CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

AN ANALYSIS OF THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2007

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PART 1

MACRO ASSESSMENT OF THE PRESIDENT'S BUDGET

Chapter 1

Framework and Organization of the Report

In her 2007 Budget Message, the President conveyed that the government is pursuing a three-phased economic turnaround plan. The first phase focused on stabilizing the budget through fiscal reforms: securing increased revenue through better tax and customs administration, and increasing the VAT and other taxes. The President underscored that the government has already achieved the objectives of the first phase and the economy is well into the second phase, which seeks to take advantage of the improved economic conditions to make the long overdue investments in infrastructure, education and health care, among others. The third phase, marked by increased attention on natural environment, envisions the country joining the ranks of first-world nations.

The aim of the second phase, according to the President that was also articulated in the State of the Nation Address, is the development of "super regions" that will serve as catalyst in spreading progress in all areas of the country. However, realizing this would depend largely on the approval of the 2007 budget that will enable the National Government to make up for its under-spending due to a re-enacted budget.

For the Fiscal Year 2007, the President proposed an obligation budget of P1,126.3 billion. This amount consists of P825.0 billion New Appropriations and P368.3 billion Automatic Appropriations (net of Internal Revenue Allotment). The government has committed to tame the deficit at less than one percent of gross domestic product (GDP) in order to set a balanced budget by 2008.

However, the objective of providing more funds for infrastructure and social services while keeping the fiscal house in order puts additional pressure on the budget and beyond. The economy has not really overcome the fiscal situation wherein debt service has been impinging on meager funds for vital social and economic services.

Studies have documented the extent to which servicing interest payments adversely impacts on the provision of social services by the government. Aninat (UNDP, 2006) has shown that per capita social expenditure in the Philippines has fallen 17% when average 1997-2000 values is compared with average 2001-2005. The analysis points out that 72% of the said reduction in per capita social spending can be explained by the fall in total expenditure after interest payments. Other contributory (explanatory) factors include the total government expenditure as a percent of GDP and a decline in per capita GDP.

Since 2001, interest payments comprise more than 30% of government revenues and principal payments require more than P300 billion yearly in new borrowings. This means that less resource can go to vital spending for poverty alleviation programs under the MDG and the general administration of governance. This also means that the government will be forced to borrow substantially or constrict expenditure drastically. Both methods, however, will encroach on the vital spending for MDGs.

From a proposed obligation budget of P1,126.3 billion for 2007, an amount of P328.7 billion is allotted for interest expense (excluding principal amortization of P303.8 billion). Still, government has to raise about P98.7 billion to finance the resource gaps in implementing the MDGs for 2007 (Lim, et. al., 2006).

This underscores the need to sustain reforms especially on the fiscal area to ensure the continued increase in revenue collection and the prudent and efficient use of the budget. To facilitate these reforms, government should adopt a budgeting approach that would strengthen the link between policy priorities and longer-term spending plans, improve expenditure allocation and control, and ensure predictability of funds for priority programs and projects. One such measure is the formulation of a budget strategy paper that if crafted properly will inject longer-term policy and strategic focus in generating and implementing the yearly budget. It will also commit decision-makers to a sustainable fiscal policy and to a clear set of sectoral priorities.

The national budget could be an effective instrument for realizing 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 economic turnaround plan spells out the government's priorities that should find support in the allocation of the national budget.

Part 1 of the report is principally 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 internal and external risks factors on the fiscal targets. It also presents alternative fiscal scenarios arising from different sets of macroeconomic projections. Chapter 3 on government revenues examines in detail the composition of national government revenues and explains the reasons behind the slight improvement in the current revenue performance. It also assesses the likelihood of meeting the government's targeted revenues for the current and ensuing fiscal year.

Chapter 4 on government expenditures discusses the size, trend and composition of 2007 proposed budget compared with the 2006 levels (under a 2005 re-enacted budget). It highlights the shift in the sectoral allocation of the budget brought about by a decrease in the huge debt-servicing requirements.

Part 2 focuses on budgetary allocation to specific sectors that are critical to the government's three-phased economic turnaround plan: education, agriculture, health and infrastructure. Each section 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. Specifically, Chapter 5 on infrastructure analyzes the implementation of the "super regions" concept/plan as enunciated by the President in her 2006 SONA.

Part 3 includes a special paper on the assessment of the budget strategy paper of the government. The last chapter summarizes the findings and recommendations of the study.

Chapter 2

THE MACROECONOMIC PERSPECTIVE:
Opportunities from Sustaining Fiscal Reform

Policymakers … should take advantage of the broadly favorable growth outlook to implement structural reforms aimed at promoting fiscal sustainability and reducing vulnerabilities.

World Economic Outlook, September 2006

BUDGET PROPOSAL FOR FY 2007

For Fiscal Year 2007, the President proposed an obligation budget of P1,126.3 billion, which is 6.9% and 14.2% nominally higher than the 2006 budget proposal and the reenacted plus supplemental budget for 2006, respectively. Expenditures will be essentially financed through revenue collections consistent with the accelerated target for a balanced budget in 2008.

The government is pursuing a three-phased economic turnaround plan. The first phase focuses on stabilizing the budget and spending and then securing increased revenue through better tax and customs collection and through an increase in the VAT and other taxes.

The President underscored in her Budget Message that the economy is well into the second phase of the turnaround plan of taking advantage of the improved economic conditions to make the long overdue investments in infrastructure, education and health care, among others. The President specifically mentioned in her last State of the Nation Address her plan to enhance the competitive advantage of the natural "super regions" of the country.[1] The thrusts of the budget aim to promote the creation of opportunities across the country to improve living standards. The third phase of the plan, marked by increased attention on natural environment, envisions the country joining the ranks of first-world nations in 2010.

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[1] The "Super Regions" refer to the following: i) North Luzon Agribusiness Quadrangle prioritizes agribusiness investments; ii) Metro Luzon Urban Beltway will serve as a globally competitive urban, industrial and services center; iii) Central Philippines prioritizes tourism investments; iv) Mindanao is the priority for agribusiness investments in the south; and v) Cyber Corridor will boost telecommunications, technology and education and will run the length of all the super regions, from Baguio to Cebu to Davao.

FISCAL PROGRAM AND MACROECONOMIC TARGETS

Prudent fiscal policy plays a critical role in economic stability that is vital in realizing growth and employment objectives. Thus, fiscal policy must be transparent, responsible, and efficient to ensure fiscal sustainability. On the other hand, fiscal reforms must be sustained to ensure continued increase in revenue collection and the efficient and effective use of the budget. In today's world of increased financial integration and capital mobility, anxieties in the financial markets readily expose underlying policy weaknesses and inconsistencies, which could lead to more abrupt and pronounced consequences than in the past.

The sustainability of the proposed overall fiscal program of the national government hinges on a set of macroeconomic assumptions contained in the Budget of Expenditures and Sources of Financing (BESF).

TABLE 2.1
MACROECONOMIC ASSUMPTIONS, 2005-2007

PARTICULARS	Actual	Targets/Projections	
	2005	2006	2007
Real GNP Growth Rate (%)	5.6	5.9-6.5	6.0-6.9
Real GDP Growth Rate (%)	5.0	5.5-6.1	5.7-6.5
Inflation, CPI (2000=100)	7.6	6.9-7.0	4.3-4.8
Dubai Oil Price (US$/Barrel)	49.32	62-64	63-67
91-day Treasury Bill (%)	6.4	6.4-6.5	5.5-6.0
Exchange Rate (P:$)	55.09	51-53	51-53

Source: BESF 2007

The attainment of the macroeconomic targets is very crucial in the realization of the fiscal targets. For instance, the revenue target should be consistent with the overall level of economic activity or the economic growth targets. This implies that the revenue collections should be supported by gross domestic product (GDP) and gross national product (GNP) growth rates of 5.7%-6.5% and 6.0%-6.9%, respectively. In turn, the economic growth targets are supported by the interplay of several economic indicators such as inflation rate, interest rate and exchange rate, among others.

MACROECONOMIC OVERVIEW

Economic Performance. The economy proved resilient amid global and domestic uncertainties in the first semester of 2006 with GDP growing by 5.6% from 4.8% in the same period of 2005 while GNP expanded to 6.5% from 5.3%. Registering double-digit growth in the first half of 2006 were exports and Net Factor Income from Abroad (NFIA). Robust growth in NFIA, which consists mostly of OFW remittances, helped propel GNP growth.

On the supply side, the service sector continued to be the main driver of the economy contributing about 2.9 percentage points to GDP growth notwithstanding the deceleration in growth of the sector to 6.1% from 6.7% in the same period last year. Declines were noted in the communication subsector (from 17.1% to 10.7%) due to market saturation and stiff competition among players and in the banking industry (from 16% to 9.9%) due to sluggish bank lending. Total loan portfolio of banks has been generally on a downtrend from 2005 to the first semester of 2006.

TABLE 2.2
ECONOMIC PERFORMANCE
(GROWTH RATE, %)

PARTICULARS	First Semester	
	2005	2006
By Industrial Origin		
Agriculture, Fishery & Forestry	0.7	5.2
Industry	4.7	5.1
Services	6.7	6.1
By Expenditure Share		
Personal Consumption Expenditure	4.9	5.4
Government Consumption	7.5	3.9
Capital Formation	-6.6	-3.8
Exports	1.5	17.5
Imports	0.3	2.5
GDP	**4.8**	**5.6**
Net Factor Income from Abroad	11.0	16.8
GNP	**5.3**	**6.5**

Source: National Statistical Coordination Board

The growth rebound of the agriculture, fishery and forestry sector from 0.7% in the first half of 2005 to 5.2% in the same period of 2006 nearly contributed one percentage point to GDP growth. Major crops such as palay, corn and sugar cane posted robust growth in the first semester, reversing their negative performance in the same period last year.

The industry sector grew 5.1% in the first half from 4.7% in the same period last year. While manufacturing boosted industry growth, mining and quarrying and the huge drop in construction weighed down the growth of the sector in the first semester.

On the expenditure side, consumer spending and exports largely contributed to GDP growth. Personal consumption expenditure grew by 5.4% in the first semester from 4.9% last year on account of the strong inflow of remittances from overseas Filipino workers (OFW). On the other hand, gross domestic capital formation continued to drop although at a lower pace (-3.8% in 2006 vis-a-vis -6.6% in the first semester last year). Investments in all subsectors—construction, durable equipment and breeding stock and orchard development—posted negative growth performance. Slight improvement in capacity utilization and more efficient use of resources may explain the growth in industry and services despite the weak investment performance.

Economic Outlook in 2007. The proposed 2007 budget is based on a projected annual GDP growth target range of 5.7%-6.5%. Compared to the forecasts of the multilateral institutions, the official growth target is still relatively optimistic. The projection of the Asian Development Bank (ADB) is below the official target. On the other hand, the forecasts of the International Monetary Fund (IMF) and the World Bank match the low-end of the government's growth target.

According to the IMF, the better-than-expected exports performance and an improved investment outlook would benefit the country. It also noted recent and continuing fiscal reforms aimed to swiftly reduce the budget deficit and balance the budget by 2008 to contribute in reducing exposure to volatility in global investor sentiment.

In its Asian Development Outlook Update in September, the ADB has maintained its 5.3% growth projection for 2007. The outlook is based on the assumption of a continuing improvement in the fiscal position which will help improve investor confidence.

Likewise, the Congressional Planning and Budget Department (CPBD) upgraded its 2006 projection from 4.5%-5.1% to 5.1%-5.4% based on updated data set from the National Statistical Coordination Board (NSCB). In particular, the better-than-expected growth in the agriculture sector has propped up prospects for the year.

TABLE 2.3
COMPARATIVE PHILIPPINE GDP GROWTH FORECAST

PARTICULARS	2006	2007
BESF / NEDA	5.5-6.1	5.7-6.5
CPBD	5.1-5.4	4.7-5.3
ADB	5.4	5.3
IMF	5.5	5.8
WB	5.6	5.7

Sources: BESF, NEDA Presentations, CPBD Staff Estimates
Various ADB, IMF, WB publications, pronouncements

For 2007, the CPBD growth projection for GDP of 4.7%-5.3% is conservative compared with the government official target, the IMF and WB forecasts. The Philippine economy would continue to be vulnerable not only to external/global downside risks but also to domestic concerns, especially so with heightened expectations on the conduct of the forthcoming elections.

Compared with selected countries in the region, the country is projected by the multilateral institutions to have one of the lowest economic growth rates in 2007 other than Thailand. The ADB projects a slower GDP expansion in 2007 while both the IMF and the WB expect an improved growth scenario.

TABLE 2.4
CROSS-COUNTRY GDP GROWTH FORECAST

ECONOMIES	2005	2006			2007		
	Actual	ADB	IMF	WB	ADB	IMF	WB
Philippines	5.0	5.4	5.5	5.6	5.3	5.8	5.7
Indonesia	5.6	5.4	5.2	5.5	6.0	6.0	6.2
Malaysia	5.2	5.2	5.5	5.5	5.0	5.8	5.5
Thailand	4.5	4.2	4.5	4.5	4.0	5.0	4.6
Vietnam	8.4	7.8	7.8	8.0	8.0	7.6	7.5
Advanced Economies	2.6		3.1			2.7	
U.S.	3.2		3.4			2.9	
Japan	2.6		2.7	2.9		2.1	2.4
Euro Area	1.5		2.2			2.1	

Sources: WEO September 2006, ADO 2006 Update, September 2006, and East Asia Update as of October 2006.
"Strengthening Growth Seen, but sustainability questionable." Business World. P. 2/S1. November 20, 2006.

ECONOMIC GROWTH AND SECTORAL ANALYSIS

Growth Estimates and Sectoral Assumptions. CPBD's growth projections of 4.7%-5.3% and 4.8%-6.2% for GDP and GNP, respectively, were derived using a combination of forecasting, sectoral analysis, and programming techniques. Table 2.5 shows the details of the growth projections both by industrial origin and by expenditure shares. Growth will be driven by the service sector on the supply side and by private spending on the demand side.

TABLE 2.5
SECTORAL GROWTH ASSUMPTIONS

PARTICULARS	2005	2006	2006		2007	
	Actual	1st Sem	DBCC/1	CPBD/2	DBCC1	CPBD/2
By Industrial Origin						
Agriculture, Fishery & Forestry	1.8	5.2	3.4-3.9	4.2-5.0	3.4-4.4	3.6-4.1
Industry	4.9	5.1	5.4-6.2	4.7-5.4	5.8-6.5	4.8-5.5
Services	6.4	6.1	6.3-7.0	5.8-6.2	6.6-7.4	6.2-6.3
By Expenditure Share						
Personal Consumption Expenditure	4.9	5.4		5.2-5.3		4.9-5.2
Government Consumption	4.0	3.9		3.0-5.8		2.5-5.9
Capital Formation	-6.0	-3.8		-1.2-1.8		2.2-7.3
Exports	4.2	17.5		10.9-14.2		6.3-8.3
Imports	2.4	2.5		3.1-6.5		4.1-7.2
GDP	**5.0**	**5.6**	**5.5-6.1**	**5.1-5.4**	**5.7-6.5**	**4.7-5.3**
Net Factor Income from Abroad	13.5	16.8		11.9-15.2		8.6-12.4
GNP	**5.6**	**6.5**	**5.9-6.5**	**5.7-6.5**	**6.0-6.9**	**4.8-6.2**

Notes: 1/ Approved as of August 2006
2/ Update as of September 11, 2006

- *Agriculture.* The CPBD expects the agriculture, fishery and forestry sector to grow within the updated 4.2%-5.0% range during the year on account of the robust performance in the first semester and assuming no major weather disturbance for the rest of the year. This estimate is higher than the DBCC's 3.4%-3.9%. For the first half of the year, the agriculture sector grew by 5.2%.

  For 2007, the sector would decelerate to 3.6%-4.1% closely tracking its usual growth pattern. The slowdown may also be attributed to another "highly probable" El Niño phenomenon next year. The National Oceanic and Atmospheric Administration of the

United States announced this September that an El Niño has formed and could last into 2007.[2]

- *Industry.* Growth prospect for the industry sector next year would remain almost the same as the 4.7%-5.4% growth this year. Manufacturing which comprises the bulk of the industry sector would benefit from the continued but slower expansion in exports.

- *Services.* The main driver of growth next year will continue to be the services sector which is expected to grow moderately from 5.8%-6.2% this year to 6.2%-6.3%, lower than the DBCC projection of 6.6%-7.4%. The market of the communication subsector, which has been driving the growth of the sector in the past years, may have matured. The NSCB noted in its August 2006 report that slowdown can be attributed to the stiff competition among wireless service providers in a saturated market as well as the launching of new products and services like 3G technology.

- *Private Consumption.* Growth on the demand side will continue to be driven by private spending supported by OFW remittances, an expected moderation in the prices of goods and services, and an anticipated boost from election-related spending in 2007. Private consumption expenditure is projected to grow by 4.9%-5.2% next year, slightly lower than the 5.2%-5.3% this year.

- *Government Consumption.* Public spending next year would be sustained as the government prepares for the local elections. Government consumption is expected to grow within the 2.5%-5.9% range resembling the forecast for 2006.

- *Investment.* Recovery in investment is expected next year as the government proposes to increase its infrastructure spending ahead of the local elections. The CPBD expects total investment to grow within the 2.2%-7.3% range in 2007 from -1.2%-1.8% this year.

- *Exports and Imports.* The expected two-digit growth in exports this year of about 10.9%-14.2% would likely slow down to 6.3%-8.3% next year on account of the moderation in world trade growth. The expected strengthening of the peso against the US dollar, which tends to make local goods and services more expensive, would also contribute to the moderation in export performance. Rapid economic expansion in China could nonetheless help keep export performance afloat. In contrast, import growth is expected to moderately rise next year to 4.1%-7.2% from 3.1%-6.5% growth this year.

[2] El Nino forms in Pacific Ocean, September 13, 2006.
http://www.cnn.com/2006/WEATHER/09/13/weather.nino.reut/index.html

FACTORS AFFECTING ECONOMIC PROSPECTS

Four key indicators are expected to affect the growth prospects, which in turn impact on the attainment of the overall fiscal program for 2007.

- *Inflation Rate.* For the period January to August 2006, general price movements have been on the downtrend averaging 7.1% compared to 8% in the same period last year. Inflation pressures stemming from oil price hikes were tempered by the rebound in agriculture and the appreciation of the peso.

  The BESF cites the BSP as projecting a more positive inflation outlook of 4.3%-4.8% in 2007 compared with its updated 6.9%-7.0% forecast for 2006. On the other hand, the CPBD forecasts 2007 inflation to hover between 4.7%-5.0%, an easing from the updated 6.3%-6.4% possible 2006 full-year average. The possible adverse impact of highly probable El Nino and the anticipated election expenditures could both result in temporary inflationary upticks and stem the more optimistic BESF outlook.

TABLE 2.6
FACTORS AFFECTING ECONOMIC PROSPECTS

PARTICULARS	2005	2006		2007	
	Actual	DBCC/1	CPBD/2	DBCC/1	CPBD/2
Inflation Rate, CPI (2000=100)	7.6	6.9-7.0	6.3-6.4	4.3-4.8	4.7-5.0
Dubai Oil Price (US$/Barrel)	49.32	62-64	60.5-62.5	63-67	63-67
91-day Treasury Bill (%)	6.4	6.4-6.5	5.3-5.5	5.5-6.0	5.5-6.0
Exchange Rate (P:$)	55.09	51-53	51-52.5	51-53	50-51.5

Notes: 1/ Approved as of August 2006
2/ Update as of November 20, 2006

- *Dubai Oil Price.* From January to August, the average monthly price of Dubai reached $63.3/barrel, 34.3% higher than the $47/barrel price in the same period last year. This year, Dubai crude, Brent and WTI, peaked in July at an average of $69.2, $74.1 and $74.4 per barrel, respectively.

  Consequently, local pump prices rose following the upward movement of oil prices in the international market. Data from the Oil Industry Management Bureau showed that from January to September, unleaded gasoline increased by P4.17 while automotive diesel oil by P4.58.

According to a CPBD official source, by rule of thumb, a $1 change in Dubai crude oil cost would lead to a P0.36/liter change in the average pump price. which will be manifested in the inflation rate[3]. While fuel, light and water constitute only 5.7% of the consumption basket, price increases affect the other sectors because oil is a major input to production. Higher price of commodities dampen private spending and the overall economic performance.

Analysts predict that world oil prices would tend to stabilize though at still relatively high levels owing to continuing downside risks. The CPBD expects the Dubai oil price to average within $60.5-62.5/barrel throughout 2006 considering as contributory to favorable price movement the likely easing of geopolitical tension in oil producing areas that could promote stability, if not reduction, of oil prices. Further, appreciation of the local currency would also help ease local pump prices.

- *91-day Treasury Bill Rate.* The BESF assumed an easing of the interest rate in 2007 to 5.5%-6.0% from a revised 6.4%-6.5% this year. The expected continuous improvement in the fiscal position of the government this year would augur well for the domestic interest rate and could help in the attainment of a balanced budget by 2008.

  The CPBD updated its interest rate forecast for the year to 5.3%-5.5%, lower than the BESF target, and would increase to 5.5%-6.0% in 2007.

- *Foreign Exchange Rate.* The CPBD is a little more optimistic than the DBCC in the expectations of the foreign exchange rate. The DBCC maintained the P51-53:$1 forecast this year for 2007. On the other hand, the CPBD expects a strengthening of the peso in 2007 to P50-51.50:$1, with possibility of further appreciation into the P49.75 level, from an updated P51-52.5:$1 this year.

  Favorably affecting the peso/dollar exchange rate would be the continued strong flow of remittances and the recovery of exports, however modest. However, export competitiveness would have to be addressed to mitigate the impact of the strengthening local currency. Analysts have also pointed out that the peso has been appreciating while the U.S. dollar has been weakening vis-à-vis the Euro and regional currencies.

  While sustained and credible fiscal and structural reform would likewise boost capital and investment flows, any adverse market sentiment owing to downside risks could immediately temper, if not reverse, recent economic gains.

[3] This rule of thumb is based on an assumption of a regulated oil industry.

ECONOMIC AND FISCAL SCENARIOS

The fiscal position of the national government is expected to substantially improve next year with the budget deficit falling by almost 50% from P124.9 billion to P63 billion assuming the official low GDP growth scenario of 5.5% and 5.7% for 2006 and 2007, respectively. As a percentage of GDP, this represents a significant improvement from 2.1% to only 0.9% consistent with the deficit reduction strategy to attain balanced budget by 2008. The improvement in the fiscal position next year will be a result of a combination of increased revenue collections and more prudent expenditure management.

The BESF fiscal deficit target and the CPBD estimate under a high-growth scenario are almost similar for 2006 but differ significantly for 2007 by about P14.4 billion under a low-growth scenario and by P5.0 billion under a more auspicious growth scenario.

Assuming tax and revenue efforts similar to the official targets, coupled with the CPBD low-growth scenario of 5.1% in 2006 and 4.7% in 2007, the government's fiscal position would likely improve from P128.1 billion (2.1% of GDP) this year to P77.4 billion (1.2% of GDP) in 2007. The CPBD's high-growth scenario of 5.4% in 2006 and 5.3% in 2007 would result in the fiscal deficit shrinking to P68 billion (1.0% of GDP) in 2007 from P125.8 billion in 2006.

CPBD computations of tax efforts (revenue/nominal GDP) based on revenue performance for the period 2003-2005 showed that total revenue effort was relatively better for 2006 but lower in 2007 compared to the official targets/assumptions. Using the CPBD's assumed low-end GDP growth projections, the deficit would reach P110 billion (1.8% of GDP) in 2006 and P101.3 billion (1.5% of GDP) in 2007.

Under the CPBD's high growth scenario and assumed tax and revenue efforts—based on historical performance, the 2006 fiscal deficit would actually improve to P107.6 billion (1.8% of GDP) from the government's official assumption of P124.9 billion (2.1% of GDP). However, CPBD estimates indicate that even under a high growth scenario, the 2007 projected fiscal deficit would be P92.2 billion, which would be higher than official targets by P29.2 billion.

CPBD's Most Likely Scenario. For this year, the CPBD reckons that the government will outperform its fiscal deficit target of P124.9 billion (2.1% of GDP) with a likely scenario of P107.6-P110 billion (1.8% of GDP) deficit. However, in 2007 the fiscal deficit would likely hit 1.4%-1.5% of GDP compared with the government's 0.9% deficit to GDP target.

TABLE 2.7
ECONOMIC GROWTH AND FISCAL SCENARIOS

PARTICULARS	OFFICIAL TARGETS / ASSUMPTIONS		CPBD SCENARIOS BASED ON: Assumed GDP Growth Rates		CPBD SCENARIOS BASED ON: Assumed Tax Effort and BIR Effort	
	Low	High	Low	High	Low	High
Real GDP Growth Rate						
2006	5.5	6.1	5.1	5.4	5.1	5.4
2007	5.7	6.5	4.7	5.3	4.7	5.3
Nominal GDP (P billion)						
2005	5,418.8		5,418.8	5,418.8	5,418.8	5,418.8
2006	6,028.2	6,112.6	6,008.2	6,022.6	6,008.2	6,022.6
2007	6,712.7	6,864.1	6,626.5	6,682.5	6,626.5	6,682.5
Tax Effort (Tax/GDP)						
2006	14.6		14.6	14.6	14.6	14.6
2007	15.3		15.3	15.3	14.5	14.5
Tax Revenues (P billion)						
2006	881.6		878.7	880.8	874.2	876.3
2007	1,028.2		1,015.0	1,023.6	963.7	971.8
BIR Effort (BIR/GDP)						
2006	11.2		11.2	11.2	11.1	11.1
2007	11.7		11.7	11.7	11.0	11.0
BIR Revenues (P billion)						
2006	675.4		673.2	674.8	666.7	668.2
2007	784.1		774.0	780.6	731.2	737.3
2007 Revenue Growth Rate	16.1		15.0	15.7	9.7	10.3
Non-Tax Revenues (% of GDP)						
2006	1.5		1.5	1.5	1.9	1.9
2007	1.3		1.3	1.3	1.8	1.8
Non-Tax Revenues (P billion)						
2006	92.5		92.2	92.4	114.8	115.1
2007	90.6		89.4	90.2	116.8	117.8
Revenue Effort (Tot Rev/GDP)						
2006	16.2		16.2	16.2	16.5	16.5
2007	16.7		16.7	16.7	16.3	16.3
Total Revenues (P billion)						
2006	974.1		970.9	973.2	989.0	991.4
2007	1,118.8		1,104.4	1,113.8	1,080.5	1,089.6
Difference from official target			(14.4)	(5.0)	(38.3)	(29.2)
Total Disbursements						
2006 Disbursements (P billion)	1,099.0		1,099.0	1,099.0	1,099.0	1,099.0
2007 Disbursements (P billion)	1,181.8		1,181.8	1,181.8	1,181.8	1,181.8
Estimated Deficit						
2006 Deficit (P billion)	(124.9)		(128.1)	(125.8)	(110.0)	(107.6)
Ratio to GDP	(2.1)		(2.1)	(2.1)	(1.8)	(1.8)
2007 Deficit (P billion)	(63.0)		(77.4)	(68.0)	(101.3)	(92.2)
Ratio to GDP	(0.9)		(1.2)	(1.0)	(1.5)	(1.4)

CONCLUSION AND RECOMMENDATIONS

The CPBD's assessment of the macroeconomic assumptions upon which the 2007 proposed fiscal program is based calls for guarded optimism. For 2007, the CPBD estimates that the deficit would likely be 1.4%-1.5% of GDP, moderately higher than the official target of 0.9% of GDP. Although in 2006, the CPBD estimates that government would beat its deficit target of 2.1% to 1.8% of GDP, or roughly hovering between P107.6-P110 billion.

The proposed 2007 budget seeks to prop up the second phase of the economic turnaround plan. Resource mobilization in support of this phase, which focuses on investments in important sectors such as infrastructure, education and health care, is highly dependent on the attainment of the growth targets, which in turn, are affected by a number of factors.

Apart from the external downside risks such as the slowdown in export markets and volatile oil prices, concerns relating to political events would definitely have ramifications on investor confidence. Recovery of investment inflow is a critical factor in the attainment of growth targets and in addressing prevailing concerns over unemployment. While lower debt servicing as a result of lower interest rates and the appreciation of the peso contributes to the freeing of resources that could support the development plans of the President, boosting private investment inflows is nonetheless a must for sustained long-term growth.

Investment in infrastructure is an integral component of the development plan. The government is also accelerating/advancing the attainment of a balanced budget in 2008 from the original target of 2010. These two plans put pressure on improving revenue collections and better expenditure management. Should the government falter in realizing its fiscal targets, portions of capital outlay and maintenance inevitably would end up as casualties as these would have to be shelved or placed in the back burner.

To ensure continued increase in revenue collection and prudent and efficient use of the budget, there is need to sustain reforms especially on the fiscal area. This would also give room for higher spending on social infrastructure. The assumptions for achieving additional revenues in 2007 are very much dependent on very volatile factors such as interest and exchange rates that, in turn, are influenced by shifts in expectations.

In a new global landscape, the perceived ability of the government to deliver on the policy front is crucial. The government must guard against complacency and policy reform reversals, which could create the dangerous potential for a shift in expectations. The government must continue to push for the needed reforms that will foster higher economic growth and advance social equity.

BOX 2.1
SENSITIVITY OF THE BUDGET TO MACROECONOMIC ASSUMPTIONS

The movement of five economic indicators - foreign exchange rate, interest rate, imports, inflation rate and real GDP - has a significant impact on the overall fiscal program. Table 8 shows the effect of each of the indicators to both revenues and disbursements and the net effect on the national government position.

TABLE 2.8
2007 SENSITIVITY INDICATORS
(IN BILLION PESOS)

PARTICULARS	Revenues	Disbursements	Deficit/[1]
P1 depreciation in Foreign Exchange	1.9	2.2	(0.4)
1% point (100 bps) increase in T-bill Rate[2]	5.8	4.5	1.3
1% point decrease in imports	(4.0)	0.0	(4.0)
1% point increase in inflation	7.2	2.6	4.6
1% point increase in real GDP	7.6	0.0	7.6

1/ Negative figures imply an increase in the deficit level while positive figures mean a decrease in the deficit.
2/ All maturities
Source: Department of Finance

Foreign Exchange Rate. A depreciation of the peso against the US dollar increases revenues by P1.9 billion due to higher proceed from import taxes. However, a depreciation results in higher debt payments which increases disbursements by a larger amount of about P2.2 billion pesos. The net effect to the NG fiscal position is a rise in deficit of P400 million pesos.

Interest Rate. Higher Treasury bill rate increases revenues through interest income and simultaneously increases disbursements through higher interest payments from domestic borrowing. Estimate shows that a one-percentage point (100 basis points) rise in interest rate increases revenues and disbursements by P5.8 billion and P4.5 billion, respectively, resulting in a P1.3 billion reduction in the deficit.

