino Program (4Ps), is being implemented nationwide, covering more than 4.4 million poor households from nearly 1,500 municipalities in 80 provinces receiving bimonthly cash payments in return for compliance with conditionalities on health and education. By design, however, the 4Ps provides social protection only to families with children, leaving many other poor people without support. It will be important to consider the development of other social protection options to reach a wider range of working age adults (particularly vulnerable elderly people), as well as alternatives that address current and future vulnerabilities from climate change and disaster-related shocks and stresses. Some challenges faced by the 4Ps are linked to education and health sector supply-side issues, while others may be a result of families not fully appreciating the importance of conditions and/or prevailing religious beliefs and social norms. To ensure the effectiveness of program delivery, active coordination with other government line agencies (e.g., departments of education and health) will be needed to strengthen family development sessions.

34. Despite the increased enrolment of the poor in the national health insurance program (PhilHealth), their use of the covered health services remains low compared with the non-poor. Other challenges include (i) the lack of a targeting mechanism that identifies the vulnerable (as opposed to the poor) and the risks they confront; (ii) limited social protection for the informal sector, persons with disabilities, orphans, and indigenous cultural communities; and (iii) the need to strengthen LGU capability to implement disaster risk reduction strategies and deliver social protection services.

35. Financial inclusion in the Philippines remains low. Only 31% of adults held an account at a formal financial institution in 2014, compared with 36% in Indonesia, 78% in Thailand, and 81% in Malaysia. Lower income households are disproportionately excluded, with only 18% of adults from the bottom 40% income quintiles holding an account at a formal financial institution. The constraints to increased financial inclusion relate to institutional and policy impediments to access finance, incomplete financial infrastructure, and the limited scale and outreach of financial service providers (microfinance nongovernment units and rural banks). The lack of Islamic financial services, particularly in Mindanao, is a barrier to inclusion for a large segment of the population in that region.

36. **Gender equality challenges.** The Philippines ranks 10th among 144 countries on the Global Gender Gap Index and is the highest performer in the region. Nevertheless, gender issues remain in employment (paras. 11–12) and other important areas. Limited access to sexual and reproductive health services is a major issue, especially for youth and poor women living in rural areas. Maternal mortality continues to be high. Implementation of the Reproductive Health Law, 2012 has been weak and has faced legal challenges and resistance. Progress has been slow in contraceptive prevalence (54.3% in 2017) and total fertility (averaging 2.7 births per woman) rates, compared with most countries in the region. Another area of concern is the sharp

---

increase in the number of new HIV infections reported since 2008, with men accounting for most new cases reported.\textsuperscript{47} Gender-based violence persists. One in five women aged 15–49 years has experienced physical violence, with their current husband or partner identified as the main perpetrator, and 6.3\% of women in the same age group have experienced sexual violence since age 15. In 2015, a total of 10,298 incidents of rape were brought to the police, which is equivalent to an average of 28 persons being raped in a day.\textsuperscript{48}

C. Implications for ADB Country Engagement

1. Government Strategies and National Target

37. Legislative reforms that improve the country’s enabling environment for more progressive growth are being prioritized. The Philippine Competition Act (Republic Act No. 10667) was signed into law in 2015 to enhance economic efficiency through free and fair competition; prevent the economic concentration of production, distribution, trade, or industry of products and services; and penalize all forms of anticompetitive arrangements that run counter to consumer welfare and trade development. The act also established the Philippine Competition Commission, which is mandated to implement the national competition policy and enforce this law. Other government issuances like the Go Negosyo Act (Republic Act No. 10644) and Magna Carta for Micro, Small and Medium Enterprises (Republic Act No. 9501) also serve to provide enterprises access to financing, technology, information, and markets.

38. Public–private partnership (PPP) development has been a major government strategy to address the country’s infrastructure requirements. Government reforms in this area have sought to address issues on project planning and implementation. Recent efforts have focused on (i) institutionalizing an adequate legal and regulatory framework; (ii) building capacity in government agencies and the PPP Center; and (iii) providing financial support measures, such as the Project Development and Monitoring Facility and viability gap fund, which have been largely effective, resulting in several projects awarded.

39. On 11 October 2016, President Rodrigo Duterte issued Executive Order No. 5 approving AmBisyon Natin 2040 as the 25-year long-term vision to guide development planning in the Philippines,\textsuperscript{49} aiming to triple real per capita incomes and eradicate hunger and poverty by 2040 or sooner. To achieve this goal, economic growth must be relevant, inclusive, and sustainable. It will require increased competitiveness and resilience of its enterprises by offering quality and affordable goods and services across all sectors and regions, improved access to quality health services and education, and a high-trust society where citizens feel secure from uncertainties brought about by hunger, poverty, or natural disasters.