Imports. Taxes from imports are an important source of government revenues accounting for about 20% of total revenues. A decrease in imports by one percentage point reduces revenues by P4 billion and increases the deficit by the same amount as it does not affect disbursements.

Inflation Rate. A one-percentage point rise in inflation increases revenues by P7.2 billion but reduces disbursements by P2.6 billion. The net effect is a P4.6 billion reduction in the deficit.

Gross Domestic Product. A change in the real GDP growth has the largest effect on the fiscal position. The GDP is used as a general indicator for the revenue base. A one-percentage point increase in real GDP results in a P7.6 billion rise in revenues and a reduction in the deficit by the same amount as it has no effect on disbursements.

TABLE 2.9

GROSS NATIONAL PRODUCT and GROSS DOMESTIC PRODUCT
Actual 2002-2005 and CPBD Growth Scenarios 2006 Update and 2007

By Industrial Origin at Constant 1985 Prices, 2002-2007

	2002	2003	2004	2005	2006 Forecast* Low	2006 Forecast* High	2007 Forecast* Low	2007 Forecast* High
	(In billions of pesos)							
Agriculture, fisheries and forestry	207.5	215.3	226.6	230.8	240.6	242.4	249.2	252.3
Nonagriculture	826.6	869.8	925.6	978.7	1,031.2	1,036.2	1,089.4	1,098.1
Industry	349.5	363.5	380.5	399.1	417.7	420.5	437.8	443.7
Services	477.1	506.3	545.0	579.6	613.5	615.7	651.5	654.4
Gross domestic product	1,034.1	1,085.1	1,152.2	1,209.5	1,271.8	1,278.5	1,338.5	1,350.4
Net income from abroad	71.6	86.4	98.0	111.2	124.4	128.1	135.1	144.0
Gross national product	1,105.7	1,171.4	1,250.2	1,320.7	1,396.1	1,406.6	1,473.6	1,494.4
	(Percentage change from previous year)							
Agriculture, fisheries and forestry	4.0	3.8	5.3	1.8	4.2	5.0	3.6	4.1
Nonagriculture	4.6	5.2	6.4	5.7	5.4	5.9	5.1	6.0
Industry	3.9	4.0	4.7	4.9	4.7	5.4	4.8	5.5
Services	5.1	6.1	7.6	6.4	5.8	6.2	6.2	6.3
Gross domestic product	4.4	4.9	6.2	5.0	5.1	5.4	4.7	5.3
Net income from abroad	0.5	20.6	13.5	13.5	11.9	15.2	8.6	12.4
Gross national product	4.2	5.9	6.7	5.6	5.7	6.5	4.8	6.2

By Expenditure Shares at Constant 1985 Prices, 2002-2007

	2002	2003	2004	2005	2006 Forecast* Low	2006 Forecast* High	2007 Forecast* Low	2007 Forecast* High
	(In billions of pesos)							
Consumption	883.3	928.0	978.6	1,026.2	1,077.5	1,081.4	1,128.3	1,138.3
Private	810.8	853.6	903.1	947.7	996.6	998.4	1045.3	1,050.4
Government	72.5	74.4	75.5	78.5	80.9	83.0	82.9	87.9
Investment	212.1	218.4	234.1	219.9	217.3	223.9	222.1	240.2
Domestic demand	1,095.4	1,146.4	1,212.7	1,246.2	1,294.8	1,305.3	1,350.3	1,378.5
Exports of goods and services	447.7	469.5	537.2	559.5	620.7	639.1	659.9	692.2
Imports of goods and services	536.5	594.6	628.9	643.8	663.6	685.7	690.5	735.4
Statistical discrepancy	27.6	63.7	31.3	47.6	19.8	19.8	18.8	15.1
Gross domestic product	1,034.1	1,085.1	1,152.2	1,209.5	1,271.8	1,278.5	1,338.5	1,350.4
Net income from abroad	71.6	86.4	98.0	111.2	124.4	128.1	135.1	144.0
Gross national product	1,105.7	1,171.4	1,250.2	1,320.7	1,396.1	1,406.6	1,473.6	1,494.4
	(Annual percentage change)							
Consumption	3.4	5.1	5.4	4.9	5.0	5.4	4.7	5.3
Private	4.1	5.3	5.8	4.9	5.2	5.3	4.9	5.2
Government	-3.8	2.6	1.4	4.0	3.0	5.8	2.5	5.9
Investment	-4.3	3.0	7.2	-6.0	-1.2	1.8	2.2	7.3
Domestic demand	1.8	4.7	5.8	2.8	3.9	4.7	4.3	5.6
Exports of goods and services	4.0	4.9	14.4	4.2	10.9	14.2	6.3	8.3
Imports of goods and services	5.6	10.8	5.8	2.4	3.1	6.5	4.1	7.2
Gross domestic product	4.4	4.9	6.2	5.0	5.1	5.4	4.7	5.3
Net income from abroad	0.5	20.6	13.5	13.5	11.9	15.2	8.6	12.4
Gross national product	4.2	5.9	6.7	5.6	5.7	6.5	4.8	6.2

CPBD Economic Planning Staff simulations utilizing reformatted IMF-STIFP tables. Source of actual data: National Accounts of the Phils., NSCB various issues.

Chapter 3

FINANCING THE 2007 BUDGET

"Higher revenues will help us reduce borrowing. Reduced borrowing, in turn, will enable us to spend more in the "super" regions, education and health to create jobs and improve living standards"

The President's Budget Message

For fiscal year 2007, the national government is programmed to spend a total of P1,181.8 billion, representing payment of current year's expenses and settlement of prior years' accounts payables. At the same time, the government has committed that deficit must be tamed at less than one percent of gross domestic product (GDP) in order to set a balanced budget by 2008. The twin objective of providing more funds for infrastructure and social services, and keeping the fiscal house in order calls for an aggressive revenue mobilization drive especially among the tax collecting agencies.

REVENUE PERFORMANCE

It may be recalled that in 2004 and 2005, Congress approved several revenue-enhancement measures in order to buoy up tax collections by as much as P103.5 billion[4]. Estimated yield from new tax laws were then incorporated in fiscal year 2006 collection targets of both the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC). To ensure the efficient implementation of existing tax legislation, the Senate and the House of Representatives convened a joint Congressional Oversight Committee on the Comprehensive Tax Reform Program (COCCTRP) composed of members of the Ways and Means Committee of both houses. The Committee meets at least once a month to monitor BIR and BOC collection performance on per type of tax basis and by revenue district/customs collection office.

[4] New tax measures include the following: reforms in excise tax on automobiles, tobacco and alcohol products; lateral attrition for BIR and BOC personnel; and rationalization of documentary stamp tax. The reformed VAT law (RA 9337) includes the 20% VAT rate increase, imposition of VAT on oil and electricity, five-year spread out of input VAT on capital equipment, and corporate tax rate increase, among others.

Bureau of Internal Revenue. During the meeting of the COCCTRP held last 27 September, the Department of Finance reported that total BIR collection from January to August amounted to P438.0 billion compared to a revenue goal for the same period of P444.1 billion or a cumulative shortfall of P6.1 billion *(see Table 3.1)*. However, the BIR Commissioner explains that deficiency in tax collections would have been smaller if not for the lower-than-projected issuance of government securities from which income taxes are withheld. The revenue target for the period January-August 2006 from treasury debt instruments was P35.4 billion while actual collection was P25.8 billion only or a difference of P5.6 billion.

Year to date goals in corporate and individual income taxes were not fully attained either. However, the under-collection from income taxes was offset by value added tax (VAT), other percentage taxes and other taxes. In the case of excise taxes, decrease in the volume of production by tobacco and alcohol manufacturers were compensated by the increase in excise tax rates that took effect last year (2005).

TABLE 3.1
BIR COLLECTIONS, JANUARY TO AUGUST 2006
(IN BILLION PESOS)

TYPE OF TAX	Actual	Goal	Difference
Income Tax	257.0	270.3	(13.3)
Excise Tax	36.7	36.7	*
VAT	94.4	91.8	2.6
Other Percentage	26.0	25.0	1.0
Other Taxes	23.9	20.3	3.6
TOTAL	438.0	444.1	(6.1)

Source: BIR presentation to COCCTRP on 30 August and 27 September 2006
** less than P100 million*

Lateral Attrition. Close monitoring of collection performance has become more urgent with the enactment of RA 9335 (Attrition Act of 2005) covering both BIR and BOC. Among other things, the Attrition Law provides for the creation of Rewards and Incentives Fund and the establishment of the Revenue Performance Evaluation Board. The Rewards and Incentives Fund would be sourced from the collection of BIR and BOC in excess of their respective revenue targets. In the event that actual agency collection exceeds 30% of full-year target, the bureau shall be entitled to a performance bonus equivalent to 15% of the first 30% plus another 20% of the collection in excess of 30%. Such amount shall be automatically appropriated and released the following year under the Rewards and Incentives Fund.

On the other hand, the Revenue Performance Evaluation Board shall prescribe a system for performance evaluation as well as the guidelines for the allocation, distribution and release of the Fund. The Board shall also set criteria and procedures for removal of officials and employees who are covered by the Attrition Law.

Regional Performance. Table 3.2 shows that only four out of 20 regional offices (including Large Taxpayers Service) have posted revenue surplus as of July 2006, namely, Makati City (P5.14 billion), Quezon City (P2.77 billion), Manila (P1.84 billion) and Calasiao (P880 million). This implies that all other RDOs must step up their efforts in collecting their assigned revenue targets in order to avoid the operation of the penalty system under the Attrition Law.

TABLE 3.2
REGIONAL COLLECTIONS VS REVENUE GOAL
JANUARY TO JULY 2006
(IN BILLION PESOS)

REVENUE REGION	Collections		Deviation	
	Actual	Goal	Surplus/(Deficit)	%
Calasiao, Pangasinan	3.4	2.5	0.88	35.2
C A R	1.4	1.5	(0.06)	(4.1)
Tuguegarao, Cagayan	1.0	1.1	(0.06)	(5.5)
San Fernando, Pampanga	5.3	5.3	(0.03)	(0.6)
Valenzuela	5.3	6.5	(1.15)	(17.7)
Manila	18.6	16.7	1.84	11.0
Quezon City	38.8	35.1	2.77	7.7
Makati	46.8	41.6	5.14	12.3
San Pablo City	15.9	17.2	(1.28)	(7.5)
Legaspi City	1.7	1.7	(0.01)	(0.7)
Iloilo City	2.6	2.7	(0.14)	(5.1)
Bacolod City	1.9	2.4	(0.44)	(19.6)
Cebu City	4.9	5.0	(0.16)	(3.2)
Tacloban City	1.8	1.9	(0.11)	(6.1)
Zamboanga City	1.1	1.2	(0.10)	(8.4)
Cagayan de Oro City	2.3	2.6	(0.26)	(10.2)
Butuan City	0.95	0.99	(0.04)	(4.0)
Cotabato City	1.5	1.5	(0.03)	(1.7)
Davao City	3.5	3.6	(0.06)	(1.7)
Large Taxpayers Service	189.3	198.7	(9.34)	(4.7)

Source of Data: BIR presentation to COCCTRP 30 August 2006

Bureau of Customs. Actual BOC collections from January to August have been higher than their planned monthly revenue targets. Based on the records of the Department of Finance, cumulative excess in customs revenues was P7.3 billion. During the COCCTRP meeting, it was uncovered that BOC's seemingly good performance was due to the spike in oil prices and the imposition of a value added tax on oil products effective July 2005. It may be recalled that the 2006 revenue target was set using a Dubai oil price of US$53.6/barrel assumption while average monthly price of Dubai from January to August reached $63.3/barrel. This observation was confirmed by the "impressive" collection performance of the two ports that serve as entry points for imported oil products. As of July, over-goal of Ports of Batangas and Manila were P7.2 billion and P1.7 billion, respectively while other ports have registered below-target performances.

TABLE 3.3
CUSTOMS COLLECTIONS VS. REVENUE GOALS
JANUARY TO AUGUST 2006
(IN MILLION PESOS)

PORTS	Collections		Deviation	
	Goal	Actual	Surplus/(Deficit)	%
SFDO	617	652	35	5.6
POM	42,552	44,216	1,664	3.9
MICP	37,122	29,744	(7,378)	(19.9)
NAIA	10,986	10,034	(952)	(8.7)
Batangas	19,739	26,891	7,153	36.2
Legaspi	11	10	(1)	(2.4)
Iloilo	92	252	160	173.5
Cebu	3,248	2,581	(666)	(20.5)
Tacloban	221	288	67	30.1
Surigao	50	35	(15)	(29.7)
Cagayan de Oro	1,956	1,269	(687)	(35.1)
Zamboanga	33	41	8	25.0
Davao	982	878	(104)	(10.6)
Subic	2,398	2,174	(224)	(9.3)
Clark	378	349	(29)	(7.7)

Sources: BOC presentation to COCCTRP on 27 September 2006

Smuggling. The Bureau of Customs, however, could have doubled its annual collections if not for physical and technical smuggling.[5] The Fair Trade Alliance estimated that foregone

[5] 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 import entries.

revenues due to smuggling was P174.0 billion per year while the Federation of Philippine Industries projected a loss of not less than P100 billion per year.

Thus, immediate consideration of the proposed Anti-Smuggling Law (HB No. 4069 / CR No. 614) becomes more apparent[6]. Specifically, unlawful importation of goods in excess of P50 million should be considered a heinous crime punishable with *reclusion perpetua* or death and a fine of at least P10 million. Smuggled items should be summarily seized and forfeited in favor of the government. Penalties for technical smuggling should also be imposed *i.e.,* fine of P300,000 to P2 million and imprisonment depending on the amount involved.

Administrative Measures. Reform measures such as the Revenue Integrity Protection Service (RIPS) and Run After Tax Smugglers (RATS) should also be intensified to curtail the incidence of graft and corruption in the Customs bureau.[7] RIPS is an investigative body created pursuant to Executive Order No. 259 issued in December 2003 to stamp out graft and corruption among revenue collecting agencies under the Department of Finance such as BIR, BOC and Bureau of Local Government Finance (BLGF). To date, criminal and administrative complaints have been filed against 40 public officials which include two (2) BIR Assistant Commissioners, six (6) Revenue District Officers, nine (9) Revenue Officers, two (2) BOC District Collectors, nine (9) Customs Operation Officers and two (2) City Treasurers. As a result, five (5) officials were dismissed from service while ten (10) others received suspension orders.

Meanwhile, the RATS program was initially installed to intensify prosecution of people/companies found to have violated the Tariff and Customs Code of the Philippines. Thereafter, it evolved into an anti-smuggling, anti-corruption cum revenue enhancement program of BOC. Critical commodities being monitored are rice, sugar, vegetables, vehicles, tobacco, oil, used clothing and prohibited drugs. Ports that are under close surveillance are MICP, POM, Batangas, NAIA, Subic, Clark, Cebu and Zamboanga. To date, the RATS program reports of 75 cases for monitoring, 21 cases of which were filed with the Regional Trial Courts and 54 cases with the Department of Justice. Also, 77 more cases are in the pipeline for case building and possible prosecution.

Bureau of the Treasury. After BIR and BOC, the next largest revenue generating agency is the Bureau of the Treasury (BTr) which derives its income from interest on investments in Bond Sinking Fund, NG share in PAGCOR profits, GOCC dividend remittances and

[6] Transmitted to the Senate on 03 August 2005.

[7] Parallel efforts are being undertaken in the Bureau of Internal Revenue through the Run After Tax Evaders (RATE) program.

guarantee fees. From January to August, the Treasury Office has already shored up P46.5 billion, equivalent to 89.6% of its full year target of P51.9 billion. The assigned revenue goal is rather low compared to prior years' actual collections and considering the regular inflow of the agency's traditional sources of income. From 2003 to 2005, the Treasury office was able to mobilize between P56.7 billion and P70.6 billion in revenues per year.

REVENUE OUTLOOK

Closing the budget gap entails efficiency in revenue collections. In the same vein, public revenues will only grow as the economy grows. The following section presents the revenue estimation done by CPBD taking into account prior years' collection efficiency ratios (2003-2005) and the responsiveness of tax collection to GDP growth (elasticity).

2006 Revenue Estimate. The CPBD reckons that NG would exceed its revenue target for the year by P14.9 billion *(see Table 3.4).* Considering that historically, 65.7% of BIR annual collection is generated from January to August, CPBD estimates that agency collection for 2006 would amount to P666.7 billion or P8.7 billion lower than adjusted revenue target of P675.4 billion. Employing the same methodology for BOC (at 65.1% of yearly collection), CPBD projects that the bureau would surpass its target of P198.7 billion by P1.1 billion—*sans tariff and VAT collection windfall due to crude oil price increase.* Revenue goal from non-tax sources will likewise be exceeded, primarily on account of collections by the Bureau of the Treasury.

TABLE 3.4
2006 REVENUE ESTIMATES
(IN BILLION PESOS)

PARTICULARS	DBCC Program		CPBD Projection		Difference
	Amount	% of GDP	Amount	% of GDP	
BIR	675.4	11.2	666.7	11.1	(8.7)
BOC	197.6	3.3	198.7	3.3	1.1
Other Tax	8.6	0.1	8.8	0.1	0.2
Non-Tax	92.5	1.5	114.8	1.9	22.3
Total Revenues	974.1	16.2	989.0	16.5	14.9
Memo Item: GDP, nominal	*6,028.2*		*6,008.2*		

Sources: 2007 BESF and CPBD estimates

While DBCC projects 2006 real GDP growth of 5.5%-6.1%, the CPBD assumes expansion in the economy at a lesser pace (5.1%-5.4%). The CPBD deems as rather too optimistic the government assumption on the growth of the industry sector (5.4%-6.2%) and the services sector (6.3%-7.0%). Growth in the services sector is seen to moderate as its usual growth engine, the telecommunication sub-sector, may have matured. Capital formation has also registered negative growth rates i.e., –6% in 2005 and –3.8 during the first semester of 2006 [8].

2007 Revenue Estimate

DBCC Targets. Total revenues for 2007 is set at P1,118.8 billion—higher by around 15% or P144.6 billion more than programmed revenues of P974.1 billion in 2006. By revenue source, P784.1 billion or 70% is assigned to BIR while BOC gets P235.1 billion or 21% of total. The remaining P9.0 billion in tax collections will have to be collected by other agencies like LTO, CHED and DENR. Non-tax revenues amounting to P90.6 billion will come mostly from the income of the Bureau of the Treasury (P53.5 billion).

TABLE 3.5
2007 REVENUE ESTIMATES
(IN BILLION PESOS)

PARTICULARS	DBCC Targets	CPBD Projection		Difference	
		Scenario 1	Scenario 2		
	(A)	(B)	(C)	(B-A)	(C-A)
BIR	784.1	731.2	737.3	(52.9)	(46.8)
BOC	235.1	223.5	225.3	(11.6)	(9.8)
Other Tax	9.0	9.1	9.2	0.1	0.2
Non-Tax Revenues	90.6	116.8	117.8	26.2	27.2
TOTAL REVENUES	1,118.8	1,080.5	1,089.6	(38.3)	(29.2)
% to GDP	16.7%	16.3%	16.3%		
Memo Item: GDP, nominal	*6,712.7*	*6,626.5*	*6,682.5*		

Sources: 2007 BESF and CPBD Estimates
** totals may not add up due to rounding-off*

As a ratio to GDP, the target revenue is equivalent to 16.7% of projected economic output of P6,713.0 billion *(low-end)*—slightly higher than estimated revenue effort for 2006 of 16.2%. However, the Philippines has yet to come to par with the revenue efficiency of its Asian neighbors like Vietnam (22.9%), South Korea (20.4%), Malaysia (19.5%), Singapore (19.0%), China (18.8%), Hong Kong (17.6%), and Taiwan (17.4%).[9]

[8] For related discussion, please refer to CPBD'S Budget Briefer no. 2006-01, "The Macroeconomic Perspective"
[9] 2005 Asian Development Outlook

CPBD Projection. For budget year 2007, CPBD estimates that gross domestic product - as a determinant of taxable goods and services - will grow by 4.7%-5.3% instead of 5.7%-6.5% (DBCC targets) as external/global downside risks and domestic concerns weigh down on the Philippine economy. On the external side, prospects of slower growth in Japan and the United States may retard export growth while a looming El Nino phenomenon may depress agricultural productivity. Domestic concerns would include the conduct of the 2007 elections and other political uncertainties.

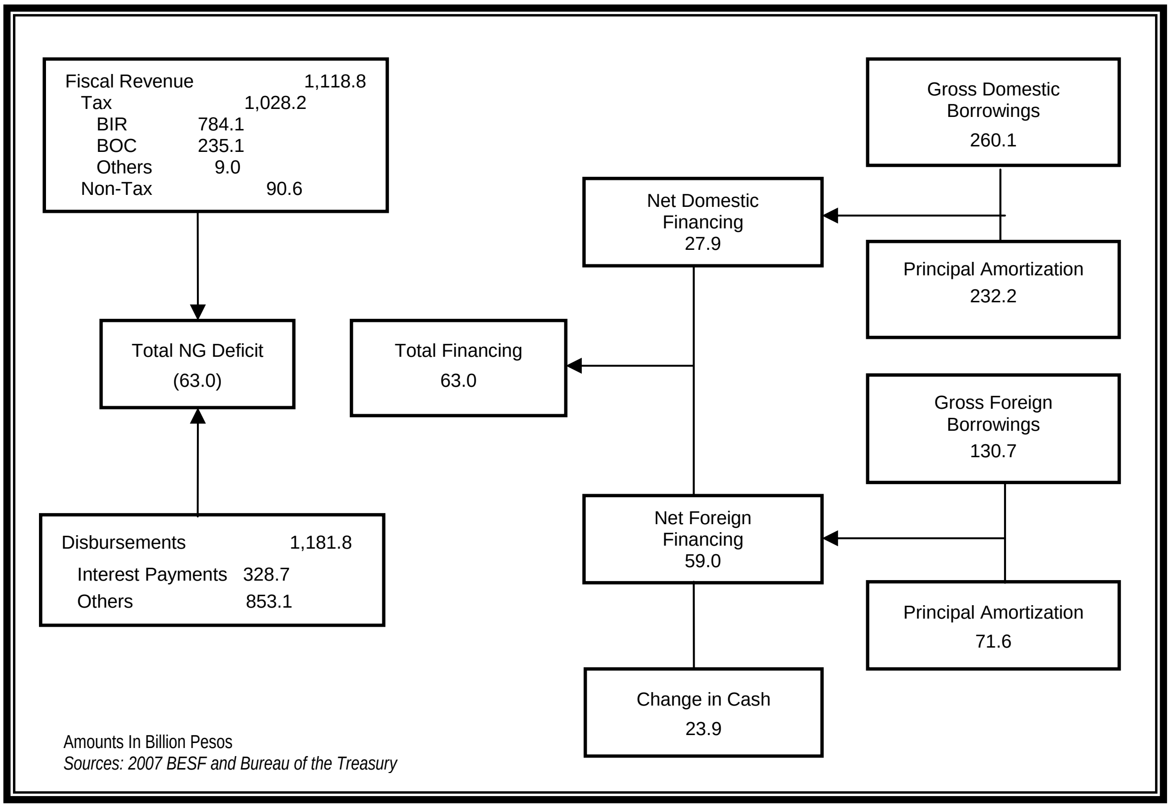
Table 3.5 compares the DBCC revenue targets (*assuming revenue effort of 16.7% and 5.7% GDP growth)* with CPBD revenue estimates. The CPBD's Scenario 1 shows that at 16.3% revenue effort *(based on elasticity)* and a GDP growth of 4.7% *(based on CPBD low-end projection),* NG revenues may only amount to P1,080.5 billion or P38.3 billion (34%) less than the DBCC target of P1,118.8 billion. Should this be the case, the fiscal deficit would be at P101.3 billion or 1.5% of GDP instead of P63.0 billion as programmed by DBCC.

If the CPBD assumes revenue effort of 16.3% and GDP growth of 5.3%, revenue collections would be P1,089.6 billion or P29.2 billion lower than the DBCC target. Fiscal deficit would then be at P92.2 billion or 1.4% of GDP.

FINANCING THE DEFICIT

Borrowing Program. The 2007 deficit target of P63.0 billion would be financed through borrowings. As shown in Figure 3.1, gross financing for the year amounts to P390.8 billion—of which P260.1 billion (67%) would come from domestic sources while P130.7 billion (33%) would come from foreign sources. It may be recalled that gross borrowing in 2005 was much higher at P615.1 billion. For 2006, it is estimated that the financing program would be kept at P531.6 billion due to low level of government spending. From January to August, actual disbursements of NG amounted to P676.4 billion or P63.1 billion less compared to program of P739.5 billion. Lower spending may be traced to several factors like savings in interest payments due to fiscal reform measures and spending authority that is capped to 2005 re-enacted budget levels. There are also claims that government agencies are not able to maximize the use of their cash allocations.

FIGURE 3.1
NG DEFICIT AND FINANCING PROGRAM, FY 2007



However, close scrutiny of budget documents would indicate that total borrowings in 2007 may even be higher than P390.8 billion as reported because what was reflected in the government's financing program is already net of loans maturing during the year and contribution to bond sinking fund. In actuality, total borrowings would amount to P1,028.2 billion. Based on the submission of the Bureau of the Treasury gross flotation of Treasury Bills and Fixed Rate Treasury Bonds for the coming fiscal year will amount to P636.2 billion and P261.3 billion, respectively or total domestic borrowings of P897.5 billion instead of just P260.1 billion *(see Table 3.6)*. Treasury Bills and Treasury Bonds to be retired in 2007 would amount to P617.4 billion and P20 billion, respectively while scheduled contribution to Bond Sinking Fund would be P232.2 billion.

TABLE 3.6
NATIONAL GOVERNMENT FINANCING, 2005-2007
(IN MILLION PESOS)

PARTICULARS	2005	2006	2007
Gross Foreign Borrowings [A]	**218,317**	**221,429**	**130,673**
Program Loans	10,215	14,000	27,825
Project Loans	29,019	33,829	39,248
Bonds and Other inflows	179,803	173,600	63,600
Less: Amortization **[B]**	125,652	119,072	71,619
Net Foreign Borrowings [C=A-B]	**92,665**	**102,357**	**59,054**
Gross Domestic Borrowings [D]	**396,819**	**310,211**	**260,117**
Treasury Bills	55,588	88,860	18,795
Gross Flotation (+)	*647,160*	*860,585*	*636,151*
Maturities (-)	*591,572*	*771,725*	*617,356*
Retail Treasury Bonds	44,372	-	-
Fixed Rate Treasury Bonds	296,859	221,351	241,322
Gross Flotation (+)	*329,845*	*255,899*	*261,322*
Maturities (-)	*32,986*	*34,548*	*20,000*
Less: Amortization *i.e. Bond Sinking Fund Contribution* **[E]**	253,492	262,598	232,215
Net Domestic Borrowings [F=D-E]	**143,327**	**47,613**	**27,902**
NET FINANCING [G=C+F]	**235,992**	**149,970**	**86,956**
Change in Cash	22,329	1,429	6,422
Budgetary Accounts **[H]**	89,214	25,090	23,956
Non-Budgetary Accounts	(66,885)	(23,661)	(17,534)
NG Transactions	(44,062)	(881)	75
CB Restructuring Transactions	(22,823)	(22,780)	(17,609)
TOTAL FINANCING REQUIREMENT [G-H]	**146,778**	**124,880**	**63,000**

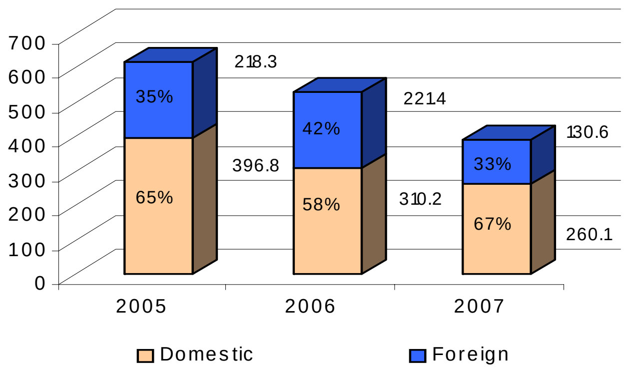
Source: Bureau of the Treasury

The amount to be sourced from the credit market is way above the budget gap due to two reasons: (a) repayment of principal loan, and (b) off-budget expenditures. For 2007, scheduled principal amortization is equivalent to 77.8% of reported gross borrowings or P303.8 billion—of which P71.7 billion is allotted for foreign loans while P232.2 billion is for domestic loan repayment *i.e. Contribution to Bond Sinking Fund.* The Fund was created under RA 1000 (1954) requiring annual contributions sufficient to redeem at maturity the bonds issued with at least three-year tenure. As a hedging strategy, proceeds of the Bond Sinking Fund are parked in investments from which sizeable amount of income is derived by BTr. Income from Bond Sinking Fund in 2005 was P34.8 billion or almost 50% of total agency collections for the year.

The difference of P23.9 billion between target deficit and net financing will be deposited in the Treasury *(Change in Cash)* to defray "off-budget" accounts particularly the cost of Central Bank (CB) restructuring[10]. For 2007, CB is projected to incur a total of P19.5 billion expenditures—P16.3 billion for interest and P3.2 billion for principal payments, while its income for the year amounts to only P1.9 billion.

Borrowing Profile. The national government plans to limit its reliance on foreign loans as 67% of its financing requirements would be sourced from the domestic market *(see Figure 3.1)*. Such strategy is almost similar to that of last year (2005) where NG was able to contain foreign borrowings to around one-third of total.

FIGURE 3.2
FINANCING PROGRAM
(IN BILLION PESOS AND SHARE TO TOTAL)



Source of Basic Data: DOF Presentation, 4 September 2006

As shown in Table 3.6, the proportion of commercial loans to total foreign borrowings would be trimmed down from 82.4% in 2005 to only 48.7% in 2007. Global bonds fetch higher interest rates and are more vulnerable to foreign shocks compared with project and program loans *e.g., Official Development Assistance*. For 2007, program loans in the form of commercial bonds will be limited to P63.6 billion—much lower than P179.8 billion actual foreign borrowings of the same nature in 2005. Meanwhile, program and project loans will grow from P39.2 billion in 2005 to P67.0 billion in 2007.

[10] During the early 90s, the Old Central Bank was found to be saddled with non-performing assets i.e., capitalized losses as a consequence of bad policy decisions in the past. Thus, the Bangko Sentral ng Pilipinas was created with fresh capital infusion from NG while old CB accounts were absorbed by the CB-Board of Liquidators.

Debt Ratios. In absolute amounts, the national government debts will continue to slightly rise from P4,081.5 billion to P4,167.9 billion or 2.1%. As percentage to GDP, outstanding debt is projected to be on the downtrend from 71.7% in 2005 to 62.1% next year *(see Table 3.7)*. However, the Philippine debt ratio as projected by the Department of Finance is still very high compared with the 2007 projections made by the International Monetary Fund for Emerging Asia (34.1%) and ASEAN-4 (42.7%)[11]. Moreover, the magnitude of the debt in nominal terms is still a cause for concern especially its claim on the earnings of government i.e., for every peso collected, P0.28 will automatically go to interest payment.

TABLE 3.7
NATIONAL GOVERNMENT DEBT
(IN BILLION PESOS)

PARTICULARS	2005 Actual	2006 Program	2007 Program
Debt Outstanding	3,888.2	4,081.5	4,167.9
% of GDP	*71.7*	*67.7*	*62.1*
Debt Service	678.9	721.7	622.0
% of GDP	*12.6*	*12.0*	*9.3*
Interest Expense	299.8	340.0	318.2
% of GDP	*5.5*	*5.6*	*4.7*
% of Cash Disbursements	*31.1*	*30.9*	*26.9*
% of Revenue Collections	36.7	*34.9*	*28.4*
Principal Payments	379.1	381.7	303.8
% of GDP	*7.0*	*6.3*	*4.5*

Source: DOF Presentation before the House Committee on Appropriations, 4 September 2006

CONCLUSION

As stated in the President's Budget Message, "higher revenues will help reduce borrowings which in turn will enable the government to spend more in the *super* regions, education and health". CPBD simulation, however, indicates that while the revenue program for 2006 of P974.12 billion may be exceeded by P14.9 billion, the 2007 revenue target of P1,118.8 billion may not be achieved because of lower-than-projected revenue effort and GDP growth. Over-goal for the current year (2006) is likely to come, not from efficiency in tax collection, but rather from the revenue windfall due to increase in oil prices and the income of the Bureau of the Treasury.

[11] "Regional Economic Outlook, World Economic and Financial Surveys, IMF September 2006. Emerging Asia includes Hong Kong, Korea, Singapore, Taiwan, China, India, Indonesia, Malaysia, Philippines, and Thailand. ASEAN-4 consists of Malaysia, Philippines, Indonesia and Thailand.

The reliability of tax collection estimates for 2007 hinges on real GDP growth and improvements in the implementation of tax laws. If the economy does not grow at 5.7%-6.5% as assumed in the Budget of Expenditures and Sources of Financing and loopholes in tax administration are not attended to, NG would likely miss its revenue goal by as much as P29.2 billion *(assuming 16.3% revenue effort and 5.3% GDP growth)* or P38.3 billion *(assuming 16.3% revenue effort and 4.7% GDP growth).*

Failure to realize the revenue target will spell more borrowings for the year—unless cash disbursements are kept within tolerable limits to project a "good" bottomline. However, government spending that could support development programs has been stymied owing to poor tax collections and debt overhang. It is important, therefore, to sustain fiscal reforms that could enhance resource mobilization. Moreover, the government must find "creative" ways to provide public goods, improve investment climate, increase productivity and secure the gains of reform measures.

These are the policy issues that confront the Arroyo administration for fiscal year 2007.

Chapter 4

DIMENSIONS OF THE NG BUDGET

"The budget is a potent instrument in concretizing our 'super' region development goals. If crafted and managed well, it will ensure that every centavo we provide each agency is spent well on the right things…."

- The President's Budget Message
The FY 2007 Budget: Focusing on the Imperatives of Growth

The President in her State of the Nation Address articulated what her government envisions—the development of "super" regions that will serve as catalyst in spreading progress in all areas of the country. Realizing this would depend largely on the approval of the 2007 budget that will enable the National Government to make up for its under-spending due to a re-enacted budget.

For 2007, the President proposed to Congress a total expenditure program *(on obligation basis)* of P1,126.3 billion[12] *(see Table 4.1).* This amount consists of P825.0 billion[13] New Appropriations and P368.3 billion Automatic Appropriations *(net of Internal Revenue Allotment).* In nominal terms, the 2007 budget is P140.3 billion or 14.2% higher than the P986.0 billion budget for 2006. *(All figures for 2006 are based on a re-enacted budget plus a supplemental budget of P46.9 billion[14].)*

Even as the budget is expected to increase in 2007, it still pales in comparison with the recommended efficiency and growth-maximizing budget-to-GDP ratio of 25%.[15] In comparison, the NG budget for 2007 which amounts to P797.6 billion *(net of debt service)* is only 11.9% of the gross domestic product (GDP). However, as interest payments decline for the first time in ten years, "productive spending" on per capita basis is expected to improve from P7,096 in 2005 to P8,992 [16] in 2007.

12 This excludes P67 billion of Unprogrammed New Appropriations.
13 For comparison purposes, the IRA of P183.9 billion which is considered automatic appropriations was reclassified under programmed new appropriations.
14 The Supplemental Budget of P46.9 billion represents the total additional appropriation for 2006 proposed under HB No. 5668 (P46.4 billion) and HB No. 5679 (P500 million), as amended by the Senate.
15 Prof. Renato E. Reside, Jr. of the UP School of Economics was commissioned by NEDA to develop an inter-sectoral budget allocation model and to determine the efficiency and growth-maximizing NG budget level.
16 Per capita spending is computed using the population projections of 85.3 million (2005) and 88.7 million (2007) by the National Statistics Office.

TABLE 4.1
COMPARATIVE OBLIGATION BUDGET, 2006-2007
(IN BILLION PESOS)

PARTICULARS	2006	2007 Proposed	Difference
New Appropriations	597.7	825.0	227.3
Of which: IRA	151.6	183.9	
Automatic Appropriations	376.3	368.3	(8.0)
LESS: Unprogrammed Fund	(34.9)	(67.0)	(32.1)
ADD: Supplemental Budget	46.9	-	(46.9)
TOTAL OBLIGATIONS	**986.0**	**1,126.3**	**140.3**

Note: For comparison purposes, the IRA of P183.9 billion in 2007 which is considered automatic appropriations was reclassified under new appropriations.

Source of basic data: 2007 NEP

SECTORAL APPROPRIATIONS

Table 3.2 presents the sectoral allocation of the NG budget for the period 2005-2007. Sectoral obligations for 2006 were estimated by CPBD using 2005 levels *(adjusted)* plus the Supplemental Budget and the increments for debt service and net lending.

The Supplemental Budget for 2006 which amounts to P46.9 billion has effectively increased the allocation for the following sectors: Economic Services, P8.0 billion; Social Services, P15.9 billion; General Public Services, P8.2 billion; and Internal Revenue Allotment, P14.8 billion *(see Annex for details)*. Additional funding for the economic services sector will be used mostly for the implementation of the Comprehensive Agrarian Reform Program (CARP), rehabilitation/clean-up of the Guimaras Island, and as subsidy to the Metro Rail Transit II.

Of the P15.9 billion supplemental budget that will go to social services, P9.6 billion is accounted for by the Department of Education for its current operating expenditures *(e.g., for new teaching positions, textbooks, School Feeding Program)* and capital outlays. The Supplemental Budget also provides P4.9 billion for the Pension and Gratuity Fund and P300 million for relief operations to victims affected by the eruption of the Mayon volcano.

Meanwhile, the increase in General Public Services will largely go to the Miscellaneous Personnel Benefits Fund (P4.9 billion), to DILG for salaries of newly created positions and pay adjustments (P1.4 billion), and to PhilHealth for the health insurance of indigents (P1.2 billion). An amount of P730 million was also provided for the Commission on Elections to fund preparatory activities for the 2007 elections. The P14.8 billion ALGU-IRA in the

Supplemental Budget represents the IRA increment (from 2005) but which was temporarily on hold due to a re-enacted budget *(see related discussion in SPF).*

Table 4.2 shows that the National Expenditure Program will increase by 14.2% from P986.0 billion *(re-enacted plus supplemental)* in 2006 to P1,126.3 billion next year. Double digit increase in 2007 may be expected especially if NG intends to make up for investments which it has originally programmed for 2006 but did not materialize in the absence of a new budget law.

TABLE 4.2
SECTORAL ALLOCATION OF THE NG BUDGET
BY LEVEL AND GROWTH RATE (2005-2007)

PARTICULARS	Levels (Billion Pesos)			Growth Rates	
	2005 Adjusted	2006 [a/]	2007 Proposed	05-06	06-07
Economic Services	158.0	166.0	223.2	5.0	34.5
Social Services	254.3	270.2	329.4	6.3	21.9
Defense	44.2	44.2	53.9	-	21.8
General Public Services	141.9	150.1	182.1	5.8	21.3
Net Lending	6.9	8.3	9.1	20.3	9.7
Debt Service	313.4	340.0	328.7	8.5	(3.3)
Others:					
IRA [b/]	-	14.8	-	-	-
Unreconciled Item [c/]	-	(7.6)		-	-
TOTAL	**918.7**	**986.0**	**1,126.3**	**7.3**	**14.2**

a/ The 2006 levels were computed based on 2005 obligations (adjusted) plus the Supplemental Budget of P46.9 billion and increments in debt service and net lending.
b / The IRA is normally distributed across sectors but in the absence of a distribution ratio, the IRA of P14.8 billion in the Supplemental Budget for 2006 is treated separately.
c/ Unreconciled item is the difference between the 2006 levels (as computed by CPBD) and the 2005 (adjusted) levels.
Sources of basic data: 2006-2007 BESF (DBM) and HB No. 5668 and HB No. 5679 (as amended by the Senate)

All sectors except debt service will enjoy budgetary increments in 2007. From P340.0 billion, debt service will be slashed by P11.3 billion (3.3%) to P328.7 billion. On the other hand, allocations for economic and social services will grow by P57.2 billion (34.5%) and P59.2 billion (21.9%), respectively. For social services, a 21.9% growth is a marked improvement compared with the last five years when allocation for the sector grew the lowest at 0.8% (2001) and highest at only 7.4% (2002). Similarly, a huge increase for economic services in 2007 will allow NG to compensate for a rather low spending level in 2006 due to a re-enacted budget.

TABLE 4.3
NATIONAL EXPENDITURE PROGRAM BY SECTOR
AS RATIO TO TOTAL NG BUDGET AND TO GDP, 2005-2007

PARTICULARS	Percent to Total NG Budget			Percent to GDP		
	2005	2006	2007	2005	2006	2007
Economic Services	17.2	16.8	19.8	2.9	2.8	3.3
Social Services	27.7	27.4	29.2	4.7	4.5	4.9
Defense	4.8	4.5	4.8	0.8	0.7	0.8
General Public Services	15.4	15.2	16.2	2.6	2.5	2.7
Net Lending	0.8	0.8	0.8	0.1	0.1	0.1
Debt Service	34.1	34.5	29.2	5.8	5.6	4.9
Others:						
IRA	-	1.5	-	-	0.2	-
Unreconciled Item	-	(0.8)	-	-	(0.1)	-
TOTAL	**100.0**	**100.0**	**100.0**	**17.0**	**16.4**	**16.8**

Source of basic data: 2006 and 2007 BESF

Historically, debt service *(interest payments)* accounts for about one-third of the budget but the 2007 proposed allocation shows a drop in the share of interest payments to 29.2%. As a ratio to GDP, debt service declined from 5.6% in 2006 to 4.9% the following year. The decline in interest payments can be attributed to higher tax collections which consequently improved NG's fiscal performance. Under improved fiscal conditions, NG was able to rein in the deficit and borrow funds at more favorable terms.

The sectoral distribution of the 2007 budget shows that the social services sector will receive the same share of 29.2% as that of debt service. Economic services which includes expenditures for the infrastructure requirements of the "super" regions accounts for one-fifth of the total budget (19.8%) while 16.2% will go to general public services *(including peace and order)* and 4.8% to defense.

Although the 2007 expenditure program is expected to grow nominally by almost twice as much than in 2006 *(see Table 4.2),* the budget as a ratio to GDP slightly improved by only 0.4 percentage points from 16.4% to 16.8%. Moreover, it failed to match the 2005 NG Budget-to-GDP ratio of 17.0%. In fact, the country's average spending during the period 2000-2004 was much higher at 19.4%. It can be gleaned from Table 3.3 that a re-enacted budget in 2006 has constricted NG spending which could have negative repercussions on economic growth and which could also impact on the 2007 revenues.

TABLE 4.4
NATIONAL EXPENDITURE PROGRAM BY SUB-SECTOR, 2007

PARTICULARS	Level (In Billion)	% Share	% GDP
Economic Services	**223.2**	**100.0**	**3.3**
Agriculture, Agrarian Reform and Natural Resources	42.1	18.9	0.6
Trade and Industry	3.6	1.6	0.1
Tourism	1.8	0.8	*/
Power and Energy	2.5	1.1	*/
Water Resources Development and Flood Control	9.6	4.3	0.1
Communications, Roads and Other Transportation	84.8	38.0	1.3
Other Economic Services	14.4	6.4	0.2
Subsidy to Local Government Units	64.4	28.8	1.0
Social Services	**329.4**	**100.0**	**4.9**
Education, Culture, and Manpower Development	162.0	49.2	2.4
Health	14.5	4.4	0.2
Social Security, Welfare and Employment	73.1	22.2	1.1
Land Distribution (ARF)	4.3	1.1	0.1
Housing and Community Development	3.6	1.3	0.1
Other Social Services	3.8	1.2	0.1
Subsidy to Local Government Units	68.1	20.7	1.0
General Public Services	**182.1**	**100.0**	**2.7**
General Administration	58.6	32.2	0.9
Public Order and Safety	65.3	35.8	1.0
Other General Public Services	6.8	3.7	0.1
Subsidy to Local Government Units	51.5	28.3	0.8

**/ Less than 0.1%*
Source of basic data: 2007 BESF (DBM)

Notably, while debt service (as a ratio to GDP) has been declining since 2005, both economic services and social services are expected to rebound in 2007. From 2.8% of GDP in 2006, spending for economic services will increase to 3.3% by next year. Social services will likewise grow from 4.5% to 4.9% in the same period.

Economic Services. Of the total 2007 budget, NG allocates P223.2 billion or 19.8% for economic services. In nominal terms, it is P57.2 billion higher than the 2006 budget *(re-enacted plus supplemental).* The increase in economc services is largely due to higher infrastructure outlay particularly for projects such as flood control, construction/rehabilitation of roads and bridges, airports, irrigation facilities, and school buildings. According to the President's

Budget Message, spending more for economic services will jumpstart the major "super" region infrastructure projects in the Medium Term Public Investment Plan (MTPIP).

By sub-sector, about 38% (P84.8 billion) of the total budget for economic services goes to Communications, Roads and Other Transportation. The combined budget for DPWH and DOTC comprise 96% (P81.3 billion) of the allocation for this sub-sector. Meanwhile, subsidy to local government units (LGUs) accounts for P64.4 billion or roughly 28.8% of the budget for economic services. Agriculture, Agrarian Reform and Natural Resources is allocated P42.1 billion (18.9%)—of which P21.7 billion will be used for the Agriculture and Fisheries Modernization Program (AFMA).

Higher spending for infrastructure in 2007 could potentially improve the country's competitive standing[17] in attracting more investments. However, it is also important to consider the absorptive capacity of the agencies especially if these funds come in the form of Official Development Assistance (ODA). NG's inability to put up counterpart funds and procurement-related problems have been identified to be major reasons for projects to be either shelved or terminated. Studies have shown that unutilized ODA only incurs additional expense to government through commitment fees and interest payments.

Social Services. The 2007 expenditure program for the social services sector amounts to P329.4 billion or 29.2% of the total NG budget. This is P59.2 billion or 21.9% higher than the 2006 level of P270.2 billion. Almost half of the budget for social services goes to Education, Culture and Manpower Development. For 2007, NG allocates P162.0 billion for education of which P132.9 billion will go to the Department of Education (DepEd) to finance the following: creation of teaching/non-teaching positions, purchase of textbooks, training and development, repair and maintenance of school buildings, and the pre-school program, among others.

Social Security, Welfare and Employment gets the next biggest share (22.2%) of the budget for social services. A total of P73.1 billion has been allotted for this sub-sector—of which P65.5 billion is accounted for by the Pension and Gratuity Fund. The social services expenditure program also includes a P68.1 billion subsidy to local government units which forms part of the LGUs' share to total internal revenue collections *(also known as the Internal Revenue Allotment)*. Meanwhile, the health sector gets P14.5 billion which will be used for the expanded immunization program and for the completion of hospital buildings, among others.

[17] Out of 53 countries, the Philippines ranks 49th in terms of competitiveness (2006).

General Public Services. General Public Services accounts for P182.1 billion or 16.2% of the total budget for 2007. By sub-sector, the biggest allocation of P65.3 billion (35.8%) goes to Public Order and Safety—of which the DILG (includes the Philippine National Police) gets P48.4 billion.

Meanwhile, the 2007 NG expenditure program sets aside P58.6 billion for General Administration. This includes the P9.8 billion that will go to COMELEC for the conduct of the 2007 elections, and another P9.0 billion for the Autonomous Regional Government in Muslim Mindanao (ARMM). To support NG's information and communication technology projects, an amount of P1 billion was allocated for the E-Government Fund.

Aside from the P51.5 billion subsidy to LGUs *(which is part of the IRA),* the local governments will receive additional P3.5 billion *(under Other General Public Services)* as premium subsidy for indigents under the National Health Insurance Program. This is a sizeable increase from 2006 level of P1.9 billion *(P750 million as re-enacted plus P1.2 billion supplemental)* which should effectively increase PhilHealth coverage among indigents.

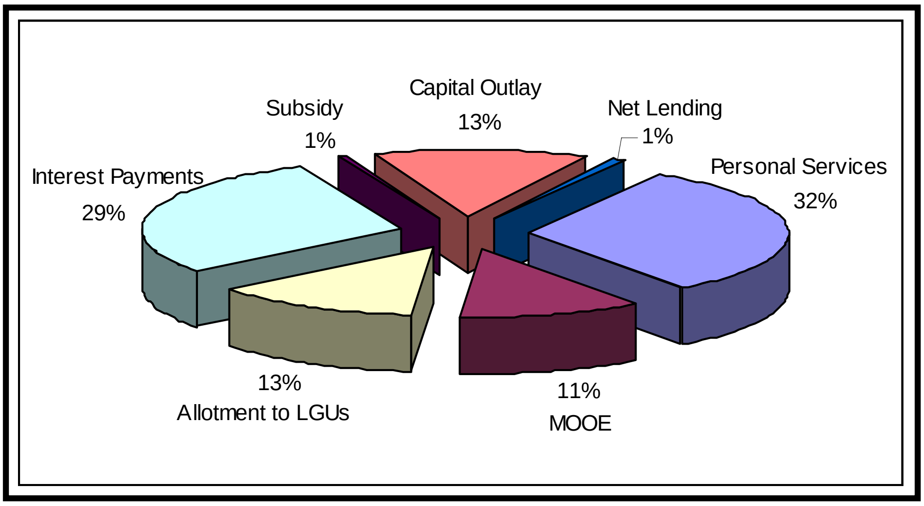
OBJECT OF EXPENDITURES

Current operating expenditures (COE) accounts for P965.8 billion or 85.8% of the total proposed budget for 2007. The COE consists of personal services (P356.8 billion), interest payments (P328.7 billion), allocations to LGUs (P147.2 billion), MOOE (P127.0 billion), and subsidy (P6.1 billion).

Notably, interest payments which in the past consistently got the highest share was reduced by P11.3 billion from P340 billion in 2006. From roughly one-third of the total NG budget, interest payments in 2007 accounts for a smaller share of 29.2%—leaving personal services with the biggest portion (31.7%) of the budget pie. In nominal terms, P356.8 billion will be used for the payment of salaries/wages, personnel benefits and other remunerations. The 2007 budget also provides for the first time an amount of P165 million as special allowance for judges and justices as required under Republic Act 9227.[18]

[18] RA 9227 mandates the National Government to subsidize the special allowance granted for justices and judges in its fourth/last year of implementation provided the amount shall not exceed P165 million per annum. The first three tranches were sourced from savings of the agency or charged against the legal fees collected by the courts.

FIGURE 4.1
EXPENDITURE PROGRAM BY OBJECT, 2007



Source of basic data: 2007 BESF (DBM)

Meanwhile, the expenditure program for 2007 proposes P151.4 billion (13.4%) for capital outlay—of which P86.6 billion will be spent for infrastructure development. Capital outlay also includes the P36.8 billion capital transfers for LGUs which represents portion the Internal Revenue Allotment that should be set aside for the 20% Development Fund.

SOURCES OF APPROPRIATIONS

Programmed New Appropriations account for P574.1 billion or 51% of the total proposed budget—of which P341.6 billion goes to personal services. The remaining P552.2 billion or 49% are automatic appropriations which include two large items—interest payments (P328.7 billion) and the Internal Revenue Allotment (P183.9 billion). Automatic appropriations also include P15.2 billion for personal services particularly for retirement and life insurance premiums. Note that the increase in automatic appropriation in 2007 is largely due to the reclassification of the IRA from programmed new appropriations to automatic appropriations.

Taking into account all automatic appropriations and personal services which is a mandatory expense, it appears that P893.8 billion or close to 80% of the budget can no longer be reallocated by Congress. To a certain extent, Congress' discretion to reallocate for other expenditure needs covers only the remaining 20% or P232.5 billion of the 2007 budget. Note that the Supplemental Budget for 2006 includes P3.7 billion for the payment of arrears in government premium contributions due the HDMF and the GSIS--which is also included in the 2007 proposed budget. This effectively frees some resources that can be used to fund other spending priorities of government in 2007.

TABLE 4.5
BUDGET LEVEL BY SOURCE OF APPROPRIATIONS
(IN BILLION PESOS)

PARTICULARS	Amount		% Share	
	2006	2007	2006	2007
Programmed New Appropriations	**562.8**	**574.1**	**57.1**	**51.0**
Of which:				
Personal Services	315.8	341.6	32.0	30.3
Internal Revenue Allocation	166.5	-	16.9	-
Automatic Appropriations	**376.3**	**552.2**	**38.2**	**49.0**
Of which:				
Interest Payments	340.0	328.7	34.5	29.2
Net Lending	8.3	9.1	0.8	0.8
Internal Revenue Allotment	-	183.9	-	
Supplemental Budget	**46.9**	**-**	**4.8**	**-**
Sub-Total, Obligation Program	**986.0**	**1,126.3**	**100.0**	**100.0**
ADD:				
Unprogrammed New Appropriations	34.9	67.0	-	-
TOTAL APPROPRIATIONS	**1,020.9**	**1,193.3**	-	-

Sources of basic data: 2006 and 2007 BESF (DBM)

Aside from the P1,126.3 billion obligation program, NG also proposes a P67 billion Unprogrammed Appropriations which can be released only when revenue collections exceed the original revenue targets and when additional grants or foreign loans are generated. Unprogrammed appropriations will go to Support for Infrastructure Projects and Social Programs (P30.5 billion), Budgetary Support to GOCCs[19] (P18 billion), Support to Foreign-Assisted Projects (P8 billion), Gratuities, Pension and Separation Benefits (P5 billion), among others.

[19] NG advances and the corresponding interest on such advances made by the BTr for loan obligations of the LRTA and NEA (P8.42 billion) shall be converted into subsidy or equity. Such conversion shall require the issuance of SARO for book entry purposes chargeable against the P18 billion budgetary support to GOCCs under unprogrammed appropriations.

TABLE 4.6
REGIONAL ALLOCATION OF THE NG BUDGET, 2007

REGION	Amount *(In billion)*	% Share	Per Capita
Central Office	**501.1**	**44.5**	**-**
Nationwide	**220.6**	**19.6**	**-**
Regional	**404.7**	**35.9**	**-**
Region IV	51.7	4.6	3,705.0
NCR	43.2	3.8	3,892.7
Region III	36.2	3.2	3,774.7
Region VI	35.9	3.2	5,026.1
Region VII	26.3	2.3	3,970.3
Region V	26.2	2.3	4,860.9
Region I	23.0	2.1	4,726.0
Region VIII	22.9	2.0	5,478.6
Region X	21.4	1.9	5,234.0
Region II	18.7	1.7	5,843.0
ARMM	18.1	1.6	5,444.3
Region XI	18.0	1.6	4,322.5
Region XII	17.7	1.6	4,625.0
Region IX	16.8	1.5	5,109.9
CARAGA	16.6	1.5	6,892.0
CAR	12.1	1.1	7,596.1
TOTAL	**1,126.3**	**100.0**	**-**

Sources of basic data: 2007 BESF (DBM), NSO

REGIONAL ALLOCATION

Table 4.6 shows that a combined budget of P721.7 billion has been allocated for the Central Office (P501.1 billion) and for programs/activities of nationwide application (P220.6 billion). This amount includes P328.7 billion that is automatically appropriated for interest payments, which in effect leaves P393.0 billion for nationally-initiated programs and operations.

On the other hand, P404.7 billion or 35.9% of the total NG budget will be shared among the different regions. Of the total regional allocation, Luzon will get P211 billion (52.2%) while Mindanao and the Visayas will receive P108.6 billion (26.8%) and P85.1 billion (21%), respectively.

Top three regions with the highest budgetary allocation are Region IV (P51.7 billion), NCR (P43.2 billion), and Region III (P36.2 billion). However, these same regions have the lowest per capita allocation owing to a much higher population. Migration towards Metro Manila continues to be high primarily due to the concentration of employment opportunities in NCR and neighboring regions. Also, industrial estates and real property development have conveniently located in areas close to the capital *(Laguna, Cavite, and Bulacan).* While the Cordillera Administrative Region and CARAGA gets smaller budgetary allocations—these regions actually have the highest per capita allocation of P7,596 and P6,892 respectively.

Meanwhile, it is important to trace the regional destination of department funds and assess how the 2007 budget supports the development of "super" regions. In particular, the regional distribution of the DPWH budget shows the following regions with higher allocations: NCR (P6.8 billion), CARAGA (P4.4 billion), Region IV (P3.9 billion) and Region III (P3.4 billion). On the other hand, the DepED budget of P133 *(net of School Building Fund)* allocates P11.6 billion for Region IV-A and P11.3 billion each for Regions III and VI, and NCR.

ALLOCATION BY DEPARTMENT

A total amount of P479.1 billion *(net of Special Purpose Fund)* will be shared among the different agencies/departments. All departments except the Department of Agrarian (DAR) and the Office of the Press Secretary will enjoy budgetary increases in 2007. While DAR appears to suffer the biggest cut (P12.4 billion) in 2007, the decline in DAR's budget may not be that much because allocations for land acquisition and distribution (for CARP) have simply been reclassified as Agrarian Reform Fund (ARF) under the Special Purpose Fund (SPF).

In nominal terms, the biggest increment goes to Public Works and Highways (P24.1 billion), Education (P13.1 billion), Transportation and Communications (P7.9 billion), and the Commission on Elections (P7.7 billion).

Table 4.7 shows that next to DepED (P134.7 billion) and the DPWH (P73.6 billion), other top ten departments with higher allocations in 2007 are as follows: Interior and Local Government (P51.1 billion), National Defense (P49.5 billion), Agriculture (P18.5 billion), State Universities and Colleges (P17.8 billion), Transportation and Communications (P17.5 billion), Health (P11.7 billion), COMELEC (P9.8 billion) and the Judiciary (P9.7 billion).

TABLE 4.7
EXPENDITURE PROGRAM BY DEPARTMENT
(IN BILLION PESOS)

PARTICULARS	2006*	2007	Increase/(Decrease)	
			Amount	%
Department of Education a/	*121.6*	*134.7*	*13.1*	*10.8*
Department of Public Works and Highways	*49.5*	*73.6*	*24.1*	*48.6*
Department of Interior and Local Government	*45.3*	*51.1*	*5.9*	*13.0*
Department of National Defense	*46.2*	*49.5*	*3.3*	*7.1*
Department of Agriculture b/	*14.3*	*18.5*	*4.2*	*29.3*
State Universities and Colleges	*17.4*	*17.8*	*0.4*	*2.4*
Department of Transportation and Communications	*9.6*	*17.5*	*7.9*	*82.2*
Department of Health	*10.3*	*11.7*	*1.4*	*13.2*
Commission on Elections	*2.1*	*9.8*	*7.7*	*360.5*
The Judiciary	*8.0*	*9.7*	*1.7*	*20.9*
Autonomous Regions	*7.1*	*9.0*	*1.9*	*26.4*
Department of Finance	6.8	7.5	0.7	10.7
Department of Environment & Natural Resources	5.9	7.5	1.6	26.4
Department of Foreign Affairs	5.1	7.4	2.3	45.4
Department of Agrarian Reform *b/*	19.3	6.8	(12.4)	(64.5)
Department of Justice	5.1	5.9	0.8	15.6
Other Executive Offices	5.1	5.1	0.0	0.6
Department of Labor and Employment	4.5	5.0	0.5	11.3
Congress of the Philippines	4.7	4.8	0.1	2.8
Commission on Audit	4.0	4.1	0.1	1.4
Department of Social Welfare and Development	2.6	4.1	1.5	57.9
Office of the President	3.5	3.9	0.4	11.3
Department of Science and Technology	2.7	3.4	0.7	25.1
Department of Trade and Industry	2.1	2.1	0.0	1.8
Department of Energy	1.0	1.9	0.9	86.3
National Economic and Development Authority	1.3	1.8	0.5	38.6
Department of Tourism	1.1	1.5	0.4	35.3
Office of the Ombudsman	0.7	1.0	0.3	39.1
Office of the Press Secretary	0.9	0.9	(0.0)	(1.5)
Department of Budget and Management	0.4	0.7	0.3	77.8
Civil Service Commission	0.5	0.5	0.1	14.3
Commission on Human Rights	0.2	0.2	0.0	16.4
Office of the Vice-President	0.1	0.1	0.0	58.4
Joint-Legislative-Executive Offices	**	**	-	-
Departments	**408.9**	**479.1**	**70.2**	**17.2**
Special Purpose Funds	**584.7**	**647.2**	**62.5**	**10.7**
Unreconciled Item *c/*	**(7.6)**	**-**	**7.6**	**(100.0)**
TOTAL OBLIGATIONS	**986.0**	**1,126.3**	**140.3**	**14.2**

** 2005 re-enacted plus Supplemental Budget of P46.9 billion*
*** Figure is less than P100 million*
a/ Includes DepEd – School Building Program
b/ Includes AFMA
c/ Difference between 2006 levels (as computed by CPBD) and 2005 (adjusted)
Source of basic data: 2006 and 2007 BESF and HBs No. 5668 and 5679

A higher budget for DepED is meant to address resource gaps that are aggravated by an increasing student population in the public school system. In particular, the DepED budget seeks to finance the following: (1) building of 6,000 new classrooms, P2.8 billion; (2) tuition subsidies under GASTPE, P2.4 billion; (3) purchase of textbooks, P2.1 billion; (4) hiring of 505,150 teaching staff and 10,882 personnel, P1.2 billion; (5) repair and maintenance of schools, P1 billion; (6) school furniture including desks, chairs and blackboards, P1 billion; (7) training of English, Math and Science teachers, P940 million. [20]

Meanwhile, NG's commitment to invest more on public infrastructure to support the President's "super" regions may be reflected by growths in the allocations of two agencies—the DPWH and DOTC—primarily responsible for government's infrastructure projects. The allocation for DPWH grew from P49.5 billion in 2006 to P73.6 billion in 2007 while DOTC's budget increased from P9.6 billion[21] to P17.5 billion in the same period. A sizeable increase of P32 billion for DPWH and DOTC (combined) in 2007 could help NG make up for projects that were put on hold owing to a re-enacted budget in 2006.