40. The Philippine Development Plan (PDP), 2017–2022 fleshes out the Duterte Administration’s 0+10 point socioeconomic agenda into strategies, targets, and supporting policies and programs.\textsuperscript{50,51} The PDP’s three pillars are Malasakit (enhancing the social fabric),

\textsuperscript{47} Government of the Philippines, Department of Health. 2018. HIV/AIDS and Antiretroviral Therapy (ART) Registry of the Philippines (February). Manila.
\textsuperscript{51} The 0+10 point socioeconomic agenda tackles crime, illegal drugs, and other security issues; continuing current macroeconomic policies; instituting progressive tax reform and effective tax collection; increasing competitiveness and ease of doing business; accelerating infrastructure spending; promoting rural and value chain development;
Pagebabago (inequality reducing transformation), and Patuloy na Pag-Unlad (increasing growth potential). These will be supported by a strong foundation that will aim to establish just and lasting peace; security, public order, and safety; strategic and accelerated infrastructure development; and ecological integrity and a clean and healthy environment. The government’s aim to sustain the economy’s high level of growth will require increased infrastructure development, a productive citizenry that is responsive to market needs, enhanced capacity of the government to finance and manage development initiatives, progressive reforms to boost private investment, high-quality and affordable education, and an emphasis on science and technology. Investments in physical and human capital will be underpinned by an inclusive financial sector and strong governance and institutions.

41. Increased infrastructure investments lead to stronger growth in demand for construction-related products such as basic metals, fabricated metal products, and transport equipment. A resurgence in manufacturing will drive industry growth in the medium term. The logistics subsector will also benefit, with increased demand for transport and other related services. Improved connectivity will facilitate the movement of products and people, including tourists, within the country. The growing global interest in Asia provides an opportunity to attract investors to the country, which will expand production and trade in both exports and the growing domestic market.

2. Evolving Role of Development Partners

42. The total official development assistance (ODA) portfolio in the Philippines as of December 2016 amounted to $15.6 billion, consisting of 66 loans worth $12.21 billion (78% of the total portfolio) and 400 grants worth $3.39 billion (22% of the total). Japan was the biggest source of loans, with a 45% share ($5.47 billion) of the overall loan portfolio, followed by the World Bank with 25% ($3.04 billion) and the Asian Development Bank (ADB) with 24% ($2.88 billion). For ODA grants, the three leading providers were the United States with 40% ($1.3 billion), Australia with 25% ($824 million), and the United Nations system with 11% ($382 million). In terms of loan sector distribution, infrastructure had a 56% share, social reform and community development had 22%, and governance and institutions development had 13%. With respect to grants, the social reform and community development sector received a 36% share, while the governance and institutions development had 25% and infrastructure development had 17%.

43. With the new administration placing high priority on public infrastructure projects such as national roads, expressways, bridges, airports, subways, and railways, ODA will play an important role in improving the effectiveness and efficiency of public goods and services delivery. With recent large ODA pledges from the PRC and the Government of Japan, the government is gearing up to fast-track public infrastructure project preparation and expand its PPP program.

---

52. Comprising concessional assistance from the United States Agency for International Development and the Millennium Challenge Corporation.


54. In January 2017, Japanese Prime Minister Shinzo Abe pledged $8.66 billion of aid to the Government of the Philippines for national public infrastructure projects, on top of $15 billion of soft loans offered by PRC President Xi Jinping in October 2016.
3. **ADB Support to the Philippines**

44. **Lessons.** Improved macroeconomic fundamentals, along with conducive policies and reforms, played a major role in establishing the Philippines among the fastest-growing economies in Southeast Asia. In the medium to longer term, the Philippines aims to become an upper middle-income and, eventually, a high-income country. To achieve this goal, the country’s strong economic performance needs to leverage its relatively young population to generate a large pool of highly-skilled and motivated workforce as the main engine of a deeper, knowledge-based economy, with higher labor productivity.

45. Improved economic performance, combined with better governance, has underpinned progress in reducing poverty. While overall poverty has declined substantially, poverty incidence remains elevated in some regions, especially in Eastern Visayas and Mindanao. ADB’s efforts need to be increased and sustained by building on recent programs that improve the inclusiveness and sustainability of growth. ADB also needs to direct its attention toward ensuring that all regions benefit from growth and that their comparative advantage and potential are tapped to increase economic growth while reducing regional disparities.

46. Lastly, continued alignment of ADB’s next country partnership strategy with the new PDP—and close collaboration between ADB and government agencies in identifying sector focus and investment selectivity in annual business planning—will help improve aid effectiveness. ADB policy engagement and knowledge sharing with all stakeholders will also help identify bottlenecks and corresponding action plans to accelerate growth in investment and employment.

47. **Next steps.** ADB will continue to support the government’s priorities to achieve high growth rates, reduce regional disparities, and address income inequality. In the near term (2018–2023), ADB will continue and expand its support for the government’s reform agenda, including efforts to increase revenue generation; streamline infrastructure investment identification, preparation, implementation, and monitoring; enhance secondary education; strengthen employment services; and improve local government service delivery. ADB will also prioritize support for local economic development, especially in Mindanao and the Visayas; support local government capacity strengthening; and maintain assistance with social protection and community development programs that will focus on disaster-affected areas. ADB will continue to support the government in its efforts to achieve gender equality through effective mainstreaming of gender targets, where relevant, in its operations. ADB will explore every opportunity to complement its sovereign lending program with private sector participation modalities that will include PPPs, joint ventures, and project finance to fill financing gaps and increase access to finance for development initiatives in the country. ADB adds value with its operations through its continued support to the generation and dissemination of knowledge solutions.

48. ADB will continue efforts to maintain substantive engagement with key government counterparts to (i) appreciate the political realities related to designing and implementing policy and institutional reforms, (ii) overcome obstacles related to the delivery of specific projects, and (iii) help raise the visibility of ADB engagement with successful initiatives.