SPECIAL PURPOSE FUND

The proposed 2007 budget allocates P647.2 billion for Special Purpose Funds (SPFs)—about 50.8% or P328.7 billion of which goes to interest payments. Allocations to local government units (ALGU) amounting to P199.1 billion[22] account for 30.8% of the SPF. This is P26.5 billion higher than the 2006 level. The increase in the Internal Revenue Allotment (IRA)—from P166.5 billion *(re-enacted plus supplemental)* in 2006 to P183.9 billion in 2007—basically accounts for a higher ALGU.

An amount of P2.5 billion has been included in the 2007 ALGU as first installment of the P17.5 billion NG obligation due to a Supreme Court decision over a case involving the 2001 IRA which was set aside under Unprogrammed Fund. Remittance to local governments will be spread over a period of seven years (2007-2013) but LGUs have the option to avail of the IRA Monetization Program *(Executive Order No. 494, s. 2006)* where LGUs can claim in advance through a trustee bank (DBP and LBP) their respective shares in the IRA Balance but at a discounted value. Corollary to the SC decision, the P14.8 billion increment in IRA

[20] "Public school system gets massive shot in the arm", Philippine STAR (20 September 2006) and DepED budget presentation to the House Committee on Appropriations.
[21] DOTC's budget includes P8 billion (as re-enacted) and a P1.6 billion supplemental (2006) to provide for subsidy to MRT Line III and for the Philippine Coast Guard's clean up operation of areas affected by the Guimaras oil spill.
[22] Includes the allocation of P1.68 billion for Municipal Development Fund under AFMA.

between 2005 and 2006 was already included in the P46.9 billion Supplemental Budget for 2006.

Higher ALGU can be attributed also to a hefty increase in local governments' share in VAT collections (from P375.0 million in 2005 to P3.5 in 2007) and an allocation of P1.1 billion for foreign-assisted projects under the Municipal Development Fund—a relending facility for local governments. Premium subsidy for indigents under the National Health Insurance Program (NHIP) also increased from P1.9 billion in 2006 to P3.5 billion next year. Out of the P3.5 billion for NHIP, P3 billion will be used to cover the financial assistance to LGUs for indigent enrollees while the remaining P500 million represents the NG subsidy in connection with the PCSO Greater Medicare Access Program.

Table 4.8 shows that NG allotted P17.3 billion as budgetary support to government-owned and controlled corporations (GOCCs). State corporations that will receive sizeable amounts of subsidy and/or equity for 2007 are Home Guaranty Corporation (P1.5 billion), National Housing Authority (P1.4 billion), National Food Authority (P1.1 billion), National Home Mortgage Finance Corporation (P0.5 billion) and National Irrigation Administration (P0.5 billion).

TABLE 4.8
NG EXPENDITURE PROGRAM BY SPECIAL PURPOSE FUND
(IN BILLION PESOS)

PARTICULARS	2006	2007	Increase/Decrease	
			Amount	%
Budgetary Support to GOCC *b/*	13.3	17.3	4.0	29.9
AFP Modernization Fund	-	5.0	5.0	-
Allocations to Local Government Units *b/*	172.6	199.1	26.5	15.4
Agrarian Reform Fund	-	8.8	8.8	-
Calamity Fund	2.3	1.0	(1.3	(56.8)
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	7.3	11.8	4.5	61.2
National Unification Fund	0.1	0.1	-	-
Pension and Gratuity Fund	39.6	65.5	25.9	65.5
Priority Development Assistance Fund	6.1	6.2	0.1	2.3
Debt Service-Interest Payment	340.0	328.7	(11.3)	(3.3)
TOTAL	**584.7**	**647.2**	**62.5**	**10.7**

b/ includes AFMA
Note: Budgetary Support to GOCCs in 2006 includes net lending of P1.4 billion, representing the difference in 2005 adjusted obligation (P6.9 B) and the 2006 program (P8.3 B)
Source of basic data: 2006 and 2007 BESF and HBs No. 5668 and 5679

The entire P1.5 billion for HGC is earmarked for capital outlay. Portions of the subsidy to NHA will be used to pay loans incurred relative to the cost of relocating informal settlers along the rights-of-way of the North and South Rail System and the North Luzon expressway (NLEX) Project Phase 2. Meanwhile, the amount appropriated for NIA shall be used for the payment of loan due the National Development Company relative to the rehabilitation of existing irrigation systems.

As a general rule, government corporations are required to remit to the National Treasury cash dividends equivalent to at least fifty percent (50%) of annual net earnings. These cash dividends may be deducted by the BTr from the budgetary support to GOCCs concerned. Other receivables that may be offset against GOCC allocations are guarantee fees, advances for loans relent to corporations, and obligations which are guaranteed by NG. However, such arrangement appears to be a mere transfer of money from one pocket to the other and does not encourage efficiency on the part of government corporations.

The Special Purpose Funds also include the Miscellaneous Personnel Benefits Fund (MPBF) which under the 2007 budget amounts to P11.8 billion. About P5.6 billion of which will be used to pay for the arrears of the National Government in its counterpart contributions to the Home Development and Mortgage Fund (HDMF), Philippine Health Insurance Corporation (PHIC), the Employees Compensation Commission (ECC), and the Government Service Insurance System (GSIS).

For GSIS alone, NG intends to settle a total of P3.9 billion[23] for deficiencies in premium contributions. Payment of arrears is important because this means that GSIS will reimburse all retirees whose retirement and other benefits were reduced because of such deficiency in employer's counterpart contributions. Aside from payment of arrears, the MPBF also provides for the standby fund in case of any salary adjustment and benefits that may be authorized by law or by the President within the year.

The increase in SPF is also partly attributed to the Pension and Gratuity Fund growing from P39.5 billion in 2006 to P65.5 billion next year. Out of the P65.5 billion, P50.5 billion will be spent for payment of pensions, and retirement and terminal leave benefits of NG personnel (includes the share of NG in the retirement benefits of personnel devolved to LGUs), as well as personnel of GOCCs which are financially unable to pay said benefits. The remaining P15 billion is set aside for the payment of incentive package for employees availing of the Rationalization Program *(per Executive Order 366, series 2004).*

[23] Breakdown of the P3.9 billion for payment of arrears to GSIS are as follows: (a) P3.3 billion deficiency from July 1997 to December 1998; (b) P485 million deficiency from1988 to 1996 for the AFP and PNP; and (c) P111.7 million deficiency from 1996 to 1999 for the Barangay Insurance Premium.

As of 11 September 2006, five rationalization plans[24] including that of the Office of the Vice President and the Civil Service Commission have been approved while several others are still under review. The implementation of the rationalization plans has effectively reduced the authorized plantilla positions in these five agencies by 806 from originally 2,548 positions. Fewer positions also led to a total of about P56.1 million savings for personal services.

OBLIGATION BUDGET VS. CASH DISBURSEMENTS

The programmed obligations for 2007 (P1,126.3 billion) is lower by P55.5 billion compared with the projected cash disbursement of P1,181.8 billion. This is because accounts payables (APs) of prior years will have to be settled in 2007 in addition to current year's expenditures.

A breakdown of the programmed cash disbursement shows that 84.1% will go to current operating expenditures (P993.8 billion), 15.1% to capital outlays (P178.8 billion), and the amount of P9.1 billion to net lending.

With a cash disbursement of P1,181.8 billion versus a revenue program of P1,118.8 billion, the budget gap for next year (2007) is projected at P63 billion.

[24] Three other agencies with approved Rationalization Plans include the Technology and Livelihood Resource Center, Philippine Racing Commission, and the Palawan Council for Sustainable Development Staff.

ANNEX

SECTORAL DISTRIBUTION OF THE SUPPLEMENTAL BUDGET FOR 2006

ECONOMIC SERVICES	**P 7.95 Billion**
A. Implementation of CARP	4.59
B. Subsidy to MRT Line III	1.49
C. DOST programs (under the Office of the Secretary)	0.20
D. Unremitted special shares of LGUs in National Wealth	0.67
E. For Guimaras Oil Spill	
• Philippine Coast Guard clean up operation	0.12
• DA livelihood projects	0.10
• DENR Waste Disposal Management	0.03
• DENR rehabilitation of coastal natural resources	0.10
• LGU Rehabilitation Plan	0.25
• (HB No.5679) Clean up operation and livelihood assistance	0.40
SOCIAL SERVICES	**P 15.95 Billion**
A. Current Operating Expenditures of DepEd	9.58
B. Pension and Gratuity Fund	4.87
C. SUC: UP Diliman Science Complex and Technology Incubation Park	0.50
D. DSWD Feeding Program	0.27
E. Mayon Volcano Eruption Relief and Rehabilitation	0.30
F. Repatriation Fund for OFWs in Lebanon	0.05
G. For Guimaras	
• DOH Disease Surveillance	0.02
• Cash for Work Livelihood of DSWD	0.25
• SUC: UP Visayas Taklong Marine Station Rehabilitation	0.05
• Calamity fund for other agencies	0.07
PUBLIC SERVICES	**P 8.18 Billion**
A. New positions/upgrading of salaries/benefits for BFP, BJMP, NAPOLCOM and PPSC	1.38
B. Preparatory Activities of the Comelec for the 2007 Elections	0.73
C. Miscellaneous Personnel Benefits Fund	4.92
D. Subsidy to LGUs for Health Insurance Premiums of Indigents	1.15
OTHERS	
ALGU-Internal Revenue Allotment	**P 14.84 Billion**

PART 2

SECTORAL ALLOCATION

Chapter 5

FUNDING INFRASTRUCTURE REQUIREMENTS

The government's resolve to address the huge infrastructure backlog across the country is commendable but the challenge remains formidable. The current infrastructure-led development strategy is a step in the right direction but should be treated with guarded optimism as this could potentially drain the government's meager resources. Addressing concerns on graft and corruption through a more organized and participative oversight and ensuring that benefits will trickle down to majority of the poor Filipinos especially in the rural areas would foster acceptance and support for infrastructure projects.

The lack of infrastructure, as well as the low quality of services in infrastructure in the country, is one major bottleneck to growth and development. This has also emerged as a key impediment in economic competitiveness and in attracting investments. Local and foreign businesses blame the high cost of doing business partly on the poor state of infrastructure in the country.

TABLE 5.1
PHILIPPINE INFRASTRUCTURE COMPETITIVENESS RANKING

SUBCATEGORY	2004	2005	2006
Basic Infrastructure	60	60	61
Technological Infrastructure	43	36	37
Science Infrastructure	58	58	58
Health & Environment	58	55	53
Education	57	53	57

Source: IMD

In the World Competitiveness Yearbook, the Philippines has consistently ranked low in terms of infrastructure development. In 2006, the country's overall infrastructure rating slipped to 56th from 55th place a year ago, showing to some extent the deteriorating state of infrastructure provision in the country as compared to its neighboring countries in the region[25] *(Please refer to Annex 1).* Regional comparison shows the Philippines dismal performance in the infrastructure category, which lags behind Taiwan (20th), South Korea

[25] 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. In the WCY 2006, the IMD ranked the competitiveness of 61 countries using 314 criteria based on four main factors: economic performance, government and business efficiency, and infrastructure

(24th), Malaysia (31st), China (37th), Thailand (46th), and India (54th), and is only slightly ahead of Indonesia (61st). The Philippines fared poorest in the provision of basic infrastructure among all countries surveyed.

In her SONA, the President vowed to spur massive countrywide infrastructure development to bolster the economic advantages of the five distinct "super regions" of the country. These super regions aim to serve as the catalyst to disperse progress in all areas of the country and balance inequities within and among regions by strategically facilitating and channeling economic spillover from the growth centers to the impoverished provinces.

PUBLIC SECTOR INFRASTRUCTURE BUDGET

The increasing spending pattern for infrastructure is set to continue in 2007 backed by the government's successful implementation of its fiscal reform measures. For fiscal year 2007, the government proposed to allocate P162.9 billion for infrastructure development, 15.8% higher than the proposed P140.7 billion allocation in 2006. 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.[26]

TABLE 5.2
PHILIPPINE INFRASTRUCTURE ALLOCATION
(IN BILLION PESOS)

PARTICULARS	2005	2006	2007
Public Sector Infrastructure Budget	**96.1**	**140.7**	**162.9**
National Government (NG)	49.9	72.0	83.8
Local Government Units	32.2	35.4	43.9
GOCCs	13.9	33.3	35.2

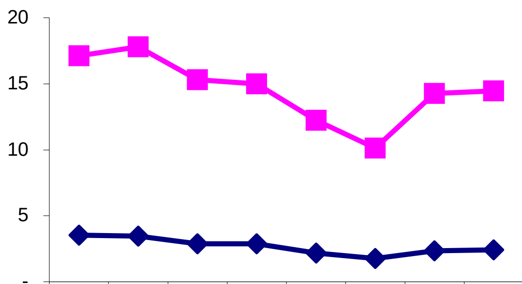
Source: FY 2007 BESF, DBM

The higher expenditure program in FY 2007 to fund infrastructure requirements of the super regions will corner a substantial portion, or 14.5% of the proposed overall budget of P1.1 trillion. While there is a marked improvement in the government's spending pattern towards

[26] 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.

greater prioritization in modernizing the country's physical infrastructure, the P162.9 billion allocation is still 21% below the identified P205.52 billion investment requirement in 2007 under the Comprehensive and Integrated Infrastructure Program (CIIP).[27] Hence, there is a need to foster private sector participation to fill the gap. Moreover, the public sector infrastructure budget to GDP ratio for 2006 and 2007 of 2.3% and 2.4%, respectively, continues to be lower than the 5% ratio recommended by the World Bank for infrastructure investments to have a substantial impact on middle-income countries in East Asia.[28]

FIGURE 5.1
PUBLIC SECTOR INFRASTRUCTURE BUDGET AS PERCENT TO GDP & TOTAL BUDGET



	2000	2001	2002	2003	2004	2005	2006	2007
% of GDP	3.54	3.47	2.87	2.87	2.19	1.77	2.33	2.43
% of Total Budget	17.1	17.8	15.3	15.0	12.2	10.1	14.3	14.5

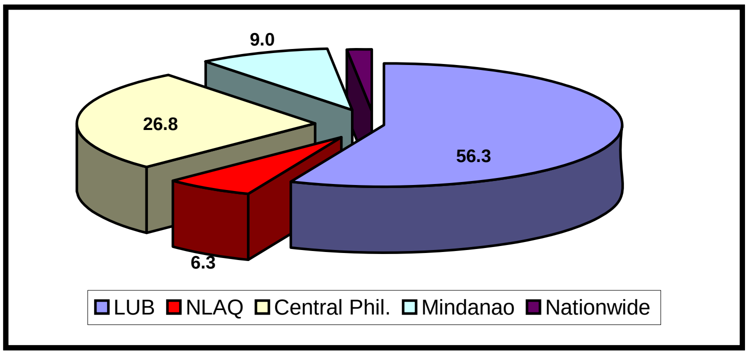
1/ Nominal GDP used for 2006 and 2007 are P6,028.2 billion and P6,712.7 billion respectively, based on the revised DBCC assumptions.
2/ Actual allocation used in 2000 to 2005; 2005 re-enacted 2005 and the supplemental budget used for 2006, and the proposed total budget used for 2007;
3/ Proposed public sector infrastructure budget are used in 2006 and 2007, while actual levels were used in 2000-2005.
Source: Table A.4 of the BESF, GAA

INVESTING IN THE SUPER REGIONS

According to the Budget Message of the President, the "super regions" plan seeks to harness the natural comparative advantage of each super region to promote scale economies, enhance their functional linkages and integration, and boost their economic and market potentials. The President has singled-out high impact infrastructure projects in her SONA to stimulate growth in strategic areas, including four (4) major railway projects, 31 airport and 21 port development projects, roads, and irrigation projects, among others.

27 Preliminary figures from NEDA showed that the total infrastructure investment requirement under the CIIP for 2006-2010 is P1.79 trillion.
28 The World Bank proposes that infrastructure investments gradually increase from less than 3% of GDP to at least 5%;

FIGURE 5.2
INFRASTRUCTURE INVESTMENT REQUIREMENT BY SUPER REGION, 2007-2010



1/ Only includes infra investment in the 4 Super Regions, excluding the Cyber Corridor;
2/ Nationwide allocation of about 1.6% of total infra investments are those lump sum amount assigned to various agencies and departments;

Source: Cited in Secretary Andaya's presentation entitled "Funding Predictability for the Infra Program during the Government Infrastructure Forum.

While development efforts ideally should be aligned with the government's bid to alleviate poverty in the country by channeling funds to more impoverished regions in the country, it cannot be denied that funding allocation for critical infrastructure projects is biased towards the Luzon Urban Beltway (LUB), where Metro Manila is located. This super region will get the lion's share (about 56.3%) of the total infrastructure funds in 2007-2010. Mindanao, which hosts the two poorest regions in the country – CARAGA and ARMM with poverty incidence of 59.8% and 50.9%[29], respectively – ironically gets a measly share of 9.0% of the total infrastructure funding requirements. Some P207.8 billion will be allocated to finance infrastructure projects – i.e. roads, rail, airports and ports, etc, in the LUB –even larger than the combined infrastructure allocation for North Luzon Agribusiness Quadrangle (P23.1 billion), Central Visayas (P98.9 billion), and Mindanao (P33.3 billion).

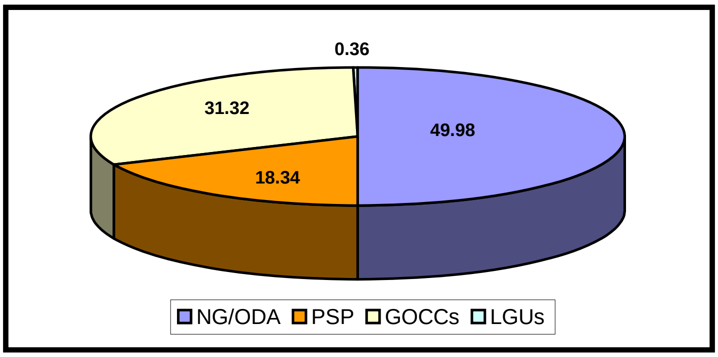
According to the Department of Budget and Management (DBM), the funding requirement for the SONA-identified projects to be implemented in the medium term is pegged at P369.0 billion. Almost half of the funding requirement or P184.5 billion will come from the national government and official development assistance (ODA) fund. Government-owned and -controlled corporations (GOCCs), as well as the private sector, through build-operate-transfer (BOT) projects, will also be tapped to contribute P115.6 billion, and P67.7 billion, respectively to help finance these much-needed infrastructure projects.[30]

[29] Based on the NSCB's 2003 Regional Poverty Estimates.
[30] DBM Secretary Andaya's presentation entitled "Funding Predictability for the Infra Program, October 4, 2006.

Given the funding scenario of the government's infrastructure plan, the following issues and their ramifications should be given due consideration: (a) absorptive capacity of official development assistance (ODA) by government agencies, (b) currency mismatch in the financing of and returns to infrastructure projects, and (c) the possible clash of development initiatives with the conditionalities imposed by financial institutions[31].

It has been noted that many infrastructure projects have been shelved and terminated due to the inability of the government to put up counterpart funding[32]. Further, heavy borrowing might subject local and national priorities to the requirements of the foreign creditors.

FIGURE 5.3
INFRA FINANCING REQUIREMENTS
OF THE SUPER REGIONS, 2007-2010



Source: Cited in Secretary Andaya's presentation entitled "Funding Predictability or the Infra Program during the Government Infrastructure Forum.

Moreover, the populist stance of the government in the pricing of utility services provided by private firms under BOT arrangements made infrastructure projects, in some cases, highly dependent on national government subsidies to keep them afloat. Unfortunately, the cost of subsidies is borne by taxpayers, poor and non-poor alike, by both urban and rural residents, and by both Metro Manila and non-Metro Manila residents. The benefits of the subsidized infrastructure services, however, are disproportionately conferred across income classes, with the non-poor capturing a larger share of the benefits than the poor.[33]

31 Freedom from Debt Coalition, "Of Enchanted Kingdoms, Super Regions and Mega Funds", August 2006
32 Cited in the 2007 CPBD Budget Briefer No. 03 entitled the "Dimensions of the NG Budget".
33 Gilbert M. Llanto, Ph.D., "Bottleneck to Growth: Inadequate Infrastructure", PIDS Policy Notes, March 2004.

PUBLIC INFRASTRUCTURE EXPENDITURE BY TYPE

Roads. The Philippines compares favorably with other Asian countries in terms of road access and quality. With 29,773 km. of national roads and 171,680 km. of local roads or a total of 201,446 km. road network, the Philippines road density of 0.7 km. per square kilometer is higher compared to Indonesia, Thailand, Vietnam, Cambodia and Malaysia. However, the country's paved road ratio to total national road of 70.4% outpaces only Indonesia, but lower than Vietnam, Malaysia and Thailand.

TABLE 5.3
COMPARATIVE ROAD INDICATORS

PARTICULARS	Total Road Length (km)	Paved Road Ratio[b] (%)	Road Density (sq. km)
Indonesia	310,000	47	0.2
Thailand	209,800	98	0.4
Vietnam	204,318	71	0.6
Philippines[1]	201,446[2]	70	0.7
Cambodia	38,257	--	0.2
Malaysia	72,000	74	0.2

Note: 1/ Philippine road indicators as of August 2006;
2/ Total road length include ARMM as of 2004;
Source: DPWH, World Bank presentation entitled "Meeting Infrastructure Challenges in the Philippines"

Notwithstanding the relative advantage in road infrastructure measure vis-à-vis Asian counterparts, the Philippines has a huge regional disparity in terms of road network development. Better quality road infrastructure based on the paved roads ratio is skewed towards host regions of metropolis and progressive cities – i.e. NCR has 100% and Region VII has 82.6% of national roads paved. The same regions, together with the Ilocos region, also have the highest road accessibility as measured by road density per land area.

On the other hand, the Cordillera and CARAGA show dismal quality of roads with more than 50% of its national roads unpaved. Poorer regions like Eastern Visayas, CARAGA and ARMM have the lowest road density per land area. The huge backlog in road infrastructure in these impoverished regions should be sufficiently addressed by strengthening funding support in road development to improve the flow of investments and economic activities in these areas.

TABLE 5.4
PHILIPPINE ROAD INDICATORS[a]
(BY REGION)

PARTICULARS	National Roads (km)	Paved Road Ratio[b] (%)	Rank	Road Density (in km.)[c]		
				Land area (sq. km.)	Population '000	Vehicles '000
Philippines	**28,858.6**	**70.4**		**0.7**	**2.4**	**39.8**
NCR	976.7	99.9	1	7.6	0.4	3.0
CAR	1,843.9	33.4	15	0.5	5.9	141.2
Region I	1,609.0	89.5	2	1.1	3.2	55.0
Region II	1,752.5	66.8	10	0.5	4.8	82.8
Region III	1,984.6	86.4	3	0.8	1.7	24.6
Region IV	4,515.9	65.9	11	0.5	1.7	31.4
Region V	2,193.7	71.7	8	0.5	1.8	60.6
Region VI	2,880.0	74.8	6	0.9	2.6	64.0
Region VII	1,945.3	82.6	4	1.0	2.5	39.1
Region VIII	2,313.4	77.7	5	0.4	2.4	91.2
Region IX	1,140.5	69.6	9	0.6	3.4	72.3
Region X	1,618.9	71.9	7	0.9	3.9	111.0
Region XI	1,426.6	59.7	13	0.6	4.3	90.9
Region XII	1,300.8	62.7	12	0.5	2.7	59.6
CARAGA	1,356.9	49.2	14	0.4	3.3	140.5
ARMM	--	--	--	0.3	2.4	--

a/ Paved roads and road density are CPBD generated data using information derived from DPWH, the 2004 PSY,NSO 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 June 2006;
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 sourced from DPWH as of 2000

On a positive note, public sector allocation for roads as percent to GDP has grown steadily from 0.33% of GDP in 2005 to 0.61% of GDP in 2006. However, the ratio is expected to slightly taper off to 0.56% in 2007. The World Bank suggested that investment requirement in the country's road network should be around 1% of GDP each year over the period 2004-2012.[34] For fiscal year 2007, the government will allocate P37.9 billion for improvement and expansion of existing roads and bridges, just 2.7% higher than the P36.9 billion proposed in 2006.

Based on the proposed DPWH regional allocation for roads and bridges, regions with advanced road infrastructure would still corner a substantial portion of the roads development budget. For instance the NCR (10.2%), Region III (9.4%) and Region VII (7.9%) were allotted with a bigger share of the total budget for roads. Other regions that will

[34] The estimate is based on the formula developed by the World Bank assuming an average projected growth of GDP of 4% a year. This investment requirement include private sector participation in road development (Philippines: Meeting Infrastructure Challenges).

get a substantial portion of the roads budget in 2007 are Eastern Visayas (12.75), Southern Tagalog (9.5%) and CAR (7.6%). Ironically, regions mostly in Mindanao, which have poor road infrastructure, get a measly share of the government's allocation for roads and bridges.

TABLE 5.5
REGIONAL PUBLIC INVESTMENT IN ROADS & BRIDGES

Region	Total Budget[a] (in Million Pesos)	Percent of Regional Allocation to Total Roads Budget[a]	Rank	Per sq. km. Roads Budget[b] *(in Pesos)*	Rank
Philippines	**31,633.2**	**100.0**		**105,444.1**	
NCR	3,234.8	10.2	2	5,240,197.6	1
CAR	2,416.6	7.6	6	124,611.2	6
Region I	2,206.1	7.0	7	167,214.5	3
Region II	1,028.5	3.3	12	33,009.4	15
Region III	2,969.7	9.4	4	161,438.1	4
Region IV	2,999.9	9.5	3	60,817.6	11
Region V	2,113.2	6.7	8	116,557.8	7
Region VI	1,932.2	6.1	9	93,728.9	8
Region VII	2,490.6	7.9	5	156,887.4	5
Region VIII	4,014.4	12.7	1	172,081.6	2
Region IX	652.8	2.1	15	34,034.2	14
Region X	1,017.9	3.2	13	62,863.4	10
Region XI	1,248.5	4.0	11	43,932.3	13
Region XII	908.5	2.9	14	50,234.4	12
CARAGA	1,866.5	5.9	10	86,931.4	9
ARMM	533.1	1.7	16	21,092.2	16

a/ Accounted only P31.6 billion DPWH budget for roads & bridges with regional breakdown; does not include payment completed works, Right-of-Way (payment), consultation services;
b/ Refers to the percentage of roads investments per sq. km. of land area

Source: DPWH computation based on the 2006 National Expenditure Program (NEP)

In terms of land area, the NCR has the largest roads budget per sq.km. of P5.2 million. This is thirty (30) times bigger than the second highest recipient of regional roads budget per land area which is Eastern Visayas at P172,081.6/sq.km. The ARMM posted the lowest road investment in terms of land area of only P21,092/sq. km. among the 16 regions. It is important that the government should address equity issues in terms of distributing investments for roads towards more impoverished regions to stimulate their potential and boost regional economic growth.

Railway System. For fiscal year 2007, P2.2 billion of government subsidy will be given to the MRT 3. This is lower than the P3.2 billion subsidy provided under the P46.4 billion FY2006 supplemental budget for MRT maintenance and equity rental fee, staffing and administrative costs, and insurance. The government is bound to subsidize the financial losses of the MRT 3 operations as provided in the build-lease-transfer (BLT) agreement with Metro Rail Trail Transport Corporation (MRTC) and participating foreign creditors, among others. The national government subsidizes the discrepancy between the total obligations of the MRTC for the year and its total annual revenues. Data from the MRTC showed that MRT 3 has perennially incurred huge losses since it began operations in 2000.

TABLE 5.6
MRT 3 ANNUAL TOTAL OBLIGATIONS
VIS-À-VIS TOTAL REVENUES
(IN MILLION PESOS)

PARTICULARS	2003	2004	2005	2006	2007
Total Obligations	2,381.0	2,486.5	3,897.8	3,863.8	3,863.8
Less: Total Revenue	1,384.0	1,656.7	1,596.9	1,676.0	1,702.0
Subsidy (as endorsed by DOTC)	997.0	829.8	2,390.9	2,187.8	2,161.7
Subsidy (as approved by DBM)	--	1,211.6	667.1	3,248.8[1]	2,189.5
Per Capita (Passenger) Subsidy[2]	--	9.89	5.19	24.06	15.45

1/ Provided under the P46.4 billion supplementary budget.
2/ CPBD staff estimates; computed by dividing total government subsidy by annual ridership.
Source: MRTC

Notwithstanding the relatively growing ridership and revenues *(Please see Annex 3)*, the MRT 3 is experiencing huge income shortfall since payment to obligations is subject to foreign exchange fluctuations. While it is only earning in pesos, long-term obligations are paid in dollars. In fact, at the time of the signing of the contract, the peso-dollar exchange rate was only P27 to $1. This has almost doubled to date and has exerted strong pressure on the company's finances, and on the limited government funds. The growing operational expenses brought about by higher electricity cost, maintenance, etc. also pose additional financial burden to MRTC. Moreover, using taxpayers' money in providing government subsidy to such private sector-led infrastructure projects, could be unjust to those who do not benefit from these services – i.e. taxpayers and residents outside of Metro Manila.

One way to ease the government's fiscal burden from MRT 3 subsidy is to increase its fare rate. The CPBD reckons that government subsidy in 2007 would amount to P15.45 per MRT 3 rider. This means that if MRTC can raise its fare closer to this amount or even at par with bus fares along EDSA, government subsidy on MRT III would significantly be reduced. A reasonable and economically responsive fare rate adjustment is imperative, albeit a politically unpopular move on the part of the government.

A government take-over of the MRT was proposed early this year as the most ideal solution to address the growing financial woes of the railway transport system. Given proper regulation and management, this was thought to be beneficial to the government and the public as well. However, the proposal was met with criticisms from policymakers as this will be very costly on the part of the government since doing so would further strain the government's recovering finances. The government needs at least $600 million to be able to take over MRT 3.[35]

Water Supply. The President's Priority Program on Water (P^3W) aims to provide safe and potable water to 432 waterless[36] municipalities outside Metro Manila *(see Annex 3).* The project will set aside P500 million each year during the medium term (from 2005 to 2010) to support the government's poverty alleviation efforts.

After two years of implementing the P^3W program, the project was able to release funds to 340 municipalities, which is equivalent to 1,097 barangays. Not surprisingly, among the regions outside of Metro Manila, the Autonomous Region of Muslim Mindanao (ARMM) cornered a substantial portion or 28.8% of the total fund releases in 2005 and 2006. The ARMM hosts majority of the country's municipalities and barangays with no access to safe potable water.

Issues on the rationality and transparency of fund distribution to project beneficiaries have been raised in regard to the implementation of the projects by concerned agencies – NAPC, DPWH, DND and district engineering offices. For one, 38% of the P^3W fund in 2005 was channeled to 81 municipalities, which are not part of the original list of waterless municipalities identified by the Water and Sanitation Coordinating Office (WASCO) of the National Anti-Poverty Commission (NAPC). In 2006, 43.9% of the P500 million budget was given to 79 municipalities which were supposedly not part of the P^3W project.

35 Ibid.
36 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.

TABLE 5.7
REGIONAL ALLOCATION OF
THE P^3W FUND (2005-2006)*a*

REGION	No. of Municipalities	No. of Barangays	Allocation (In P Million)	Percentage to Total
CAR	10	14	22.4	2.2
Region I	19	54	39.4	3.9
Region II	10	27	28.3	2.8
Region III	26	76	32.7	3.3
Region IV-A	28	68	81.2	8.1
Region IV-B	23	38	48.0	4.8
Region V	25	66	49.1	4.9
Region VI	25	87	77.4	7.7
Region VII	13	69	28.6	2.9
Region VIII	9	27	23.8	2.4
Region IX	19	36	47.9	4.8
Region X	29	77	72.6	7.3
Region XI	14	44	66.2	6.6
Region XII	10	61	39.4	3.9
Region XIII	17	53	53.2	5.3
ARMM	63	300	287.9	28.8
Total	**340**	**1,097**	**998.2**[a]	**100.0**

a/ As of September 2006
b/ The total will not equal to P1 billion for P^3W Program for 2005 and 2006 because data used in 2006 is still subject for review by the DPWH.

Source: DPWH

It has been observed that implementing agencies veered away from a strict municipality-based targeting of waterless communities. Hence, there is a need to firm up the criteria and other technical issues in the identification of desired project beneficiaries in order to pinpoint accountable agencies and prevent opportunities for graft. A detailed and standardized reporting system is necessary and should be developed to track the implementing agency's performance in improving communities' as well as households' access to clean and safe water, as a vital means to reduce poverty in the long-term. Further, it has been underscored that some LGUs, through their local water districts and district engineering offices need assistance and capacity-building in developing their plans, feasibility studies and implementing programs in order to avail of funding from the government. This could help address water access gaps of households across regions.

TABLE 5.8
NUMBER OF MUNICIPALITIES NOT PART OF THE ORIGINAL BENEFICIARIES OF THE P^3W FUND, (2005-2006)[a]

REGION	No. of Municipalities	Allocation (In Million)	Percentage to Total (%)[b]
CAR	9	21.4	2.2
Region I	11	20.9	2.1
Region II	1	8.4	0.8
Region III	19	17.8	1.8
Region IV-A	15	47.3	4.7
Region IV-B	7	15.8	1.6
Region V	14	24.7	2.5
Region VI	9	18.4	1.9
Region VII	7	7.4	0.8
Region VIII	6	21.1	2.1
Region IX	4	4.9	0.5
Region X	17	44.1	4.4
Region XI	11	48.0	4.8
Region XII	6	15.7	1.6
Region XIII	11	25.4	2.6
ARMM	13	67.5	6.8
Total	**160**	**409.0**	**41.0**

a/ CPBD generated data
b/ Refers to funds provided to beneficiary municipalities not part of the original list of municipalities identified under the P^3W project as percentage to the total P^3W fund for two years of P1 billion;
Source of Basic Data: DPWH

Rural Electrification. One key program in President Arroyo's 10-point agenda is the provision of adequate, affordable and reliable electricity services especially to far-flung communities in the country. This program is vital to the government's pro-poor agenda of eradicating poverty by 2015 in compliance with the United Nations Millennium Development Goals (MDG).

The Expanded Rural Electrification Program (EREP) integrates efforts on rural electrification by the government – through the Department of Energy (DOE), National Electrification Administration (NEA), etc., and the private sector – MERALCO, private investor-owned utilities (PIOUs). The program will develop grid extension and off-grid electrification to achieve 100% barangay electrification by 2008.[37] It also seeks to provide electricity to *sitios* – or pockets of small villages, all the way to the household level.

[37] The EREP aims to achieve full electrification of the country's 41,945 barangays by 2008. This target is based on the 2000 national census.

According to the DOE, as of August 2006, the country has achieved 94.2% of barangay electrification or a total of 39,500 barangays out of the 41,945 target. Also in the same period, 4,203 sitios have been provided with electricity. While significant progress has been made in the government's electrification initiatives, as shown by the advanced electrification status in most of the regions, the provision of electricity service specifically in the ARMM at 69.7% level lags significantly as compared to other regions. This huge disparity should prompt the government to strengthen its efforts to reduce electrification gap in this region.

TABLE 5.9
BARANGAY ELECTRIFICATION LEVEL BY REGION
(AS OF AUGUST 31, 2006)

REGION	Potential Barangays	Electrified Barangays	Unelectrified Barangays)	Electrification Level (%)
Philippines	**41,945**	**39,500**	**2,445**	**94.2**
NCR	1,693	1,693	-	100.0
CAR	1,172	1,115	57	95.1
Region I	3,265	3,260	5	99.9
Region II	2,311	2,215	96	95.9
Region III	3,099	3,084	15	99.5
Region IV-A	4,009	3,939	70	98.3
Region IV-B	1,456	1,340	116	92.0
Region V	3,471	3,240	231	93.9
Luzon	***20,476***	***19,886***	***590***	***97.1***
Region VI	4,050	3,989	61	98.5
Region VII	3,003	2,980	23	99.2
Region VIII	4,390	3,991	399	90.9
Visayas	***11,443***	***10,960***	***483***	***95.8***
Region IX	1,903	1,622	281	85.2
Region X	2,020	1,891	129	93.6
Region XI	1,158	1,108	50	95.7
Region XII	1,192	1,070	122	89.8
CARAGA	1,308	1,258	50	96.2
ARMM	2,445	1,705	740	69.7
Mindanao	***10,026***	***8,654***	***1,372***	***86.3***

Source: Department of Energy

In the FY 2007 proposed national budget, the government will allocate P1.9 billion to NEA as subsidy to the 119 electric cooperatives (ECs) around the country to accelerate its barangay electrification efforts. The NEA aims to accomplish electrification of 200 barangays next year. Meanwhile, the DOE for its part will provide P76.7 million and P100.5 million in 2007 to fund the Barangay Electrification Program (BEP) and the Remote Area Electrification Project (RAEP), respectively. These programs aim to energize off-grid barangays, or those poor communities in remote and non-viable areas not served by franchise utilities using renewable energy sources – i.e. solar photovoltaic (PV) system, small wind power, micro-hydro, etc. Encouraging private sector participation through the Qualified Third Party (QTP) framework, as well as developing a sense of ownership among beneficiaries or host communities will help in sustaining rural electrification program.

As the government steps up its efforts to achieve full energization by 2008, challenges still remain. Besides funding sustainability concerns, the high electricity tariffs continue to be a major concern of households and businesses. For instance, reports on possible trading irregularities in the Wholesale Electricity Spot Market (WESM) is expected to cause a rise in electricity prices in the coming months.[38] Having high electricity prices in the country – in fact, one of the highest in Asia *(Please see Annex 4)* – undermine the government's total electrification target, as many people may not be able to afford the high tariffs. This will only aggravate the electrification gap, as well as the poverty situation in the countryside.

ICT Development. The Philippines has already achieved important milestones in ICT development particularly in terms of the quality of web presence of national government agencies (NGAs)[39] and local government units *(Please see Annex 5 and 6)*. Also, in the UN Global E-Government Readiness Survey in 2005, the Philippines ranked 41st among the 191 UN member states surveyed in terms of ICT utilization in governance and in the provision of basic services. The country's ranking is the fourth highest in the South and Eastern Asia following Republic of Korea (5th), Singapore (7th) and Japan (14th). It surpassed the standings of Malaysia (43rd), Thailand (46th), China (57th), Indonesia (96th), and Vietnam (105th).

Despite these developments, the digital divide continues to deepen. Comparative data on internet penetration showed the Philippines lagging significantly behind neighboring countries in Asia *(Please refer to Table 5.10)*. Programs geared towards the establishment of an electronic bureaucracy are pointless if target users are ICT illiterate and do not have adequate understanding and appreciation in ICT.

The government's effort in exploiting the benefits of ICT and strengthening its role in national development is supported by the institutionalization of the E-Government Fund (EGF) in the national budget, providing for P1 billion each year over the medium term. The recent ICT plan is anchored in the development of the country's Cyber Corridor Super

[38] "Government eyes 100% electrification of barangays in 2008", The Philippine Star, October 16, 2006.
[39] Based on the survey made by NCC as of 2005, out of the total 375 NGAs in the country, 92.8% or 348 have web presence.

Region, which traverses through all mega regions, stretching 600 miles from Baguio City to Zamboanga.

For FY 2007, the P1 billion E-Government Fund will finance among others, the establishment of Community e-Centers (CeCs) to help enhance the operations of local government units and improve community-based services – i.e hasten the application of clearances and resident certificates, payments of real estate taxes, making agricultural indices available online. The iSchools Project will also bring ICT development in secondary education by providing networked computer laboratories to 360 public high schools, ICT trainings for educators, students and out-of-school youths.

TABLE 5.10
COMPARATIVE INTERNET PENETRATION
(SELECTED ASIAN COUNTRIES)

COUNTRY	No. of Internet Users (In Thousands)	Internet Penetration (% Population)
Hong Kong	4,879	69.2
Singapore	2,421	67.2
Japan	86,300	67.2
South Korea	33,900	67.0
Malaysia	11,016	40.2
Vietnam	10,711	12.8
Thailand	8,420	12.7
China	123,000	9.4
Philippines	7,820	9.1
Indonesia	18,000	8.1

Source: Internet World Stats 2006

The Commission on Information and Communications Technology (CICT), the lead agency in monitoring and approving ICT projects must ensure efficient utilization of the E-Government Fund. It may set a benchmark costing on the different components of the ICT development project – i.e. hardware acquisition, training requirements, achieving a desired level of web presence[40], which may be used to assess the approval of proposed ICT projects. Moreover, monitoring the implementation of the approved ICT projects should be mandatory in assessing the impact of ICT in improving the performance and operational efficiency of project proponent vis-à-vis targets.

[40] Based on the United Nations – American Society for Public Administration (UN-ASPA) stages of e-government:

TABLE 5.11
2007 PROPOSED E-GOVERNMENT FUND PROJECTS

AGENCY	PROJECT	AMOUNT
DBM-HoR	Integrated e-Budgeting System	200,000,000
CICT	Community E-Center Project (Schools Project)	400,000,000
BIR	eLinkages Project	159,510,000
NSO	Unified Multi-Purpose Identification System in Government	132,746,829
POEA	OFW eLink	60,000,000
LTFRB	Frontline Unit Services Enhancement & Upgrading Project	40,000,000
Total		**992,256,829**[1]

Note: 1/ Initial ICT project proposal under the 2007 E-government Fund;
Source: NCC

Airports and Ports. The country's archipelagic nature makes it imperative to modernize and expand existing airports and seaports to boost trade and tourism. This development is necessary in achieving an efficient and effective inter-modal transport system – involving the seamless linkage of all transport modes in sea, air and land.

Airport development funds for FY 2007 amount to P8.4 billion to finance 54 airports around the country. A few of these big-ticket airport projects include the New Iloilo Airport and Laguindingan Airport development projects. The New Iloilo Airport project, which has an estimated cost of P8.8 billion, is expected to be completed on March 2007. This project will entail the construction of a 188-hectare airport complex of international standard to replace the existing airport in Manduriao, Iloilo City. The Laguindingan Airport Project is expected to benefit the provinces of Misamis Oriental, Bukidnon, Misamis Occidental, Lanao del Norte, Lanao del Sur and Camiguin Island by generating more jobs and economic opportunities, as well as maintaining socio-political stability in these areas. The airport development project is estimated to cost P5.4 billion, which will be completed on May 2011. Meanwhile, P259 million will fund port development and expansion projects of 32 strategic ports in the country.

TABLE 5.12
NG BUDGET ALLOCATION FOR PORTS & AIRPORTS
(BY REGION)

PARTICULARS	Airports & Navigational Facilities	Ports & Lighthouses
Philippines	**8,393,965,000**	**259,201,000**
Foreign-Assisted Projects	**6,605,812,000**	
Locally-Funded Projects	**1,788,153,000**	**109,000,000**
Nationwide	54,500,000	--
NCR		--
CAR	12,437,000	--
Region I	65,410,00	--
Region II	92,900,000	--
Region III	12,000,000	11,000,000
Region IV	140,742,000	17,000,000
Region V	472,354,000	25,000,000
Region VI	113,660,000	20,000,000
Region VII	199,682,000	16,000,000
Region VIII	98,988,000	7,000,000
Region IX	176,760,000	--
Region X	69,000,000	3,000,000
Region XI	--	--
Region XII	135,420,000	--
Region XIII	38,000,000	1,000,000
ARMM	106,300,000	9,000,000

Source: Details of Selected Programs and Projects, DBM

CONCLUSION

The passage of a new budget in FY 2007 is indispensable in concretizing the "super regions" development agenda of the President, which focuses on pump-priming the economy through broad-based infrastructure development. Policy issues in many areas should be amply addressed in order to maximize the benefits of developing the country's infrastructure.

On Financing. The government should sustain fiscal reforms to rein in the country's long-standing deficit problem. The passage and implementation of the VAT reform law is a welcome development for the government's infrastructure program as more funds can be channeled to infrastructure provision. Moreover, prudent fiscal policy should be matched with prudent spending, which allows funding of priority infrastructure projects that are cost-effective, and at the same time, provides maximum social benefits to the people. The World Bank even suggested that the government should focus on a few, yet workable and feasible projects. Additionally, it is important that the government takes steps in developing policies and mechanisms to encourage long-term domestic savings – i.e. development of long-term debt and bond market, as a source of financing for infrastructure projects. In financing infrastructure projects, sufficient funds should likewise be allocated for defraying "right-of-way" costs to prevent delays and ensure effective implementation of a wider range of projects.

On Contingent Liabilities. In its bid to restore private infrastructure investments, the government is pressured to offer guarantees and subsidies to encourage private participation in infrastructure provision. However, the government should develop a framework to safeguard the interest of the public—i.e. taxpayers, users—as guide to determining when public support is deemed necessary and when it is not. Lessons from contingent liabilities arising from stranded contract costs with independent power producers (IPPs) in the power industry and from the agreement on the MRT should be duly noted and considered in the aforementioned framework.

On Spatial Distribution. The huge infrastructure backlog in the depressed areas in Mindanao and in the far-flung reaches of Luzon and Visayas is due to under-investment of government in these areas. Infrastructure investments tended to be skewed toward areas that are already progressive and with adequate infrastructures – i.e. NCR, Ilocos Region, Central Visayas. Although there are already improvements in targeting infrastructure funding – for instance, Eastern Visayas and ARMM will get a substantial share in roads and water NG funding, respectively – other poor regions will still get a measly share in the infrastructure budget – i.e. CAR, CARAGA, and SOCCKSARGEN.

On Corruption. Corruption has been a pressing economic development issue in the Philippines. The government's efforts to effect a broad-based infrastructure-led development in the country must also come with a serious, sustainable and extensive drive to fight graft and corruption. The perceived systemic corruption in the country, not only has negative repercussions to business and investment, but has also rendered many public infrastructures inferior, and drained limited public resources that could have been spent in improving the delivery of more infrastructure and basic social services.

The need to strengthen and improve central oversight is therefore warranted. One way is to improve the monitoring and enforcement capabilities of key anti-corruption oversight agencies such as Commission on Audit (CoA), Office of the Ombudsman, among others. There should be benchmarking on the average costs of similarly situated infrastructure projects, particularly "discretionary funds" spent on many infrastructure projects with little oversight.

Moreover, increasing the participation of private organizations and communities in oversight will help in curbing irregularities in government transactions. Several citizens groups and non-government organizations have already undertaken serious steps to combat graft in the local level. For instance, the Concerned Citizens of Abra for Good Government (CCAGG) embarked on extensive monitoring as well as participatory audit activities of infrastructure projects, in cooperation with the CoA. The involvement of women in the administrative and auditing functions in road projects under the KALAHI-CIDDS program discouraged unscrupulous people from shaving off "any 10% from the actual road budget".[41] These best practices models in reducing corruption should continually be supported and replicated by the government in many other areas of the country.

Far more important is fast-tracking the prosecution and imposition of sanctions on corrupt government officials. This will assure the public that the government is serious in curbing and ultimately eradicating graft and corruption, especially in the infrastructure development.

[41] "Women cited for checking graft in infra projects.". Philippine Daily Inquirer, June 24, 2004.

ANNEXES

ANNEX 1
INFRASTRUCTURE COMPETITIVENESS RANKING
(REGIONAL COMPARISON)

Year	Indonesia	Philippines	Korea	India	Thailand	China	Malaysia	Taiwan
2006	61	56	24	54	46	37	31	20
2005	60	55	23	54	47	42	34	18
2004	60	59	27	57	50	41	30	20
2003	59	56	30	58	49	41	31	23
2002	46	47	23	49	42	37	31	20

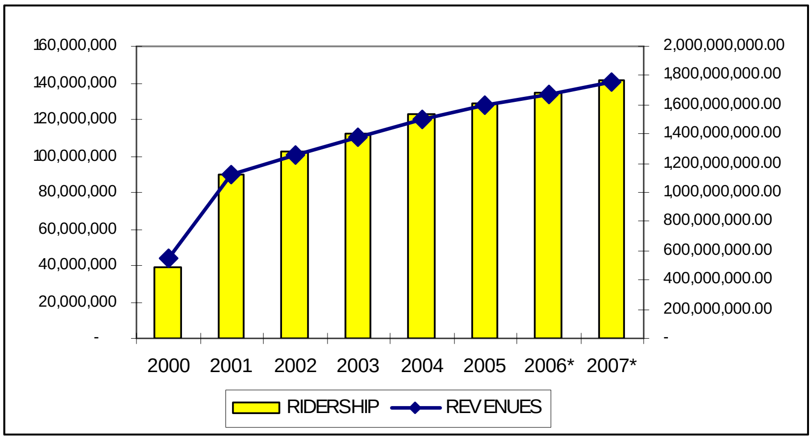
Source: WCY, IMD

ANNEX 2
NUMBER OF WATERLESS COMMUNITIES/HOUSEHOLDS
UNDER THE P^{3}W 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

ANNEX 3
ANNUAL MRT RIDERSHIP & REVENUES, 2000-2007



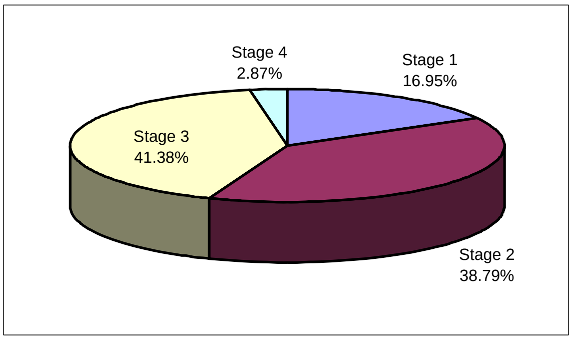
Source: MRTC

ANNEX 4
COST OF ELECTRICITY (US Cents/kWh)
SELECTED ASIAN COUNTRIES

REGION	Residential	Commercial	Industrial
Japan	13.05	13.05	13.05
Singapore	11.70	7.82	7.42
Cambodia	10.86	16.24	16.24
Hong Kong	10.48	12.48	14.07
Philippines	9.12	9.33	8.09
South Korea	8.29	8.29	8.29
Malaysia	6.42	5.90	4.41
Vietnam	4.47	6.19	2.44
China	4.50	7.40	6.30
Thailand	3.55	2.40	2.38
Indonesia	3.92	4.07	2.36

Source: Cited in the Department of Energy presentation entitled "Five Pillars of Growth" to the Philippine Senate

ANNEX 5
NGA WEBSITES ACCORDING TO STAGES OF E-GOVERNMENT OF UN-ASPA (3RD QTR. 2006)



Source: National Computer Center (NCC)

ANNEX 6
LOCAL GOVERNMENT UNITS WEB PRESENCE AS OF JUNE 30, 2005

Nationwide	With Website					Without Websites	Total LGUs
	Stage 1	Stage 2	Stage 3	Total	%		
Cities	37	60	18	115	97.4	2	117
Provinces	26	40	14	79	100.0	0	79
Municipalities	1,270	170	41	1,481	99	19	1,500
Total	1,332	270	73	1,675	98.9	21	1,696

Source: NCC

Chapter 6

ADDRESSING THE PRODUCTIVITY GAP IN THE AGRICULTURE SECTOR

CONTRIBUTION TO POVERTY REDUCTION

Rapid, sustainable, and equitable agricultural growth is key to achieving the Government's target of halving poverty from 34% in 1990 to 17% by 2015 under the Millennium Development Goals (MDG). The President's Ten-Point Agenda and the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 are also aligned to this priority objective.

There is strong empirical support to this development approach. Studies show that for every 1% increase in per capita agricultural output results to a 1.61% increase in the incomes of the poorest 20% of the population. (*DFID, 2005*). This is further supported by a major cross-country analysis that shows, on average, every 1% increase in agricultural yields reduced the number of people living on less than US$1 a day by 0.83% (*DFID, 2005*).

In terms of both level and incidence, the magnitude of poverty is highest in the rural areas especially in agricultural sector (46% poverty incidence). Using the World Bank's international poverty line of US$ 1/day, the Philippines poverty situation slightly improved with the proportion living below US$ 1/day declining from 13.5% in 2000 to only 11.1% in 2003. Despite the modest economic growth, poverty incidence in the Philippines remains relatively high at 33%, with 3 out of 4 poor Filipinos (about 73%) residing in rural areas. The task of combating poverty and inequity thus draws immediate attention to the rural population, which depends on agriculture for income and livelihood.[42]

DISMAL PERFORMANCE OF AGRICULTURE SECTOR

The agriculture sector continues to be a major source of income and employment, employing nearly half of the total labor force and contributing over 20% of gross domestic product (GDP). When all economic activities related to agro-processing and supply of non-farm

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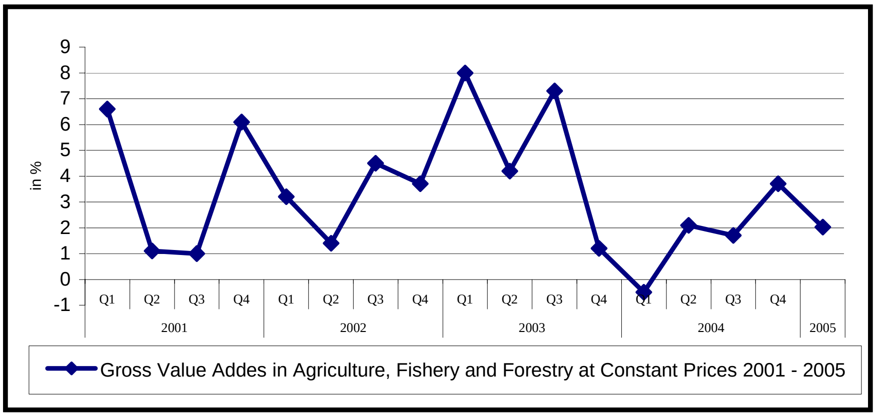
[42] Policy paper on Sustainable Rural Development for discussion in the Philippine Development Forum, March 30-31, 2006.

agricultural inputs are included, the agricultural sector broadly defined accounts for about two-thirds of the labor force and 40% of the GDP.

Despite its strategic role in overall economic development, agriculture displays the most erratic performance with growth rates tending to fluctuate widely from quarter to quarter (*Figure 6.1*). While the sector's full year real growth in 2004 of 5.1% exceeded the target—which is 0.10 percentage point higher than the upper range targeted for the year, there has been dramatic decline in 2005 due mostly to unfavorable weather conditions. The gross valued added of agricultural sector grew last year by only 2.03% way below the 4.2-5.2% target.

FIGURE 6.1
GROWTH RATE OF GVA
IN AGRICULTURE, FISHERY AND FORESTRY
(AT CONSTANT PRICES), 2001-2005



Source of basic data: NSCB, 2006

The shortcoming in terms of performance is reflected in the sector's inability to deliver the expected contributions to rural employment and maintenance of low food prices. First, the medium-term target to create 2 million jobs may be difficult to achieve as employment growth in the sector between 2000-2005 has been declining from 6.57% to 2.71%. More significantly, the quality of agricultural employment needs to be improved considering that 24.70% are unpaid family workers and the underemployment rate was 45.80% in 2005 (*NEDA, 2006*).

Secondly, the target to make food prices affordable and competitive were not met either. Wage goods, e.g. rice, sugar, pork, vegetables, etc. posted incremental increases in prices because of higher input prices largely due to successive oil price hikes. The occurrence of El Nino during the first half of 2005 likewise constrained agricultural production.

The above sectoral outcomes suggest that productivity remains a major challenge. Competitiveness of agricultural commodities in terms of yield, production cost and prices is hardly apace to the neighboring countries. The fundamental causes of poor agricultural performance, and hence of poor sector competitiveness and poverty reduction are largely attributed to lack of public investment in key areas of irrigation, rural infrastructure, and extension and R&D services.

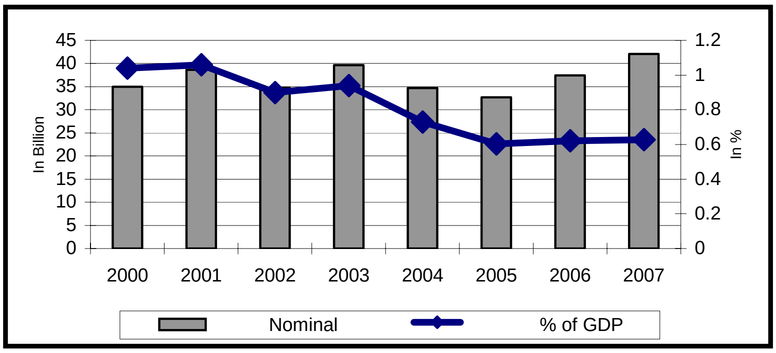
Indeed, past evidence shows that strategic public spending in agriculture can be highly effective in increasing agricultural productivity and reducing poverty. In the case of India, government spending on agriculture generated returns larger than their costs. Every rupee invested in rural road construction in the 1960s yielded almost nine times that amount in increased agricultural output with comparable benefit to cost ratios for education of 5.97, irrigation investment of 2.65 and agricultural research of 3.12 *(DFID, 2005).*

Public investment in support of Philippine agriculture is at low levels and is poorly focused. Areas with high and proven returns, like agricultural research, are often starved of funds, crowded out by spending on politically popular items like credit subsidies.

AGGREGATE TREND AND PATTERN OF PUBLIC EXPENDITURES

Public expenditures for agriculture (including natural resources and land reform) sector will reach a total of P42.1 billion in 2007. As a percentage of GDP, this allocation represents a downward trend over the last six years (*Figure 6.2*). In real terms, the same pattern can be observed as average annual growth of agriculture spending was negative 0.8% for the same period.

FIGURE 6.2
PUBLIC EXPENDITURES IN AGRICULTURE
(IN CURRENT PRICES) AND % OF GDP, 2000-2007



Note: Allocation for fiscal year 2006 is derived from figures in BESF 2006
Source of basic data: FY 2006 BESF

The Department of Agriculture (DA) will receive a budget of P18.50 billion, 17.80% (or P3.29 billion) of which is allocated as regular budget of the Department and the remaining 82.20% (or P15.20 billion) is for Agriculture & Fisheries Modernization Program (AFMP) budget. However, this combined agriculture budget has been fluctuating widely over the last five years. After a marked improvement in 2001, it suffered two consecutive years (2002-2003) of cutbacks until gaining some momentum from 2003 onwards.
By type of expenditures, personnel service (PS) remains the single biggest item in the Department's budget, accounting for three-fourths of total budget. Note that expenditures for PS have been steadily declining at a rate of 0.87% since 2004. MOOE spending will be 50% less than it was in 2004. On the other hand, capital outlays will receive a significant increase from P1.33 million in 2005 to P95.67 million in 2007.

Agriculture & Fisheries Modernization Program (AFMP). The AFMP was designed to respond to productivity issues in agriculture to make it better prepared for globalization and facilitate considerable poverty reduction in the sector. The law, Republic Act No. 9281 as amended, mandates an annual appropriation of not less than P17 billion for the Program.

However, for the past seven years, the AFMP has faltered in implementation *(AFMA Draft Final Report, 2006).* The expected additional P20 billion in the first year (1999), and P15 billon a year in the past six years (2000-2005) did not materialize. In fact, the annual flows for AFMP declined from 1999 to 2005. In inflation-adjusted terms, the decline would be much sharper.

Total actual budget fell below what were prescribed by the law both in terms of new appropriations and obligations. Total obligations of P116.37 billion (as reported by the DBM based on expenditures attribution to the AFMP implementation) was incurred over 1999 to 2005. Except for the year 2000, when actual obligations exceeded by a measly 2% the AFMP prescribed amount, annual obligations always fell way below the prescribed budget for each corresponding year. The shortfalls were mostly 50% or higher. For the past three years, shortfalls at 50%, 53% and 50% in 2003, 2004 and 2005, respectively, were reported.

Meanwhile, total AFMP's budget for 2007 at P21.71 billion is substantial compared to obligations in the previous years. This will be the only time since 2000 that AFMP budget exceeded the benchmark of P17 billion.

TABLE 6.1
ACTUAL OBLIGATIONS VS AFMA PRESCRIBED BUDGET, 2001-2005
(IN MILLION PESOS)

PARTICULARS	Total (from 1999-05)	2001	2002	2003	2004	2005
Expenditure, Obligation Basis						
Department of Agriculture	38, 405	3,796	4,963	3,733	3,088	3,116
AFMA	77,963	15,872	13,378	10,064	10,429	11,437
Total DA+AFMA	**116,368**	**19,668**	**18,341**	**13,797**	**13,517**	**14,553**
AFMA Prescribed Budget*						
1998 DA Budget level	19,404	2,772	2,772	2,772	2,772	2,772
Additional Budget	122,000	17,000	17,000	17,000	17,000	17,000
2% of GVA for research & Extension **	40,034	6,928	7,250	7,734	8,740	9,382
Total Prescribed Budget	**181,438**	**26,700**	**27,022**	**27,506**	**28,512**	**29,154**
% Share of Obligations to Prescribed Budget	**64.14**	**73.66**	**67.87**	**50.16**	**47.41**	**49.92**
% Shortfall	**(35.86)**	**(26.34)**	**(32.13)**	**(49.84)**	**(52.59)**	**(50.08)**

** AFMP provides for an initial year (1999) funding of P20 billion in addition to the 1998 DA budget. Under Rule 112, the DBM was mandated to include in the President's budget program, P20 billion (at least P17 billion per year in addition to the DA's 1998 appropriation of P2.771 billion).*

*** Starting the year 2001, R & D as well as extension shall each have annual budget allocation of not be less than 1% of agriculture GVA two year before the current budget year.*

Source: AFMA Draft Final Report, 2006

Allocation by major final output. Productivity-enhancing investments such as irrigation and post-harvest facilities continued to receive government priority attention. For 2007, these expenditure items will account for more than half of the AFMP budget. Incremental increase in irrigation allocation, in particular, grew much faster at 43.17% than the total AFMP budget. However, allotments post-harvest facilities will decline by 4.87% from P1.79 billion in 2005 to P1.70 billion 2007. On the average, these two infrastructure items—irrigation and post-harvest facilities—have been able to meet prescribed budgetary allocation and have exceeded the required share at 30% and 10%, respectively, from the total AFMP budget

On other hand, allocation to credit programs which have been proven to be unsustainable due to low repayment rates and high transaction costs *(Habito,et.al, 2005)*, will be further reduced by 14% from the 2005 level of P140.40 million to 120.36 million.

TABLE 6.2
BUDGET BY MAJOR FINAL OUTPUT, 2004-2007
(IN MILLION PESOS)

PARTICULARS	Actual		Adjusted	Proposed
	2004	2005*	2006*	2007
Irrigation Development Services	3,576.00	4,433.70	5,267.24	7,540.92
Other Infarstructure and/or Post-Harvest Development Service	966.13	1,786.35	2,381.18	1,699.29
Credit Facilitation Services	115.36	140.40	123.94	120.36
Market Development Services	58.44	58.21	90.66	124.15
Research and Development	513.62	532.18	542.82	616.70
Extension Support, Education and Training	928.29	637.74	548.88	664.00
Information Support Services	54.13	107.45	158.98	246.69
Production Support Services	1,932.35	1,811.11	1,507.98	1,933.04
Regulatory Services	923.42	269.86	274.26	353.12
Policy Formulation, Planning Project Development & Advocacy Services	401.52	484.06	569.91	838.58
Program Management	3.93			
Sub-Total, AFMA	**9,473.21**	**10,261.07**	**11,465.85**	**14,136.84**

Sources: BESF 2006 and 2007 Budget Presentation, Department of Agriculture

Support to research & development (R&D), however, remains to be severely under funded. For instance, public expenditures to R&D in 2004 accounts for only 0.8% of agriculture gross value added (at P730 billion) which is way below the average of 1% among developing countries. In fact, only 6.61% or P616.7 million of total allocation for AFMP (P15.20 billion) will be allocated in 2007 for agricultural research. The opportunity cost of under-investing in public agricultural research and development in the sector is high as studies of social rate of return is estimated to be in order of 40% to 60% *(CPBD, 2005).* Moreover, annual rates of return in agricultural research for sugarcane and mango are significantly higher (at 51-71% and 85-107%, respectively) than rice and corn (at 11-20% and 29-48%, respectively) yet research expenditures are in favor of the traditional commodities.

Infrastructure outlay under the AFMP. Infrastructure outlay under AFMP will receive a substantial increase of 81% from P6.89 billion in 2005 to P12.46 in 2007. The provision of rural infrastructure will be critical in raising agriculture income and productivity. Access to paved roads, electricity, and piped water is known to have a high impact on agriculture income and productivity. These goods create production alternatives that increase the mobility of agriculture capital and allow it to seek more profitable activities. In many instances, these goods also reduce production seasonality and afford greater scale economies, thereby increasing capital turnover and intensities.

Among the infrastructure items, irrigation will continue to receive the bulk of the budget accounting for 61.34% of total infrastructure outlay. To support of the creation of "super-regions" as pronounced by the President in her SONA, the medium-term target (2004-2010) set by the National Irrigation Administration (NIA) aims to bring 288,747 hectares of new area ***generation*** and 491,169 hectares of area for rehabilitation by 2010**.** This would likely increase the total number of irrigated area in the country to 2 million hectares or 64% of potential irrigable land. Total public investment requirement has been estimated to reach P122.37 billion or P24.5 billion a year starting this year**.**

TABLE 6.3
INFRASTRUCTURE OUTLAY UNDER AFMP, 2002-2007
(IN MILLION PESOS)

PARTICULARS	Actual		Adjusted	Proposed
	2004	2005	2006	2007
AFMP	**10,367.71**	**13,633.63**	**17,022.63**	**21,709.15**
Infrastructure	**5,659.22**	**6,888.75**	**10,129.99**	**12,459.15**
Department of Agriculture	**3,622.66**	**4,174.66**	**7,477.47**	**9,331.96**
Irrigation	3,208.18	3,592.91	5,081.54	7,313.14
Farm-to-Market Roads	200.00	75.39	705.00	821.61
Post Harvest Facilities & Other Infrastructures	214.49	506.35	1,690.92	1,197.22
Agrarian Reform Fund	**2,036.56**	**2,714.09**	**2,652.52**	**3,127.18**
Farm-to-Market Roads	1,125.75	1,414.53	1,290.425	701.01
Irrigation	756.85	590.61	698.15	329.87
Bridge/Spillway		35.99	123.45	1295.26
Water System	48.62	94.24	107.61	53.20
Post Harvest Facilities	43.53	25.67	44.59	12.00
Small Impounding System			31.20	
Building and Sructures		104.30	129.56	61.00
Others/Rural Energy	61.80	448.75	227.53	674.85

Source: BESF 2006 & 2007, DBM

The bulk of the irrigation projects are mostly in the North Luzon Agribusiness Quadrangle with 65% or 188,530 hectares of new generation and 68% or 336,098 hectares for rehabilitation. Meanwhile, the Mindanao region will have 19% or 54,960 hectares of new area generation and 8% or 43,866 hectares for rehabilitation.

While the NIA can be lauded for setting ambitious goals, it is unlikely that these targets can be met within the medium-term (2004-2010). By any indication, irrigation development has not been encouraging. In the two years prior to the enactment of AFMP, the annual budget received by the NIA averaged about P3.8 billion. This increased to about P5.8 billion in the post-AFMP period from 1998 to 2004. The accomplishments in terms of new service area generated and rehabilitated totaled to 173,422 ha and 1,194,546 ha, respectively. This translates to an annual average for new area generation and rehabilitation of about 21,678 ha and 149,318 ha, respectively.

It is alarming to note that despite the massive efforts at rehabilitation and new systems development, the total irrigation service area increased only from 1.323 million ha in 1996 to 1.402 million ha in 2004 or by a mere 79,000 ha *(AFMA Draft Final Report, 2006).* The increase of about 10,000 ha per year in irrigation service area was less than 1% of the total irrigation service area. The reason for this include design mistakes, institutional inefficiency and inadequacy, continuing O&M neglect, lack of a system of accountability over public funds expenditure and lack of participation of the private sector (*Ibid.*).

Massive efforts at rehabilitation—estimated at 150,000 ha per year—is needed just to maintain the same level of NIS and CIS development. Some of the NIS and CIS had to be rehabilitated every 10 years or more often just to maintain a 50% dry season irrigation intensity. At least P5 billion per year is needed to maintain the existing NIS and CIS. Wastes in the use of public funds for irrigation must be minimized. NIS and CIS rehabilitation must be carefully weighed against minor irrigation systems development.

Other rural infrastructure such as farm-to-market roads, post-harvest facilities and ports, requires substantial public investment to improve competitiveness of the sector. Analysis of the costs of doing business in the Philippines indicate that access and transport costs explain much of the difficulties and costliness of marketing and trade, leading to impaired competitiveness overall and in reduced benefits for producers and rural dwellers.

The medium-term targets for rural infrastructure (2001-2004) under AFMP include: (1) construction of 1,597 km and rehabilitation, repair and improvement of 601 km of existing farm-to-market roads; and (2) distribution of 21,863 assorted post-harvest machinery and equipment, and (3) construction of 14,810 other post-harvest related infrastructures. As of date, the length of completed the construction, rehabilitation, repair and improvement is about 1,149 km of farm-to-markets or only about 52.3 % of the total target of 2,198 km (1,597 km for construction and 601 km for rehabilitation, repair and improvement). To achieve this level of accomplishment, Government spent P2.49 billion and involved a total of 1,763 projects nationwide *(AFMA Draft Final Report, 2006).* Note that the combined budgetary allocation as prescribed under AFMP for farm-to-market roads and post-harvest facilities at P4 billion each year, has not been consistently met. For the proposed 2007 budget, farm-to-market roads and post-harvest facilities will receive P1.4 billion and P1.19 billion, respectively.

Allocation by Ginintuang Masaganang Ani (GMA) Program. The concern for food security as outlined in the MTPDP has resulted to a disproportionate share of public expenditure to rice and corn commodities at 58.06% (or P2.45 billion) of the total allocation for GMA program allocation.

TABLE 6.4
APPROPRIATIONS BY PROGRAMS, 2004–2007
(IN MILLION PESOS)

GMA Programs (AFMA)	2004	2005	2006	2007
Rice & Corn	2,149	2,029	2,446.86	2,446.86
Rice				1,788.41
Corn				658.44
High-Value Commercial Crops	382	317	341.24	449.79
Livestock & Poultry	334	251	370.24	430.84
Fisheries	533	829	829.27	886.89
TOTAL	**3,398**	**3,426**	**3,987.61**	**4,214.37**

Sources: BESF 2006 (DBM), and Department of Agriculture and 2007 National Expenditure Program

The bias towards ***Ginintuang Masaganang Ani (GMA) Rice Program***, in particular, has achieved a measure of success with rice production steadily increasing over the past five years (2000-2005). The program aims to improve rice productivity and income of rice farmers and other stakeholders. Despite shrinkage of harvested area by more than 50,000 hectares due to the El Niño in 2005, palay production expanded by 0.7% from 14.50 million metric tons in 2004 to 14.60 million metric tons in 2005. Yet, this volume of palay production is short of the targeted 15.85 million metric tons for 2005 given the estimated palay requirements of 16.48 million metric tons. The improvement in the palay production in 2005 was a result of extensive use of hybrid and quality inbred seeds and technology support provided by the LGUs and the GMA Rice program

On the other hand, production of corn dropped by 2.9% from 5.41 million metric tons in 2004 to 5.25 million metric tons in 2005. The negative performance of corn is partly attributed to the decrease in area planted from 2.53 million hectares in 2004 to 2.44 million hectares in 2005 and the effects of El Niño. Notwithstanding these production setbacks, there was a slight improvement in yield per hectare of about 0.5% that was attributed to the increased use of good quality seeds.

CONCLUSION AND RECOMMENDATION

Given the performance of the Philippine agriculture, there is much that the government can do to create a favorable environment to improve agricultural productivity and rural welfare. The required public interventions to bring about this development will entail an increase in public investment level to more productivity-enhancing expenditures such as R&D, rural infrastructure, among others. It will also require more effective mix of policy inputs, capacity-building, market reforms and improve governance to bring the right investment environment that would encourage private sector participation.

Amid increasing physical resource constraints and growing population, higher productivity in agriculture should be aggressively pursued. Crucial to this effort are policies and investments to improve infrastructure and support services. Expanding irrigation will help boost grain yields, strengthening the research and extension system will enhance agricultural productivity, and facilitate on-farm diversification, improved rural infrastructure will reduce transport cost, and increase accessibility to markets and public service.

Hence, it is imperative that priority attention should be given to the following:

On provision of rural infrastructure

- Aggressively lobby for a major shift of infrastructure development priorities to rural areas.
- Improve the cost-effectiveness of irrigation water delivery and utilization considering the constraint of water scarcity by re-evaluating the productivity of existing irrigation system.
- Encourage cost-sharing between the LGUs and the national government to fasttrack the expansion of irrigated service areas. Along this line, there is need to focus more on small-scale, private-sector led, and cost-effective technologies, such as shallow tubewells and portable low-lifts pumps.

On raising agricultural productivity

- Aggressively raise the level of agricultural R&D efforts to at least 1% of GVA of agriculture and expand research focus from almost exclusively traditional-crop to include high-value crops. Focus on research areas not privately funded but which offer convincing expectations of positive social payoffs.
- Intensify post-harvest modernization program and encourage LGUs to allocate part of their IRA for the construction of more post-harvest facilities.

Chapter 7

SUSTAINING COMPETITIVE EDGE IN PHILIPPINE BASIC EDUCATION

"…Everyone of school age will be in school in an uncrowded classroom, in surroundings conducive to learning. Hangad kong makapasok sa eskwela ang bawat bata. Maroon sapat na lugar sa silid-aralan at may computer sa bawat paaralan…"

President Gloria Macapagal Arroyo
Inaugural Speech, 30 June 2004

WHY EDUCATION MATTERS

For the past decades, the Philippines has taken pride of its achievements in education, particularly its high adult literacy rate and net primary enrollment rate[43]—which is relatively higher than most countries with comparable income levels. But any edge that the Philippines might have in its human capital in the past has eroded as more developing countries—Indonesia, Malaysia, Vietnam as cases in points—have matched, if not, achieved higher educational outcomes, e.g. secondary enrollment rates, survival rates and achievement levels *(see Table 7.1)*.

While other countries advance, the quality of education and its output in the Philippines is deteriorating to such distressing level that the country now ranks among the poorer performers in East Asia. In a recent report of UNESCO, the Philippines ranked 74th in terms of the Education Development Index or EDI, falling below Mongolia (61st), (Vietnam (65th), Indonesia (58th) and China (38th). The index is a composite measure that is based on—enrollment ratio, literacy rate, gender-specific index and quality (survival rate up to grade 5).

It is important to note that as countries in the Asia-Pacific move up the development ladder into more knowledge-intensive economy; greater focus should be given to improving the quality of education. This realization has led countries like Thailand and Malaysia to invest more in education in order to build high-quality human capital that can respond to increasing demand for more sophisticated goods and services. Despite this pressing challenge, we continue to spend less on education compared to some Asian countries.

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43 Net enrollment ratio is the number of pupils/students in the official school-age group expressed as a percentage of the population of the same age.

TABLE 7.1
EDUCATIONAL OUTCOMES OF SELECTED COUNTRIES

COUNTRY	Enrollment Ratio (%), 2002/03		Children reaching grade 5
	Net Primary	Net Secondary	
Malaysia	93	70	87
Thailand	85	*na*	94
Philippines	94	59	76
Vietnam	94	65	87
Indonesia	92	54	89
India	87	*na*	84

Source: UNESCO Institute of Statistics, 2005

BASIC EDUCTION: THE PROBLEMS OF QUALITY AND ACCESS

To face up to this challenge accentuated by the growing knowledge economy, it is important that Government must focus its attention and resources in achieving two key education outcomes—(1) reduce the inequity in education opportunities in the current system across income levels and region, and (2) raise its national average in key educational competencies, especially mathematics, science and literacy in comparison with other countries.

Even with the increasing levels of primary and secondary school coverage, this cannot mask the fact that there are still wide differences in participation and completion rates across education levels, regions and income strata. Take for instance the data from the World Bank survey on education indicators which show that school participation rate of 6-11 age group among the poorest income quintile is 82.7% while the richest quintile average at 97%.

Moreover, poor quality of education is evident in the low scores obtained by Filipino students in standard tests at the national and international levels. Results of the nationally-administered National Elementary Achievement Test (NEAT) and National Secondary Achievement Test (NSAT) showed that students gave correct answers to less than 50% of the questions. The Philippines also performed poorly in the Trends in International Mathematics and Science Study in 2003, ranking second from the bottom in the mathematics category and third from the bottom in the science category.

The quality deficit is mainly attributed to the inadequate budget for basic education. In broad terms, the 2007 national education budget was only about 2.42% of the Gross Domestic Product (GDP) or 2.21% of Gross National Product (GDP). Real expenditure per pupil in 2007 was P5, 370 (2000 prices), and way below national and international standards. In addition to this, schools' pattern of spending was skewed in favor of personnel services (salaries and other forms of compensation) at the expense of capital outlays (school buildings and school facilities) and the maintenance and other operating expenses (textbooks, library, laboratory supplies).

PUBLIC EXPENDITURE IN EDUCATION

Measured as a proportion of GNP, total government expenditures on education in the Philippines registered a 2.9% share in 2002. In contrast, its Asian counterparts, e.g. Malaysia, Thailand, India and Mongolia, have higher proportions—even exceeding the average for developing countries.

TABLE 7.2
EDUCATION EXPENDITURES OF SELECTED COUNTRIES, 2002

COUNTRY	As % of GNP	As % of total Gov't. Expenditure
India	4.1	12.7
Indonesia	1.3	9.0
Malaysia	8.7	20.3
Mongolia	8.6	-
Philippines	**2.9**	**17.8***
Korea	4.2	15.5
Thailand	4.7	27.5
Average for Developing Countries	4.5	15.5
World Average	4.6	14.1

** For the Philippines, total government expenditure included allocation for debt-servicing. Net of debt-servicing, the share of education expenditures was about 22% in 2002.*

Source: UNESCO, Global Monitoring Report

The Philippine government's expenditures on education accounted for nearly one-fifth of its total expenditures (including allocation for debt-servicing) in 2002. This record is third only to Thailand and Malaysia, which devoted 27.5% and 20.3%, respectively, of their total expenditures to education. Although the Philippines has given budgetary priority to education, this resource is still limited because of the large school-age population that the government needs to accommodate. As a result, per capita spending in the Philippines is about four times lower than what Malaysia and Thailand provide their students.

For fiscal year 2007, the education sector will receive P162.02 billion or 11.28% higher than this year's allocation. Over the past years, the education sector continues to be the priority of the government as it receives significant portion of the national budget second only to debt servicing.

The proposed education budget for fiscal year 2007 represents 14.39% of the total budget and accounts for more than half of the social service allocation *(see Table 7.3)*.

Apparently, the percentage share of education to total budget has been decreasing—from 14.85% in 2004 it only gets 14.39% for 2007. The nominal share of education in social service spending has considerably decreased from 53.89% this year to 49.19% next year.

TABLE 7.3
NG ALLOCATION TO EDUCATION SECTOR

YEAR	Level (in PM)	Percentage Share to:		
		NG Budget	GDP	Social Service Budget
2003	129.00	15.63	2.99	55.40
2004	128.80	14.85	2.65	51.50
2005	135.40	14.74	2.50	53.24
2006	145.60	14.77	2.42	53.89
2007	162.02	14.39	2.42	49.19

Source: BESF, 2005-2007

Of the total allocation to the education sector, the proposed 2007 budget of DepEd accounts for 82% or 132.95 billion (excluding P1.76 billion for Schoolbuilding Program). However, the average annual growth rate of DepEd's budget in real terms from 2001-2006 has been negative 3.5%. In terms of share of the national budget, next year's DepEd budget represents one of the lowest at 11.96% since 1995.

By Object of Expenditure

Personnel services (PS) still remain the single biggest item in the DepEd budget, the allocation of which rose from P100.4 billion to 109.78 this 2007. However, its share of the total DepEd budget will be reduced from 82.60% in 2006 to 82.57% in 2007, while maintenance and other operating expenses (MOOE) will expand its share by 74%.

TABLE 7.4
DEPED BUDGET, BY OBJECT OF EXPENDITURES, 2005-2007

PARTICULARS	Nominal (In Billion)			Percent Share			Real Terms (Base year=2000)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Personal Services	97.16	100.4	109.78	89.77	82.60	82.57	74.85	72.30	75.81
MOOE	8.45	16.50	19.82	7.81	13.60	14.91	6.51	11.90	13.69
of which, GASTPE	1.83	2.50	2.44	22.00	15.20	12.31	1.41	1.80	1.69
Capital Outlays	2.61	4.70	3.35	2.41	3.90	2.52	2.01	3.40	2.31
Total	108.23	121.60	132.95	100.00	100.00	100.00	83.38	87.60	91.82
SBP	1.00	1.00	1.76				0.77	0.72	1.22

Source of Basic Data: BESF 2007

The share of the Government Assistance to Students and Teachers in Private Education (GASTPE) in the MOOE budget declined from 15.2% in 2006 to 12.31% in 2007. Note that the GASPE program may prove to be more economical than to construct classrooms, which entails overhead and maintaining expenses.

Allocation by object of expenditure has been one of the efficiency issues that need to be urgently addressed. Undeniably, the underfunding of non-salary recurrent expenditures over the past years has contributed to the quality deficit in the education sector.

Per capita education expenditure

Per capita spending in both elementary and secondary levels has gained modest increases. In nominal terms, per capita cost based on total budget increased from P6, 380 in 2005 to P7, 780 in 2007 or an average increase of 11%. Meanwhile, per capita cost based on operations budget increased by twofold from P500 in 2005 to 1,159 in 2007. Despite these improvements, the operations budget still falls below the 15% of total budget prescribed by World Bank to have a good quality of basic education *(see Table 7.5)*.

TABLE 7.5
PER CAPITA SPENDING IN BASIC EDUCATION

PARTICULARS	2005	2006	2007
Public enrolment	16,961,992	17,005,660	17,094,404
PCC based on total budget			
Nominal	6,380	7,151	7,780
Real	4,920	5,151	5,370
PCC based on MOOE			
Nominal	500	970	1,159
Real	380	700	800

Sources of basic data: 2007 BESF (DBM) and DepEd

In addition to the allocation of government resources among budget items, there are concerns regarding how budget resources are allocated to regions and schools. As a matter of policy, budgetary allocation rules use enrollment size as a standard. Apparently, there are disparities in per capita allocation across regions regardless of the percentage share to total operations budget and primary enrolment ratios.

TABLE 7.6
REGIONAL ALLOCATION IN BASIC EDUCATION
(SY 2003-2004)

REGION	% Share to MOOE	Per Capita Cost	Net enrollment ratio (primary)
NCR	16.11	400.94	77.00
1	5.04	170.79	82.90
CAR	2.34	235.51	80.96
2	5.00	243.66	82.26
3	10.44	192.1	83.37
4	13.26	162.51	82.45
5	7.37	188.62	86.79
6	9.27	194.73	79.77
7	5.10	122.47	80.61
8	4.97	172.62	82.03
9	3.65	157.35	82.69
10	3.52	130.84	82.46
11	6.60	241.76	79.42
12	3.29	134.15	76.92
13	4.04	105.63	89.08

Source of basic data: DepEd

For example, in SY 2003-2004, NCR accounted for disproportionate higher allocation relative to other regions. In terms of enrollment ratios, Regions 12, 11 and 6 have relatively same levels with NCR yet they received much lower per capita allocations. Thus, it is important that the allocation criteria should not consider participation rates but also takes into account differences in socio-economic conditions and student performance and as such will address existing inequalities in student outcomes

CLOSING THE RESOURCE GAPS

Teachers' Gap. As of 2006, there are about 10,517 teachers in shortage assuming a 1:45 teacher-student ratio. As proposed in the 2007 DepEd budget, P1.12 billion will be allocated for the new hiring of another 10,000 positions. The remaining backlog in teachers will be accommodated in the next budget allocation. Given the budget constraints, the quality and supply of teachers must cope with the increasing enrollment rates in both primary and secondary level. The supply of teachers in the primary level is adequate to sustain a desirable teacher to student ratio of 1:45. However, this is not the case in the secondary level. The number of public school teachers in the secondary level grew by only two percent compared to a five percent increase in enrollment.

Moreover, the deployment of public teachers creates shortfalls in specific locations, particularly in remote poor areas, and teachers not teaching in some populated schools. The student-teacher ratio is 1:34 but the average class size is much larger, 41 in elementary education and 50 in secondary education. This does not seem to be a serious problem either for student achievement or for cost–efficiency considerations, but there are deployment disparities that lead to inequities in the system.

***Classroom gaps*.** There is no single solution to the problem of classroom shortage. The DepEd has proposed a two-pronged strategy: (1) build more classrooms and (2) expand the GASTPE contracting scheme. At current prices, P16 billion is needed to deal with the real shortage (41,197 classrooms at P400, 000 per classroom). For 2007 P1.76 billion has been allotted for school-building construction. Assuming the same amount is allocated for school-building construction in the years to come and assuming a zero-growth in public school enrollment, there would be no more shortage after eight years. Under a double-shift scenario [at 1:50 per shift], the DepEd would need P2.6 billion a year to cover the "artificial" shortage of 5,971classrooms (*DepEd, 2007 budget presentation*).

The second strategy is to expand GASTPE. Since the early 1990s, GASTPE has been paying private high schools an annual subsidy so that lower-income families could enroll their children in these schools. For the DepEd, GASTPE is a less expensive option to building more classrooms and hiring more teachers. Consider this: a class of 50 students under GASTPE can be subsidized at only P200, 000 compared to P625, 000 that will be spent to build a new classroom for 50 students, hire a new teacher, and procure more furniture and books (*Luz, 2006*).

In SY 2005-2006, GASTPE paid P4, 000 per student for 382,000 students to study in 1,700 private high schools nationwide. The plan has been to increase the number of grantees by an additional 50,000 students per year until the number settles at 775,000 students per year, enough to arrest the extraordinary growth in our overcrowded public high schools. There are, however, some efficiency and equity issues regarding the implementation of the voucher system. One, it is not targeted towards the poor and does not differentiate students who cannot find a place in a public school and one who choose a private school for other reasons, (*Manasan, 2000*). And second, the subsidy covers only 68 percent of the average tuition fee in private schools. This amount appears to be too low to bring the cost of secondary education within the reach of the poor.

TABLE 7.7
RESOURCE GAPS, FY 2007
(IN MILLION PESOS)

PARTICULARS	2006 Gaps		2007 GAA		Remaining Backlog	
	Number	Cost	Number	Cost	Number	Cost
Teacher items at 1:45	10,517	1.18	10,000	1.12	6,390	0.72
Teacher items at 1:50	2,131	0.22				
Classrooms	41,197	18,00				
Elementary						
Secondary net of GASPTE			6,133	2.76	17,095	8.00
a. SBP @ 1:45 DS						
b. GASTPE @ 1:50	5,462	2.38	6,093	2.44		

DS=double shifts
Source: DepEd

CONCLUSION AND RECOMMENDATIONS

The continuing deterioration of basic education imperils the country's chances to build high-quality human capital to compete in the global market. To address the major contributing factors to this sad state of Philippine education, the following measures are recommended:

On narrowing the gap to access

- Shift in the emphasis at the secondary level, away from the further expansion of public education provision towards greater financial support for private education in the light of low quality and high unit cost of public secondary schools.

- Redesign of the voucher system to function as a means-tested subsidy program aimed at improving the access of poor students to secondary education. Moreover, the design should take account of the capacity within regions to absorb voucher grantees.

- Encourage the local government units to increase the allocation of the Special Education Fund (SEF) from the real property tax. Additional LGU share can be used to complement financial assistance from GASTPE particularly by poor students in the secondary level.

- Empower the Local School Boards to formulate alternative and innovative programs in their respective local districts. The programs must help address the causes of the high dropout rates and poor cohort survival by fostering opportunities that would reduce the incidence of poverty.

- 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 DPWH. More so, changes in the formula in the allocation of school-building funds should be made, i.e. increase weight assigned to classroom shortage criteria and decrease weight assigned to student population criteria.

On improving achievement levels

- Increase the ratio of education expenditures to GDP. At the same time, consider growth in enrolment and the needs of the students in the formula for regional budget allocations. The increasing demand for basic inputs, particularly in the poorer regions, is critical to attaining a higher quality of basic education.

- Institute measures that would eliminate or decrease wastage and corruption in the purchase of seats, textbooks and other learning materials so as to maximize the use of funds.

- Increase MOOE allocation to reach the prescribed level by World Bank, which is 15 percent of the Department's budget.

- Redesign curriculum to improve student learning and achieve higher levels of mastery. Concentrate more difficult skills to higher levels. There should be adequate supply of necessary education materials.

Chapter 8

ARE WE INVESTING ENOUGH ON PUBLIC HEALTH?

HEALTH AND ECONOMIC GROWTH

Cross-country macroeconomic studies have consistently shown that health variables positively affect economic growth. An increase in life expectancy from 50 to 70 years (a 40 % increase) would raise growth rate by 1.4 percentage points per year. In addition, a 10% decrease in malaria is associated with an increased annual growth of 0.3%. On the other hand, malnutrition causes a decrease in the annual GDP per capita growth worldwide of between 0.23% and 4.7% *(Barro, 1996).*

Because disease, maternal mortality and malnutrition weigh so heavily on economic development, improvements in public health must be considered within a comprehensive development strategy. The Millennium Development Goals (MDGs) have rightly set this tone by focusing on poverty reduction in general and on several health goals in particular, thereby underscoring the linkages between overall poverty alleviation and investments in health. The MDG health targets include: (1) a reduction in child mortality by two-thirds of the 1990 level by 2015; (2) a reduction in maternal mortality ratios by three-fourths of the 1990 level by 2015; and (3) the end of rising HIV/AIDS and other major disease prevalence no later than 2015.

The commitment of the Philippine government to achieve these MDG health targets and ensure better health outcomes especially for the poor is basically reflected in the past and current policies of the Department of Health (DOH) under the Health Sector Reform Agenda, as well as the National Health Objectives (NOH) for 2005-2010.

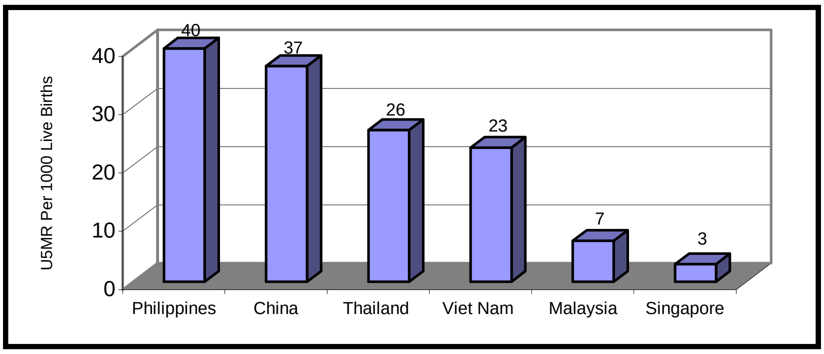
HEALTH STATUS IN THE PHILIPPINES

Results of the 2003 National Demographic and Health Survey (NDHS) show an improving health situation, but at a slower rate than desired, particularly in infant and under-five mortality rates and maternal mortality rate. This relatively poor health performance is attributed to a number of factors such as the lack of access to quality health care services and facilities particularly those in the rural areas and poor immunization rates, among others.

Infant and Under-five Mortality Rates. Infant mortality rate (IMR) fell to 29 deaths per 1,000 live births in the period 1998-2002 from 35 deaths over the period 1993-1997. Similarly, under-five mortality rate (U5MR) decreased to 40 deaths per 1,000 live births. U5MR, however, would have been lower where it not for the decline in rates of immunization and vaccination. The number of unvaccinated children increased to 7.3% in 2003, while the proportion of fully immunized children fell to 60% in 2003 from 65% in 1998 *(Asian Development Bank, 2005).* The decreasing trend in the number of immunized children was due to inadequate outreach particularly in hard-to reach areas; and shortages in vaccines due to untimely deliveries caused by changes in procurement system.

Maternal Mortality Rates. The maternal mortality rate (MMR) in the country is still high despite having dropped from 209 deaths from 100,000 live births in 1993 to 172 in 1998[44]. The MMR vastly differs across regions and income groups—the MMR for the ARMM was 320 in 1998, nearly three times the rate in Metro Manila *(Second Philippine Congress Report on the MDG, June 2005).*

FIGURE 8.1
U5MR FOR SELECT ASIAN COUNTRIES, 2003



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

PATTERNS AND TREND IN PUBLIC HEALTH SPENDING

Health sector continues to receive marginal attention from the Philippine government despite policy pronouncements contained in its medium-term development plans recognizing its key role in social and human development.

44 Due to large sampling error associated with these estimates, it is difficult to conclude that the MMR has really declined. Furthermore, the absence of no new official data makes the assessment of maternal health difficult. Second Philippine Progress Report on the MDGs, June 2005.

According to the World Bank, developing countries could expect that on the average a 10% increase in public health expenditures as a proportion of the GDP would be associated with a 7% decrease in MMR, a 0.69% decrease in U5MR, and a 4.14% decrease in low weight for children under five *(Mexican Commission on Macroeconomics and Health, 2004)*. Yet a review of the sector's annual appropriations and expenditures indicates that the national government has not significantly increased public investment in the sector in order to achieve MDG targets, as well as improve health outcomes among the poorer segment of the population.

Based on the National Health Accounts (NHA), total health expenditures[45] reached P165.2 billion in 2004. In real terms, total health expenditure in 2004 increased to P41.3 billion from P38.9 billion the previous year, which translates to a 6.2% growth.

Although the share of total health spending to GNP increased from 0.27% in 2003 to 0.28% in 2004, the figure still does not come close to the World Health Organization (WHO) benchmark of at least five percent of GNP. In fact, developing countries generally spend four percent of their GNP on health while Europe and Japan set aside seven to eight percent.

Moreover, the share of household out-of-pocket spending to the country's total health expenditure still accounts for roughly 47%. This means that the financial burden on individual families remains substantial, making access to health care highly inequitable. The share of national health insurance in total spending was relatively small, averaging only less than 10% for the same period.

While per capita health expenditure of government at current prices increased by 25.6% growth, from P452.8 in 2002 to P568.7 in 2003, this is still not even enough to cover the price of a minimum package of basic health interventions[46]. The World Health Organization estimates it to cost around $80 per person per year in purchasing-power-parity-adjusted dollars.

Sectoral Allocation. The health sector will receive P14.45 billion for FY 2007. While this amount shows a modest improvement from the 2006 reenacted budget which is 11.84% higher or P1.53 billion more than this year, this represents only 7% increase in real terms, the

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45 Sources of health expenditures are classified into two broad categories—public and private sectors. The public sector which includes the national government and local government, provides both public health care and personal care services, while the private sector which includes household out-of-pockets, HMOs, private insurance, among others, is largely confined to the market of personal care services.

46 Note that the costs aim to provide a full economic price of providing the health interventions, including the direct costs of medicines and health services, capital investments, complementary management and institutional support, and investments in training new personnel. World Health Organization, Macroeconomics and Health: Investing in Health for Economic Development, December 2001.

second lowest in the last five years. Between 2002 and 2006, the actual health expenditure for the most part had declined, both in nominal and real terms.

The decline of health budget is also reflected in the fall of its share to total NG expenditures and to GDP. From a high of 1.67% in 2004, the share of health to total NG budget continuously dipped to 1.28% in 2007—the lowest so far in five years. Health as a percentage of real GDP also slid down from a peak of 0.36% to 0.22% during the same period.

TABLE 8.1
NG ALLOCATION TO HEALTH SECTOR
(IN BILLION PESOS)

YEAR	Nominal Terms	Real Terms (2000 = 100)	% of National Budget	% of GDP
2003	12.40	10.90	1.50	0.29
2004	14.48	12.01	1.67	0.95
2005	13.86	10.68	1.46	0.26
2006	12.92	9.31	1.29	0.22
2007	14.45	9.98	1.28	0.22

Source: 2007 BESF

The low priority on health by the national government becomes more pronounced when its budget is compared to that of other departments and sectors particularly national defense and debt service. The highest percentage share of health to the national budget was 2.15% in 2000. In that same year, national defense got 5.31% of the national budget while debt service got 21%. Since 1998, the average percentage share of health expenditure to the National Expenditure Program (NEP) barely changed, accounting for only 2%, while it was 8% and 29% for defense and debt service, respectively.

Under the Local Government Code of 1991, the health function is devolved from the national government to local government units (LGUs). As expected, the increasing trend in local health spending is consistent with the LGUs' rising internal revenue allotment (IRA). From 1995 – 2003, LGU health spending accounted for more than 19% of IRA.

Allocation to DOH. The DOH, which gets the largest chunk of health sector budget, will receive only one percent or P11.7 billion of the proposed 2007 NG budget. Based on the distribution of the budget within the Executive Department, the DOH ranked eighth in terms of allocation among the national government agencies. In comparison, the Department of

National Defense (DND) got more with four percent while the Department of Interior and Local Government (DILG) has about five percent. This shows that, except for education (Department of Education and SUCs), the 2007 NG budget gave more priority to non-human development promoting expenditure items.

Most of the budgetary increase that the Department will receive next year form part of the P1.021 billion DBM-approved supplemental appropriation for its 2007 budget. This increase which is distributed among the different expenditure types has been designed to improve the quality, availability and accessibility of health care goods and services:

- The P397.5 million Personal Services (PS) will cover adjustments in ADCOM and RATA;

- The P150.2 million Maintenance and Other Operating Expenses (MOOE) for the purchase of hepatitis B vaccine will fill the budget gap for EPI and facilities in achieving the MDG of reducing child mortality;

- The P120 million MOOE will fund the program *Gamot na Mabisa at Abot-Kaya* and establish more BnB - both are aligned with MTPDP thrust of providing the poor with low-priced yet quality medicines;

- The P354 million Capital Outlay (CO) increase will address the lingering infrastructure backlog of various DOH-retained hospitals.

By Object of Expenditure. PS constitutes the biggest share of the DOH budget. In 2005, PS gobbled up 57% of the total DOH budget. This went down slightly to 56% in 2006 and slid a little further to 54% in the proposed 2007 budget.

In level terms, however, PS in the 2007 budget will receive the biggest amount at P6.36 billion which is 7% (or P418 million) higher than the 2006 budget. The DOH sought adjustments in the 2007 PS in the amount of P397, 483,000 to cover additional compensation and other benefits of health workers. The adjustment is important in addressing the continuing exodus of public health workers—a problem if not addressed will eventually lead to the collapse of health care system.

On the other hand, allocation for MOOE will be boosted with an incremental increase of P442 million or an 11% hike from the 2006 budget. The increase will partly finance the: 1) budget gap of Expanded Program on Immunization (EPI) particularly the provision of Hepatitis B vaccines (P150, 198,000); and 2) budget gap in the provision of low-cost quality drugs and medicines including establishment of additional *Botika ng Barangay or BnB*, which costs P120 million.

The increases in these items are aptly justified. Note that vaccine-preventable diseases have been largely responsible for high childhood mortality rates in the country hence the need to fund such vaccination/immunization program. The DOH's *Reaching Every Barangay Strategy* program aimed to immunize more than 95% of the 0-11 month old children against the seven (7) vaccine-preventable diseases: polio, measles, neonatal tetanus, extra-pulmonary tuberculosis, diphtheria, pertussis and hepatitis B infections. Prioritized are those with poor access to health services specifically those in marginalized and far-flung communities, a major gap of the EPI.

TABLE 8.2
NG ALLOCATION TO DOH BY EXPENSE CLASS
(LEVELS IN BILLION PESOS, SHARES IN %)

PARTICULARS	2005		2006*		2007	
	Level	Share	Level	Share	Level	Share
PS	6.09	57.72	5.95	56.24	6.36	54.55
MOOE	3.90	36.97	4.10	38.75	4.54	38.94
CO	0.56	5.31	0.53	5.01	0.76	6.51
TOTAL						
Nominal Terms	10.55	100.00	10.58	100.00	11.66	100.00
Real Terms *(2000 = 100)*	8.13		7.62		8.05	

** Data based only on the BESF and therefore does not reflect any adjustments made for 2006.*

However, the benefits of increasing the budget allocation for immunization and vaccination programs can only be maximized if these funds are used efficiently. In 2004 the Commission on Audit (COA) found out that vaccine and other medicines costing P18. 2 million expired or were near expiry as of year-end while in the custody of hospitals. Expiration or low utilization was due to: delivery of vaccines in excessive quantities and near expiry date; non-observance of first-in-first-out issuance of stocks; and inefficient monitoring of inventories.

The most commonly used drugs in the Philippines are priced much higher than in many other Asian countries. These make medicines unaffordable especially to the poor who are more vulnerable to diseases. Due to the high cost of medicines, the poor often resort to self medication or are unable to complete treatment as prescribed by health professionals.
As of July 2006, the DOH in partnership with the National Pharmaceutical Foundation, has established 6,998 BnBs. These BnBs sold over-the-counter drugs, household remedies and prescription drugs at much lower prices.

The CO used for construction of much-needed health facilities and procurement of equipment will increase by 42% in 2007 or an incremental increase of P200 million compared to 2006. The Department sought increase of CO amounting to P354 million to cover infrastructure backlog of various DOH-retained hospitals. Note that the increase is a one-time non-recurrent item that will allow the Department to achieve its target of technical and allocative efficiency under the health efficiency reforms that are currently being undertaken.

Distribution by Function. There has been no change in the pattern of DOH budget distribution from 2003 to 2007. Hospital services continue to get the biggest chunk ranging from 65% to 71%. Budget allocation for public health and administration during the period get from 14% to 16% only. Regulation is given the least share ranging from 2% to 5%.

For 2007, hospital services get the biggest share amounting to 7.1 billion or 65% of the total budget. Public health gets only 14% of the budget, 2 percentage points lower than administration function receives. Regulation gets 5% of total budget for 2007.

Distribution by Region. Among Luzon, Visayas and Mindanao, the first grouping gets the biggest chunk of the agency budget at 66%. Between the remaining two groups, Mindanao gets the larger share with 20%. Visayas with the least population gets only 14%.

The DOH budget per person for 2007 is P95.96 on the average. Luzon having 57.42% of the total population has the highest per capita cost at P109.87. Per capita cost for Visayas is P65.43, and for Mindanao P88.53.

SOCIAL HEALTH INSURANCE

The National Health Insurance Program (NHIP) intends to provide health insurance coverage for every Filipino. In particular, it aims to increase the indigent sector's access to quality health services. The national government and the LGUs shall share premium contribution for indigent families

The NHIP aims to: 1) achieve universal coverage by massive enrolment through advocacy and promotion of social health insurance as a means for health financing, and 2) increase coverage to 85% of the total population by 2007.

In 2006, the Philippine Health Insurance Corporation's (PHIC) target was to provide health insurance to 4.5 million indigent families with actual funding requirement from the National Government of P4.2 billion. The DBM, however, has approved only P2.9 billion or 69% of the requirement, thus a whopping shortfall or a resource gap of P1.3 billion. P2.9 billion can only reach 3.4 million indigent families, thus depriving the 1.1 million poor Filipinos in 2006.

For 2007, the target was to provide health insurance to 5.02 million indigent families. This requires a budgetary support of P3.88 billion from the National Government. Again the DBM approved only 3.5 billion for this program. According to PHIC, this amount can only insure 3.2 million indigent families (or only 64% of the target), thus depriving health insurance to some 1.8 million indigent families. It is puzzling though why only 64% of indigent families can be covered by the approved 3.5 B budget even though this represents 90% of the original budget requested.

CONCLUSION

The health budget has not achieved the acceptable level necessary to meet most of the basic health needs of the people, particularly the poor and marginalized. The low health budget has contributed to the further deterioration of the people's state of health manifested in the persistence of infectious but preventable and curable diseases like bronchitis, pneumonia and tuberculosis, widespread malnutrition among infants and children, etc. The following measures are imperative to effect further health gains:

- Pass a bill granting autonomy to government hospitals to collect user fees and earmark the same for their MOOEs. This will ease the burden on the NG to allocate budget for health.
- Strengthen DOH capacity to adequately implement vital public interventions such as Safe Motherhood Program on Immunization, Micronutrients Supplementation for children and pregnant / lactating mothers, and diseases control programs.
- Pursue training/skills upgrading for all government health workers and strictly monitor and upgrade the quality of medical and allied education in the country to increase availability of skilled and licensed health workers.
- Pursue good procurement practices and efficient logistics to eliminate high purchase prices, inaccurate or miscalculated inventories and unnecessary wastage.
- Strengthen partnership of DOH and LGUs in improving the quality and lower the prices of drugs in their health facilities. LGU procedures for drug procurement should be made transparent and competitive. Better management of drug logistics

would not only reduce stock-outs but will eliminate the need for emergency purchases at higher retail prices.

- Expand the revenue base among paying members of NHIP, increasing premiums of the better-off and reducing its reserves to mobilize more resources into the health system and augment the scope for sharing health risks across the entire population.

PART 3

THE BUDGET STRATEGY PAPER

Chapter 9

THE BUDGET STRATEGY PAPER:
TOWARDS REFORMING THE BUDGET PROCESS

The proposed budget for fiscal year 2007 launches a new budgeting approach that seeks to strengthen the link between policy priorities and long-term spending plans, improve expenditure allocation and control, and ensure predictability of funds for priority programs and projects *(see Box 9.1)*. One such measure is the formulation of a budget strategy paper (PBS) in order to inject policy and strategic focus in crafting and implementing the yearly budget. It is designed to commit decision makers (from the President down) to a sustainable fiscal policy and to a clear set of sectoral priorities.[47]

The inclusion of the PBS in the Budget Message is a clear indication that the President supports the objectives of the policy paper. In tandem with other budget reform measures, the PBS is expected to facilitate the delivery of the administration's 10-Point Agenda, [48] foremost of which is a balanced budget preferably by 2008. As spelled out in the National Budget Call, [49] priority spending areas for 2007-2009 are programs/projects under the Medium-term Public Investment Plan (MTPIP), particularly infrastructure build-up and the improvement of the quality of basic education particularly.

It is important that a PBS must set out key issues, including opportunities and threats, around a sustainable fiscal policy and development priorities of government. Options and choices available for decision makers must also be properly laid down. During its early stage of development, however, the policy paper should be kept simple while allowing flexibilities for change along the way. [50] The idea is to make the PBS more supportive of a strategic and medium-term perspective rather than be enmeshed with detailed estimates.

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47 Philippines: Improving the Policy and Strategic Role of the Budget, World Bank 26 October 2005

48 The 10-point agenda, more commonly-known for its acronym BEAT THE ODDS, includes a balanced budget by 2010, education for all, automated elections, transport and digital infrastructure, terminate hostilities, healing the wounds of EDSA, electricity and water for all barangays, opportunities to create 6 to 10 million jobs, decongesting Metro Manila, develop Subic-Clark.

49 The Budget Call is issued by the Secretary of Budget and Management to lay down the budget guidelines for any given year. It provides the overall expenditure ceilings, projected revenues that would support the budget, macroeconomic assumptions to be used, and growth targets (e.g., GDP growth, inflation rate, peso-dollar exchange rate, benchmark interest rate or T-bill rate, and benchmark crude oil price or Dubai price).

50 WB October 2005

At present, contents of the PBS are "confidential" as decision-making is left at the discretion of top officials in the Executive Department. At present, contents of the PBS are "confidential" as decision-making is left at the discretion of top officials in the Executive Department.

Box 9.1
BUDGET REFORM INITIATIVES

Current efforts to reform the budget process are consistent with an old pronouncement that "the budget shall be formulated as an instrument for the attainment of national development goals and as part of the planning-programming-budget continuum".[51] Specifically, the Medium-term Expenditure Framework (MTEF) seeks to link the budget process with the Medium-term Development Plan (MTPDP) and its accompanying Medium-term Public Investment Program (MTPIP).

Aside from the budget strategy paper, other key components of the MTEF are the forward estimates (FEs) and major final output (MFO)-based budgeting approach. Forward estimates refer to three-year rolling cost estimates of government programs/projects to ascertain the adequacy of funding for existing policies and outline high priority expenditure items. When plotted against revenues, FEs can be used to determine the amount of available resources or "fiscal space" for new policy initiatives and upcoming budgetary requirements. Thus, a forward estimate communicates commitment to strategic priorities and improves predictability of funding.

In previous years, budget allocations increased incrementally for similar projects and programs with percentage increases merely added financial-year by financial year *(incremental budgeting)*. Under the MFO-approach, however, government agencies are required to "qualify and quantify" their budgets. Quantity indicators refer to measures of the volume of outputs. These indicators shall be well selected and limited to those that best reflect the workload involved as well as the inputs required to deliver the MFOs. Quality indicators are measures of 'how well' an MFO is delivered. These may include measures of timeliness, cost, accuracy, completeness, accessibility, compliance with standards or satisfaction of client needs. MFO budgeting is cited in other literature as performance budgeting or results-based budgeting techniques.

[51] Budget Reform Act of 1977 (PD 1177) is entitled, "Revising the Budget Process in order to Institutionalize the Budgetary Innovations of the New Society".

THE MISSING MIDDLE

What prompted the Department of Budget and Management (DBM) to propose the institutionalization of a PBS? In its assessment of the Philippine budgeting system, the World Bank observed that "there is a breakdown between the ambitious (and extensive) planning process and the composition of the budget, compounded by policy being made continuously throughout the budget cycle".[52]

A recent report by the Commission on Audit confirms the WB's observation.[53] The audit office disclosed that in 2005, the DBM failed to finance a total of P35.3 billion worth of projects that were identified in the Medium-Term Public Investment Plan (MTPIP). Sectoral programs that were deprived of funding include Education (P12.7 billion), National Harmony/Peace Process (P5.7 billion), Agribusiness (P3.3 billion) and Fiscal Strength (P3.1 billion).

Conversely, appropriations amounting to P6.1 billion were made in the 2005 budget for projects that were not included in the MTPIP. Examples of such allocations are the budgets of the following: (1) Presidential Anti-Organized Crime Commission (P1.1 billion); (2) Commission on Information and Communications Technology (P1.0 billion); (3) construction, rehabilitation and improvement of transportation and communication infrastructure projects (P818 million); and (4) follow-on search and rescue vessels (P650 million). *Refer to Annex 1 for details.*

Although the World Bank pointed out the incongruity between the expenditure program and the development plan, it recognizes government efforts to impose fiscal discipline in terms of closing the budget gap and reducing the debt burden.

Fiscal discipline has proven to be advantageous because it helped restore investor's confidence in the country. By putting the fiscal house in order, the government was able to obtain more favorable credit *(lower interest rate/risk premium)* that translates to lower interest payments. As of September 2006, actual interest expense (P245.5 billion) was below the program disbursement by P 17.3 billion or a savings of 6.4 %.

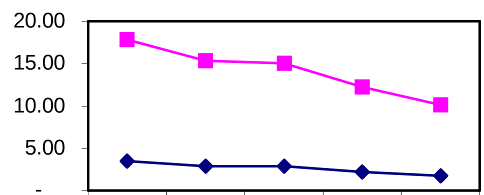
Containing the budget deficit, however, has its trade-offs. When revenues fall short of target, government resorts to withholding cash allocations in order to contain the deficit at manageable levels. Non-payment of government obligations compounds the problem created by a protracted contractionary fiscal policy and promotes inefficiency in the

52 WB October 2005
53 Effectiveness of the Budget Allocation System of the Government. Commission on Audit, July 2006

delivery/purchase of public goods and services. In 2005, the National Government budget *(net of debt service)* was equivalent to only 11.4% of gross domestic product while the recommended efficiency and growth-maximizing budget-to-GDP ratio is 25%.[54] Additionally, actual disbursements during the year for Maintenance and Other Operating Expenses (MOOE) and Infrastructure were lower than program by P6.5 billion and P2.4 billion, respectively.

The worse part of taming the deficit is the cut back on public investments. Figure 1 shows that infrastructure budget as a ratio to GDP went down from 3.5% in 2001 to only 1.8% in 2005. In relation to total budget, only 10.1% was allocated for infrastructure in 2005 as a large portion of government resources was eaten up by interest payments, personal services and Internal Revenue Allotment (IRA) of LGUs. Low infrastructure spending could have serious repercussions as adequate and efficient infrastructure support is necessary in lowering business costs, attracting foreign direct investments, and fostering sustainable economic development. At present, the Philippines ranks 56th among 61 countries in overall infrastructure rating.[55]

FIGURE 9.1
PUBLIC SECTOR INFRA BUDGET
(AS PERCENTAGE OF GDP & TOTAL BUDGET)



	2001	2002	2003	2004	2005
% of GDP	3.47	2.87	2.87	2.19	1.77
% of Total Budget	17.8	15.3	15.0	12.2	10.1

Source of Basic Data: 2007 BESF

The foregoing issues provide greater reasons why the budget strategy paper should be seriously pursued. The challenge is to institutionalize an explicit rules-based approach to resource allocation and use. As opposed to discretionary policy (*independent decision-making within or without a set of parameters)*, rules-based policy requires statutory practices that are implemented automatically, routinely and without significant variation.[56]

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54 Intersectoral Budget Allocation Model. Dr Renato Reside, UP School of Economics

55 2006 World Competetiveness Yearbook which ranks 61 countries according to basic, technological and scientific infrastructures, among others.

56 Budgeting and Budget Reform: The Budget, the MTEF Process and Strategic Planning in Government by Raenette Taljaard. *Source: http://pdm.mgmt.wits.ac.za/pdf/padm5111module4.ppt*

THE BUDGET REFORM INITIATIVES AND CONGRESS

What courses of action can Congress consider in light of these budget reform initiatives? As part of its oversight function, Congress should compel the Executive Department to render quarterly or semi-annual reports on the decisions emanating from the budget strategy paper. The report should also include the amount of "freed" resources, positive developments that prompted the creation of fiscal space, the prioritization process, and the rationale for reallocation of resources.

Also, Congress must not renege in its duty of enacting an appropriations law for each fiscal year as a re-enacted budget provides the President with wide latitude of discretionary powers. Failure to pass a new budget also creates difficulties and confusion in budget execution *(by implementing agencies)* and oversight *(by DBM and COA)*.

Congress must also strengthen its budget oversight function. The initiative of the Commission on Audit to compare the annual appropriations with the MTPDP and MTPIP targets is a step in the right direction. As a matter of policy, the COA should be required to regularly brief Congress about the results of its routine and special audits, as well as the status of implementation of previous years' audit recommendations.

Congress must also scrutinize the revenue program, as faulty assumptions lead to unsound fiscal decisions. Revenue targets should not be mixed up with "best estimate" revenue forecast, as is being practiced by the Executive Department.

Finally, Congress may want to consider an explicit provision in the Constitution on the principles of a Medium Term Expenditure Framework. To ensure that the gains of the budget reform measures are preserved, Congress should consider enacting a law that will mandate the government to pursue/adopt a Medium Term Expenditure Framework (*i.e, either as amendment to the 1977 Budget Reform Act or enactment of a Fiscal Responsibility Act)*. In particular, the proposed legislation should spell out the specific functions/roles of Congress in the review of the budget strategy paper, forward estimates and MFO-based budgeting.

ANNEX I

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
I. Economic Growth and Job Creation					
Sector: Trade and Investment					
DTI	Cont	Sulong Kabuhayan (former name-Balikbayan, Balikkabuhayan Program)	10,000,000	✓	
DTI	Cont	One Town One Product	75,000,000	✓	
NYC	Cont	Youth Entrepreneurship Program	100,000	✓	
DTI	NPAP	Philippine Business Registry	175,000,000	✓	
DTI	NPAP	Central Luzon Trade and Investment Assistance Center	20,000,000	✓	
DTI	NPAP	Integrated SME Development	4,360,000	✓	
DTI	NPAP	R&D, Product Clinic and Local Designers Program	15,000,000	✓	
DTI	IN-NPAP	Brand Management Program	225,000,000	✓	
DTI	IN-NPAP	Integrated Program on Trade Promotions and Market Development (Trade missions, commercial intelligence, international and local fairs participation)	10,000,000	✓	
IPO	NPAP	Disseminate information on lapsed, expired or off patents to SMEs	75,000	✓	
IPO	NPAP	Technology Info Matching Brokering (TIBM) Program	300,000	✓	
IPO	NPAP	Program for SMEs using IP as a business strategy	175,000	✓	
DOLE	NPAP	Katulong at Gabay sa Manggagawang May Kapansanan	250,000	✓	
CHED	IN-Cont	Development and Upgrading of Standards for Higher Education Programs and Institutions	114,875,000	✓	
DILG/LGU	Cont	Implementation of Upscale Bayanihan Savings Replication Project (BSRP)	2,824,000	✓	
DILG/LGU	Cont	One Cluster-One Vision for Development Project	2,000,000	✓	
Sector: Agribusiness					
DAR-LF	Cont.	Access Facilitation and Access-Enhancement Services-Other CARP Infrastructure Development Projects (Irrigation)	424,321,000	✓	
DAR-LF	Cont.	SARED - Development and Management of Rural Enterprises in ARCs/KALAHI Zone	25,220,000	✓	
DAR-LF	Cont.	SARED - Operations of KALAHI Farmers Center (KFCs)	24,780,000	✓	
DAR-LF	Cont.	SARED - Other CARP Rural Enterprise Development Activities	9,560,000	✓	
DAR-FAP	Cont.	Belgian Integrated Agrarian Reform Support Project (BIARSP) Phase III	39,000,000	✓	
DAR-FAP	Cont.	Support to Agrarian Reform in Central Mindanao (STARCM)	18,380,000	✓	
DAR-FAP	Cont.	Philippine Australia Technical Support for Agrarian Reform and Rural Development(PATSARRD)	4,320,000	✓	
BAI	NLF	Production of Genetically Superior Animals	38,000,000	✓	
FIDA	NLF	Fabrication & Development of Fiber Extraction Machines	950,000	✓	
FIDA	NLF	Provision of Cost-Effective & Appropriate Technologies to Increase Fiber Crop Production	500,000	✓	
RFU	NLF	Lanao Integrated Area Development Program for the 2nd District of Lanao del Sur	23,050,000	✓	
RFU	NLF	Transforming Marinduque into a Major Mango	70,653,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
		Producing Province			
RFU	NLF	Citrus Processing and Development Program for the Mangyans of Or.iental Mindoro	12,008,000	✓	
RFU	NLF	Romblon Rice Sufficiency Program	20,194,000	✓	
RFU	NLF	Lubang Island Integrated Agricultural Development	09,050,000	✓	
RFU	NLF	Malarayat Coco-based Development Program	712,360,000	✓	
RFU	NLF	Urban Agriculture Program	3,240,000	✓	
RFU	NLF	Mindoro Food Basket Development Program (Commercial/ Bulk Storage and Handling Grains		✓	
		Production) – RICE	67,189,000	✓	
RFU	NLF	Eradication of Mango Pulp Weevil in Palawan	5,312,000	✓	
RFU	NLF	Philippine Pig Production and Development	3,500,000	✓	
RFU	NLF	MIMAROPA Regional Agricultural Integrated Research Center	79,675,000	✓	
RFU	NLF	Regional Animal Disease Diagnostic Laboratory	8,000,000	✓	
RFU	NLF	Regional Animal Feed Laboratory	15,600,000	✓	
RFU	NLF	Veterinary Quarantine Center	5,400,000	✓	
RFU	NLF	Marketing Information, Communication and Trading Centers	11,011,200	✓	
RFU	NLF	Support Program for Indigenous People	2,000,000	✓	
RFU	NLF	Biological Control Agent Production Laboratory	22,500,000	✓	
RFU	NLF	Livestock and Poultry Research & Development Program	190,600,000	✓	
RFU	NLF	Marketing Development and Intelligence System	12,250,000	✓	
RFU	NLF	Parawakan Breeding and Conservation	6,500,000	✓	
RFU	NLF	Establishment of Regional Information Technology Unit for Region 4-B	10,600,000	✓	
RFU	NFAP	Cordillera Integrated Research Development and Extension Center (CIARDEC) Complex	10,000,000	✓	
BAI	NFAP	Rabies Elimination Project	10,490,000	✓	
BAR	NFAP	Strengthening RDE Through Community- Based Participatory Action Research Program	10,300,000	✓	
BAR	NFAP	Increasing Fisheries Aquaculture Production in the Philippines thru the Application of Advanced Aquaculture Technologies	16,320,000	✓	
BPI	NFAP	Enhancing the Competitiveness of Fresh Philippine Super Mango	7,470,000	✓	
BPRE	NFAP	Postharvest Facility Master Plan for Agricultural Dev't.	2,700,000	✓	
BPRE	NFAP	Support to the Implementation of the Long-term Agriculture and Fisheries Modernization Program	12,400,000	✓	
BSWM	NFAP	Updating the Land Cover Using Remote Sensing for Agricultural Development	6,000,000	✓	
BSWM	NFAP	Village-level Agriculture and Food Systems Development in Selected Degraded Poverty-Stricken Areas of the Philippines (AgFoodSys)	4,360,000	✓	
DA-OSEC	NFAP	The Integrated Agricultural Modernization Project in Selected Irrigated Areas	5,000,000	✓	
DA-OSEC	NFAP	Establishment of a Rational Public Investment Programming System for the Agriculture and Fisheries Sector	500,000	✓	
DAR	NFAP	Philippine-Israel Center for Agricultural Training (PICAT)	3,100,000	✓	
DAR	NFAP	SARRD II	1,000,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
DENR	NFAP	Land Administration Management II Program	50,000,000	✓	
Livecor	NFAP	Establishment of Integrated Corn Service Facility Centers	125,000,000	✓	
Livecor	NFAP	Support to Private Sector for Agricultural Modernization Through the Establishment of Support Facilities for		✓	
		Agrifood Supply Chain	60,000,000	✓	
Livecor	NFAP	Establishment of Rice Reprocessing Center	25,000,000	✓	
Livecor	NFAP	Establishment of Cold Chain Facility	5,000,000	✓	
Livecor	NFAP	Construction/Establishment of Modern Greenhouses with Drip Irrigation for Vegetable Production	10,000,000	✓	
Livecor	NFAP	Expansion of the Agribusiness Equipment Leasing Program (AELP)	600,000,000	✓	
NFA	NFAP	Establishment of the Food Standards Development and Research Center in the Visayas Region for the Food Security Program of the Philippine Government	31,820,000	✓	
NFC	NFAP	Expansion of Tomato Paste Plant	355,000,000	✓	
PFDA	NFAP	Rehabilitation/Improvement of the Navotas Fish Port Complex	22,000,000	✓	
PFDA	NFAP	Preparation of Master Plan for the Establishment of Municipal Fishery Post Harvest Facilities and Infrastructures	3,471,000	✓	
PFDA	NFAP	Feasibility Study on the Proposed Rehabilitation/ Upgrading of Five (5) Regional Fish Port Complexes	1,000,000	✓	
Sector: Environment					
DENR	Cont	Visayan Sea Coastal Resources and Fisheries Management Project (VISEA) DENR Component	600,000	✓	
DENR	Cont	Samar Island Biodiversity Project	6,000,000	✓	
DENR	Cont	Land Classification	3,014,000	✓	
DENR	Cont	Forest Land Use Evaluation and Mapping (Sub-classification)	1,782,000	✓	
DENR	Cont	GEO Hazard Survey Assessment	28,000,000	✓	
DENR	Cont	Laguna de Bay Institutional Strengthening and Community Participation	10,000,000	✓	
DENR	Cont	Partnership in Environmental Management for the Seas of South East Asia	2,625,000	✓	
DENR	Cont	Coastal and Marine Biodiversity Conservation - MRDP	5,000,000	✓	
DENR	Cont	ASEAN Regional Center for Biodiversity Conservation (ARCBC)	2,000,000	✓	
DENR	Cont	Leyte Island Program for Sustainable Management of Natural Resources	212,000	✓	
DENR	Cont	ASEAN Centers for Biodiversity (ACB) a successor organization of ASEAN Regional Center for Biodiversity Conservation (ARCBC)	8,210,000	✓	
DENR	Cont	Integrated Coastal Resources Management Program	5,000,000	✓	
DENR	Cont	Management of Coastal and Marine Resources	30,223,000	✓	
DENR	Cont	Phil-Canada Environmental and Economic Management Project	2,000,000	✓	
DOST	Cont	GEO Hazard Mapping	8,231,000	✓	
DILG	Cont	Water Program Towards and Integrated Water Resource Management (DILG-GTZ) German Gov't. Grant	263,000	✓	
DILG	LF	Community-based Law Enforcement Public Safety Program	12,500,000		✓

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
NAPC	Cont	Water Management Project	200,000	✓	
Sector: Tourism					
DOT	Cont	Implementation of marketing plans for China, Japan, Korea and Balikbayans/other major markets	711,588,000	✓	
DOT	Cont	"Byahe Tayo" Program	7,790,000	✓	
DOT	Cont	Pilot implementation of tour programs focusing on the country's culture, history, heritage, sports, health, culinary and others	10,120,000	✓	
DOT	Cont	Monitoring of the tourism related infrastructure components of the Regional Tourism Master Plans, Phil. Tourism Action Plan and Area Specific Master Plans	1,100,000	✓	
DOT	Cont	Establish tourism economic zones (TEZs)	5,075,000	✓	
DOT	Cont	Safe "T" Philippines Program (Public Utility Taxi Transport System Tourism Codes and Circulars)	3,393,000	✓	
DOT	Cont	Promotion of tour packages through telemarketing and other forms of communication through the establishment		✓	
		of the DOT Call Center	5,000,000	✓	
DOT	LF	DOT Information Systems Plan	10,456,000		✓
DOT	LF	GP2 (Ganda ng Pilipinas, Galing ng Pilipino) Marketing Campaign	86,054,000		✓
DOT	LF	Expo 2005	30,000,000		✓
DFA	LF	Philippine Participation in the 2005 World Expo in Aichi, Japan	6,000,000		✓
Sector: Digital Infrastructure					
DOST	Cont	Philippine Research, Education and Government Information Network (PREGINET)	50,000,000	✓	
Sector : Fiscal Strength					
DBM-BISS	Cont	Electronic Budget System	132,140,000	✓	
DOF	Cont	LOGOFIND	808,800,000	✓	
BTr	Cont	Enhancement of ADAPS	1,700,000	✓	
BTr	Cont	Automation of TAP Facility	2,200,000	✓	
BTr	Cont	Establishment of off-site backup servers for ADAPS-RoSS	3,200,000	✓	
BTr	Cont	Enhancement of DMFAS	1,400,000	✓	
BOC	Cont	Purchase of Container X-rays for POM, MICP, Cebu, Subic and Batangas	1,600,000,000	✓	
BOC	Cont	BOC Asycuda World (ECustoms) Project	500,000,000	✓	
BOC	Cont	Strengthening of the Post Entry Audit Group	1,000,000	✓	
NEDA	Cont	Development of an inter-sectoral budget allocation model (WBASEM)	11,800	✓	
NEDA	NPAP	Implementation of the ADB assisted project" Technical Assistance on Strengthening Provincial/Local and Expenditure Management" (12 months)	8,400,000	✓	
NEDA	LF	Communication and Advocacy Program (CAP) Support Project	4,944,000		✓
NEDA	LF	Implementation of the Management Information System Network	12,557,000		✓
NEDA-NSO	LF	Conduct of Family Income and Expenditure Survey (FIES)	3,000,000		✓
DOF	NPAP	Debt and Risk Management Office	2,500,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
Sector: Labor					
DOLE-POEA	Cont	Overseas Employment Program	123,569,000	✓	
DOLE-NCMB	Cont	Conciliation-Mediation Program	32,526,000	✓	
DOLE-NLRC	Cont	Conciliation-Mediation Program- NLRC Case Management System (NLRCCMS)	41,463,000	✓	
		(Supplemental) Source: E-Government Fund		✓	
DOLE-OSEC	Cont	Standards Setting & Enforcement Program Implementation of the New Labor Standards Enforcement Framework	127,048,000	✓	
DOLE-OSEC	Cont	Social Protection and Welfare Program-	397,930,000	✓	
DOLE-OSEC	Cont	DOLE Social Protection Project	565,000,000	✓	
DOLE-NMP	Cont	Maritime Training Program	56,380,000	✓	
DOLE-MTC	Cont	Maritime Training Program	1,280,000	✓	
DOLE-OSEC	NPAP	Promotion of Local Employment Facilitation, Employment Guidance and Regulatory Program	77,680,000	✓	
DOLE-OSEC	NPAP	Social Protection and Enhancement Program	3,000,000	✓	
DOLE-OSEC	NPAP	Wage Determination and Productivity Improvement Program	83,000	✓	
DOLE	LF	Computerization Program	2,300,000		✓
II-Energy					
Sector: Energy Independence and Power Sector Reforms					
DOE	Cont	The Phil. Efficient Lighting Market Transformation Project (GEF)	48,632,300	✓	
DOE	Cont	Institutional Strengthening of DOE in Managing the Development of the Natural Gas Industry	11,550,000	✓	
DOE	Cont	Barangay Electrification Program	75,000,000	✓	
DOE	Cont	Barangay Electrification Program (GAA/5% Reinvestment Fund)	276,000,000	✓	
DOE	Cont	Rural Power Project	560,000,000	✓	
DOE	NPAP	Master Plan on Regional Energy Planning (KOICAGrant)	435,200	✓	
DOE	NPAP	PRES Project DOE (French Protocol)	1,299,360,000	✓	
III-Social Justice and Basic Needs					
Sector: Responding to Basic Needs of the Poor					
DOH	Cont	Upgrading the Facilities and Capabilities of the Antimicrobial Resistance Surveillance Program (KOICA Grant)	120,528,000	✓	
DOH	Cont	Women's Health & Safe Motherhood Project(World Bank)	70,000,000	✓	
DOH	Cont	Family Planning and HIV/AIDS Prevention Social Marketing Project Phase III (KIW Grant)	53,340,000	✓	
NCIP/DLR	Cont	Issuance of CADTs/CALTS	2,200,000	✓	
UNDP	Cont	Issuance of CADTs/CALTS	15,600,000	✓	
NCIP	Cont	Issuance of CADTs/CALTS	4,950,000	✓	
NCIP	Cont	Facilitation of FPIC Compliance	1,610,000	✓	
NCIP/DLR	Cont	Facilitation of ADSDPP formulation	84,700,000	✓	
NCIP	Cont	Facilitation of ADSDPP formulation	2,200,000	✓	
UNDP	Cont	Facilitation of ADSDPP formulation	1,000,000	✓	
NCIP	Cont	Health Programs and Services	862,500	✓	
NCIP	Cont	Indigenous Health Knowledge and Protected Program	431,200	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
DILG	Cont	Strengthening local government capacity for poverty assessment, plan formulation and monitoring	376,782,000	✓	
DSWD-E Govt Fund	Cont	DSWD On Line Transaction System for Frontline Services	54,600,000	✓	
DSWD-E Govt Fund	Cont	Advance Program on Adoptation and Foster case	100,000	✓	
DSWD-E Govt Fund	Cont	Surveillance System to Prevent Prostitution in Siargao	100,000	✓	
DSWD-E Govt Fund	Cont	Prevention and Management of Sexually Exploited I the Tourism Industry	100,000	✓	
DSWD-E Govt Fund	Cont	Haven for Street Children	200,000	✓	
DSWD-E Govt Fund	Cont	Child Friendly Investigation Studio	200,000	✓	
DSWD-E Govt Fund	Cont	Aruga at Kalinga	100,000	✓	
DSWD-E Govt Fund	Cont	Child Molding Program	100,000	✓	
DSWD-E Govt Fund	Cont	Character Building for Children	300,000	✓	
DSWD-E Govt Fund	Cont	Halfway Home for Children/Youth in Conflict with the Law	300,000	✓	
DSWD-E Govt Fund	Cont	SCALA Program	300,000	✓	
DSWD-E Govt Fund	Cont	Operationalization of Rape Crisis Center	300,000	✓	
DSWD-E Govt Fund	Cont	Group Home for Older Persons and PWDS	100,000	✓	
DSWD-E Govt Fund	Cont	Shelltered Workshop for Older Persons and PWDS	200,000	✓	
DSWD-E Govt Fund	Cont	Social Lab for Children and Youth with Disabilities	200,000	✓	
DSWD-E Govt Fund	Cont	Aizheimer's Project	100,000	✓	
DSWD-E Govt Fund	Cont	Pilot Testing of Liberating the IP from indignity for the Badjau families	300,000	✓	
DSWD-E Govt Fund	Cont	Program for Srandness	100,000	✓	
DSWD-E Govt Fund	Cont	Alliance Network for Strandness	100,000	✓	
DSWD-E Govt Fund	Cont	Project Luke	100,000	✓	
DSWD-E Govt Fund	Cont	Recovery and Reintegration for Trafficked Persons	300,000	✓	
DSWD-E Govt Fund	Cont	Family Life Resource Center	200,000	✓	
DSWD-E Govt Fund	Cont	Comprehensie Program for Internally Displaced Families	300,000	✓	
DSWD-E Govt Fund	Cont	Capability Building or Disaster Management for DSWD Internal Staff (group training proposed for JICA endorsed already by NEDA)	20,000,000	✓	
DSWD in Partnership with NAPC	Cont	Food for Work Program	60,000,000	✓	
DSWD (Belgium)	Cont	KALAHI-CIDSS (proposed for Belgium Assistance)	121,000,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
Sector: Automated Elections					
COMELEC	Cont	Cleansing and completion of database of registered voters (CCDRV) - Continuing registration of voters	65,721,000	✓	
COMELEC	Cont	CCDRV-Voters' Validation System	350,129,000	✓	
COMELEC	Cont	CCDRV-Automated Fingerprint Identification System (AFIS) Note: not included/approved in the 2005 budget	1,894,598,300	✓	
COMELEC	Cont	CCDRV-Information Campaign Drive	51,146,200	✓	
COMELEC	Cont	CCDRV-Training	15,000,000	✓	
COMELEC	Cont	Automation of counting and canvassing-Operations	134,470,900	✓	
COMELEC	Cont	Automation of counting and canvassing-Information Campaign Drive	16,111,600	✓	
COMELEC	Cont	Electronic Data Transfer of Election Results-Information Campaign Drive	4,446,800	✓	
COMELEC	IN-Cont	Continuing education/training for COMELEC personnel	13,129,800	✓	
COMELEC	IN-Cont	Conduct of continuing citizens and voters education through partnership with civil society groups and other government institutions	9,814,000	✓	
COMELEC	IN-NPAP	Consultation/ coordination with DepEd and CHED	1,000,000	✓	
Sector: National Harmony: The Peace Process					
OPAPP	Cont	Rehabilitation and reintegration program for former rebels	218,000,000	✓	
LGA-ARMM	Cont	Capability Building for Local Poverty Reduction Action Team in ARMM (British Council-CLRG)/1	370,000,000	✓	
DPWH	Cont	ADB-assisted Bridge Program	351,002,000	✓	
DPWH	Cont	ADB-assisted 6th Road Project- Zamboanga City-Pagadian City Road	375,505,000	✓	
DPWH	Cont	Austrian Bridge Assisted Projects	91,286,000	✓	
DPWH	Cont	Surigao-Davao Coastal Road (Impvt. 155.7 Km) (IBRD)	562,141,000	✓	
DPWH	Cont	Zamboanga-Pagadian Road (Buug- Kabasalan Section) (IBRD)	10,001,000	✓	
DPWH	Cont	Cotabato (Jct. Awang)-Upi-Lebak- Kalamansig Road (87.62 km) (JBIC)	47,000,000	✓	
DPWH	Cont	20th YEN JBIC Rural Roads Development Project, Phase II - Compostela Valley-New Bataan- Libolon Road, Compostela Valley	23,399,000	✓	
DPWH	Cont	20th YEN JBIC Rural Roads Development Project, Phase II - Liboton-Tupaz Road, Compostela Valley (Imprv't. - 5.00 kms)	76,423,000	✓	
DPWH	Cont	20th YEN JBIC Rural Roads Development Project, Phase II - Compostela-New Bataan-Liboton Road, Compostela Valley (Imprv't. - 31.59 kms)	23,399,000	✓	
DPWH	Cont	20th YEN JBIC Rural Roads Development Project, Phase II - Tigaon-Mayon Road	33,669,000	✓	
DPWH	Cont	Special YEN Loan Package-2nd Magsaysay Bridge Proj.	500,000,000	✓	
DPWH	Cont	24th YEN Rural Road Network Development Project, PIII (24th Yen RRNDP III) Properidad-Lianga Road, Agusan del Sur	35,626,000	✓	
DPWH	Cont	24th Yen RRNDP III-Butuan City-Las Nieves-Esperanza- Bayugan Road, Agusan	71,398,000	✓	
DPWH	Cont	Dobliston-Sultan Gumander (Pagadian-Cotabato Road) (Impvt.- 25.2 kms)	224,464,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
DPWH	Cont	Sultan Gumander-Malabang (Pagadian-Cotabato Road) (Impvt.- 33.1 kms)	124,725,000	✓	
DPWH	Cont	Aurora-Monte Alegre-Molave Section, Aurora-Dipolog Road (Impvt.-25.2 kms)	112,130,000	✓	
DPWH	Cont	Kapatagan-Dobliston Road (Pagadian-Cotabato Road) (Impvt.- 15.6 kms)	82,822,000	✓	
DPWH	Cont	Tukuran-Dobliston Road Zamboanga del Sur & Lanao del Norte, (Impvt.-16.0 kms)	105,859,000	✓	
DPWH	Cont	Saudi Fund Development-Lake Lanao Circumferential Road, Project, Phase I (91.80 km	10,000,000	✓	
DPWH	Cont	Ligao-Pio Duran Road, Albay (Const./impv't. - 21.80 km)	94,628,000	✓	
DPWH	Cont	23rd YEN OECF, Arterial Road Links, Development Project, Phase IV -Himayangan-Silago Road, Southern Leyte, Leyte	79,730,000	✓	
DPWH	Cont	23rd YEN OECF, Arterial Road Links, Development Project, Phase IV -Silago-Abuyog Road, Southern Leyte, Leyte	109,893,000	✓	
DPWH	Cont	23rd YEN OECF, Arterial Road Links, Development Project, Phase IV - Liloan-San Ricardo Road, Southern Leyte	110,871,000	✓	
DepEd	Cont	Madrash Education Program	70,000,000	✓	
OMA	Cont	Coordination and supervision of Shari'ah training education program and strengthening of the local Sharia'ah system	300,000	✓	
OMA	Cont	Support and assistance to government-recognized Muslim holidays and festivities	21,000	✓	
NCIP	Cont	Documentation of indigenous peoples' (IP) children caught in armed conflict and coordination of DDRR (disarmament, demolition, rehabilitation and reintegration)	539,100	✓	
DILG	Cont	Support for peace and development in Mindanao (AusAID)	4,052,000	✓	
DILG	Cont	Local Government Support Programme for ARMM (CIDA)	98,448,100	✓	
DILG-PNP	LF	Construction of police stations	50,000,000		✓
DOF	Cont	Mindanao Trust Fund (WB)/	550,000,000	✓	
DPWH	Cont	Surigao-Davao Coastal Road	562,141,000	✓	
DOLE	Cont	Community Sala'am (Peace) Corp Project II (ILO)	2,400,000	✓	
OPAPP, NGAs	NPAP	Showcase convergence areas for peace and development	500,000,000	✓	
DOLE-POEA	IN-NPAP	Setting up Tripartite Consultative Council to institutionalize OFW and private sector participation in overseas employment	43,318,000	✓	
ARMM	LF	Infrastructure Projects for the Implementation of RDPWH-ARMM	650,000,000		✓
ARG, ARMM-DTI	NPAP	Establishment of the Regional Economic Zone Authority	29,816,000	✓	
IV- Education and Youth Opportunity					
Sector: Education					
DepEd	Cont	Textbook Program	1,404,799,000	✓	
DepEd	Cont	Connectivity For Public Elementary/High School With Computers	50,000,000	✓	
DepEd	Cont	Expansion of ESC Coverage of the Gastpe Program	1,515,692,000	✓	
DepEd	NPAP	Madrash Education	958,425,000	✓	
DepEd	IN-Cont	Institutionalization of Early Childhood Education	279,875,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
DepEd	IN-Cont	Enhancement of Math and Science Education	1,068,000	✓	
DepEd	IN-Cont	School-based Training Program	4,179,400	✓	
DepEd	IN-Cont	Classroom Seats	185,550,000	✓	
DepEd	IN-Cont	Teacher Requirement at the Beginning of the School year	1,691,290,000	✓	
DepEd	IN-Cont	School MOOE	3,135,829,000	✓	
DepEd	IN-Cont	Scholarships	34,578,000	✓	
DepEd	IN-Cont	Training and Development	9,518,000	✓	
DepEd	IN-Cont	School Feeding Program	6,076,000	✓	
DepEd	IN-Cont	Drug Abuse Prevention Program	1,860,000	✓	
DepEd	IN-Cont	Family Basic Literacy Program (FBLP)	340,000	✓	
DepEd	IN-Cont	Balik-Paaralan Para sa Out-of-School Adult (BPOSA)	17,490,000	✓	
DepEd	IN-NPAP	Professional Enhancement Program (PEP)	715,000	✓	
DepEd	IN-NPAP	School First Initiative	100,000,000	✓	
DepEd	IN-NPAP	Teacher Induction Program	4,000,000	✓	
DepEd	IN-NPAP	Teacher Education Development Program	182,469,000	✓	
DepEd	IN-NPAP	Upgrading of Values Education	240,000	✓	
DepEd	IN-NPAP	Distance Education for Public Elementary School (DEPES)	4,039,000	✓	
DepEd	IN-NPAP	PPTA- Minadano Basic Education Development Project (MBEDP) -ADB	7,990,000	✓	
DepEd	IN-NPAP	Comprehensive School and Community-Based Deworming Control Project (JICA)	2,151,000	✓	
DepEd	IN-NPAP	Strengthening the Implementation of Visayas Basic Education (STRIVE) -AusAid	4,784,000	✓	
DepEd	FAP	Strengthening Basic Education in Bohol and Nothern Samar	3,167,000		✓
DepEd	LF	Construction of Elem & Secondary Sch. Bldgs. in areas Experiencing Acute Classroom shortage	1,000,000,000		✓
DepEd-NSTIC	IN-Cont	National Science And Technology Instrumentation Center (NSTIC)	127,864,000	✓	
DepEd-NETRC	IN-Cont	Accreditation & National Achievement Test (All Grade 6, 4th Year)	32,699,000	✓	
DepEd-NETRC	IN-Cont	National Achievement Test (Year 1 & Year 4) 1st yr achievement to be administered to bridge and 1st yr. Regular	22,400,000	✓	
DepEd-BEE	IN-Cont	Accreditation Program for Public Elementary Schools (APPES) Program	1,010,000	✓	
DepEd-BSE	IN-Cont	High School Bridge Program	1,382,371,000	✓	
DepEd-SHNC	IN-Cont	Teacher-Child-Parent Program	5,000,000	✓	
DepEd-ARMM	NPAP	ADTA-Development of Basic Education in Mindanao - ADB Grant	9,011,000	✓	
CHED	Cont	Student Financial Assistance Programs	374,000,000	✓	
CHED	IN-Cont	Higher Education Development Program	7,342,500	✓	
CHED	IN-NPAP	College Bridging Programs	2,000,000	✓	
DOLE	NPAP	Community Sala'am (Peace) Corp Project II (ILO)	2,400,000	✓	
NCIP	IN-Cont	Indigenous People's Education	270,000	✓	
NCIP	IN-Cont	Assistance to Community Schools	431,000	✓	
TESDA	Cont	Student Financial Assistance Programs	288,485,000	✓	
TESDA	IN-Cont	Job-Skill Matching System	54,080,000	✓	
TESDA	IN-Cont	Tendering Program	373,367,000	✓	
TESDA	IN-Cont	“Kasanayan at Hanapbuhay” (Apprenticeship	15,934,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
		Program			
TESDA	IN-Cont	Learnership Program	15,333,000	✓	
TESDA	IN-Cont	Co-management / Devolution of TESDA Institutions	2,400,000	✓	
TESDA	IN-Cont	Community-based Programs & Entrepreneurship Dev't Programs	74,222,000	✓	
PMMA	IN-Cont	Upgrading of the PMMA	345,023,000	✓	
Sector: Science and Technology					
DOST	Cont	Small Enterprises and Technology Upgrading Program (SETUP)	100,000,000	✓	
DOST	Cont	Calibration and Testing Program	25,000,000	✓	
DOST	Cont	Priority/strategic R&D programs	435,000,000	✓	
DOST	Cont	Contract research program and other R&D cost sharing schemes with the private sector	43,500,000	✓	
CICT	Cont	Wireless In Education Initiative (WEIn)	5,000,000	✓	
Sector: Culture					
NCIP	IN-Cont	Customary Laws and Practices Documentation	323,000	✓	
NCIP	IN-Cont	Traditional Crafts Production	647,000	✓	
NCIP	IN-Cont	Support to Cultural Community Festivals/Tribal Congresses	215,000	✓	
NCCA	IN-Cont	Cultural Tourism Projects (NEFCA funded)	665,000	✓	
NCCA	IN-Cont	Sining Panglahat (NEFCA funded)	,255,000	✓	
NCCA	IN-Cont	Conservation of Built Heritage and Archeological Sites Projects (NEFCA funded)	59,945,000	✓	
NCCA	IN-Cont	Preservation and Protection of Cultural Treasures of Cultural Communities (NEFCA funded)	2,357,000	✓	
NCCA	IN-Cont	National Education & Cultural Enrichment Program (NEFCA funded)	8,896,000	✓	
NCCA	IN-Cont	Strengthening Social Infrastructure and Culture and Governance Projects (NEFCA funded)	4,385,000	✓	
NCCA	IN-Cont	Philippine Cultural Index Project (NEFCA funded)	665,000	✓	
NCCA	IN-Cont	Philippine Cultural Education Plan (PCEP) Projects (NEFCA funded)	5,687,000	✓	
NCCA	IN-Cont	Projects on Advocacy for Peace (NEFCA funded)	8,450,000	✓	
NCCA	IN-Cont	Media, Culture, and Values Enhancement Projects (NEFCA funded)	3,343,000	✓	
NCCA	IN-Cont	Research and Documentation Grant Projects(NEFCA funded)	2,048,000	✓	
NCCA	IN-Cont	Publication Projects (NEFCA funded)	2,000,000	✓	
NCCA	IN-Cont	Cultural Events and Festivals Projects (NEFCA funded)	15,227,000	✓	
NCCA	IN-Cont	Support for Young Artists Projects (NEFCA funded)	7,109,000	✓	
NCCA	IN-Cont	Artistic Creation Projects (NEFCA funded)	7,464,000	✓	
NCCA	IN-Cont	International Projects (NEFCA funded)	2,870,000	✓	
DILG	NPAP	Mainstreaming Indigenous Knowledge Systems in Local Governance (IKSG)	200,000	✓	
NCIP	NPAP	Indigenous Knowledge System and Practices (IKSP) Documentation	270,000	✓	
V- Anti-Corruption and Good Governance					
Sector: Anti-Corruption					
BIR	IN-Cont	Internal Audit Program of the BIR	230,000	✓	
BIR	IN-Cont	Audit of Cash and Non- Cash accountabilities of	2,720,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
		revenue collection officers (RCO)			
BIR	IN-Cont	Implementation of the BIR Personnel Integrity Program	1,390,000	✓	
BOC	IN-Cont	Implementation of the BoC Personnel Integrity Program	20,000,000	✓	
DBM	IN-Cont	Fully operationalize the Government Electronic Procurement System (E-govt funded)	54,446,000	✓	
DBM	LF	Budget Improvement Project	25,429,000		✓
DILG	IN-Cont	Preparation and submission of project status report	400,000	✓	
DILG	IN-Cont	Simplification of the LGU Civil Registry System	250,000	✓	
PAGC	IN-Cont	Anti-Corruption Advocacy	100,000	✓	
CESB	IN-Cont	Executive Leadership Programs	4,200,000	✓	
CESB	NPAP	Senior Executive Development Program	4,200,000	✓	
CESB	NPAP	Values formation seminars for career executive service officials	500,000	✓	
Ombudsman	NPAP	Reengineering the Administrative Structure, Staffing and Operating Systems of the OMB	12,978,400	✓	
Ombudsman	NPAP	Creation of Surveillance Units (EU)	191,400	✓	
Ombudsman	NPAP	Design of Mobilization System including Legislation (EU)	657,500	✓	
Ombudsman	NPAP	Design and Implementation of an OMB Witness Protection Program	1,787,400	✓	
Ombudsman	NPAP	More aggressive and effective enforcement of anti-corruption laws	1,786,100	✓	
Ombudsman	NPAP	Development and Implementation of Public Sector Integrity Standards (EU)	14,539,400	✓	
Ombudsman	NPAP	Conduct of study and development of conceptual framework and design of local integrity and accountability mechanisms in urban governance	5,802,300	✓	
Ombudsman	NPAP	Dev't and Implementation of Public Sector Integrity Standards	1,693,800	✓	
Ombudsman	NPAP	Anti-Corruption Surveys of Citizens and Business (EU)	150,000	✓	
Ombudsman	NPAP	Review , Modification and Codification of Anti-Corruption Laws	1,630,800	✓	
Ombudsman	NPAP	Design and Implementation of Integrity Standards and Review Mechanisms in the Preparation of Laws	1,182,200	✓	
Ombudsman	NPAP	Widening and synchronizing collaboration with partner stakeholders	2,490,000	✓	
Sector: Bureaucratic Reforms					
CHED	IN-Cont	Upgrade CHEDLINK components	4,000,000	✓	
DILG	IN-Cont	Good Practices for Local Government Facility for Adaptation and Replication (GO-FAR) (UNDP and MEDCO)	1,150,000	✓	
DOLE-OSEC	IN-Cont	DOLE's Information Systems Plan (ISP) Project	10,000,000	✓	
NSCB	IN-Cont	Development of the National Statistical Information Center (NSIC) Project, Phase III (SIDA)	10,309,600	✓	
NEDA	IN-Cont	NEDA Information Network Project Phase III	26,000,000	✓	
DILG	IN-NPAP	Local Government Unit Information Portal (EGF)	74,000,000	✓	
DILG	IN-NPAP	Public Safety Information Network (PSIN) (EGF)	133,670,000	✓	
CSC	IN-NPAP	Portal for e-Governance in the Civil Service Corps (EGF)	90,971,000	✓	
NEDA	IN-NPAP	Establishment of Video conferencing Facilities for central office and regional offices	5,000,000	✓	

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
CSC	IN-NPAP	Establishment of Civil Service Academy (JICA)	420,000	✓	
DILG	FN-Cont	Formulation of Policy on enjoining LGUs for digital connectivity for investment promotion	250,000	✓	
DILG	FN-Cont	Monitoring policy compliance of LGUs for digital connectivity for investment promotion	251,000	✓	
DAP	FN-NPAP	Institutionalize Performance Excellence Awards	1,500,000	✓	
DAP	LF	Repairs and rehabilitation of DAP's facilities	4,400,000		✓
Sector: Responsive Foreign Policy					
PCTC	IN-Cont	Upgrading of the capability and utilization of Interpol National Central Buerau (NCB) Manila for information exchange on transnational organized crime	800,000	✓	
PCTC	IN-Cont	Counter-Terrorism Capacity Building Project sponsored by the Australian Federal Police and AusAID	3,000,000	✓	
PCTC	IN-Cont	RP-United Kingdom Counter-Terrorism Crisis Management Assistance Programme	8,500,000	✓	
PCTC	IN-Cont	Philippines Enhanced Border Management Project sponsored by the European Commission (EC) and International Organization for Migration (IOM)	3,000,000	✓	
DOLE-OWWA	IN-Cont	Oversees Workers Welfare Program	79,816,500	✓	
DOLE-POEA	IN-Cont	Electronic linking of the 12 government agencies under the eLink Project to cut down on OFW documentation time and cost by 50%	123,569,000	✓	
DOLE-POEA	IN-Cont	Sustaining the fight against illegal recruitment thru the Presidential Anti-Illegal Recruitment Task Force	38,693,000	✓	
DOLE-POEA	IN-Cont	Implementing the performance appraisal system of all licensed recruitment agencies(Anti-Illegal Recruitment Program) to weed out those with high incidence of runaways	38,693,000	✓	
DFA	IN-Cont	Full implementation of the MRP/V system	61,500,000	✓	
DFA	IN-Cont	Completion of Construction of Buildings and Structures	188,000,500	✓	
HUDCC	LF	National Govt Center Housing Project (HGCHP)	10,435,000		✓
HUDCC	LF	Subdivision Survey of Proclaimed Lands for Socialized Housing	7,491,000		✓
HUDCC	LF	Estate Management of Phil. Centennial Village	2,700,000		✓
HUDCC	LF	BCDA-Bonifacio Housing & Information Technology (BHIT) Zone	2,500,000		✓
HUDCC	LF	National Drive Against Professional Squatting &Squatting Syndicate	550,000		✓
DOTC	LF	Construction, Rehabilitation & Improvement of Transportation and Communications Infrastructure Projects including Acquisition of Equipment	818,077,000		✓
DOTC	LF	DOTC- Executive Mgt. Info. Systems	5,000,000		✓
DOTC	FAP	Metro Manila Strategic Mass Rail Transit Development (Line 2) Project (Civil works, etc. including Right-of-way) (JBIC)	303,900,000		✓
DOTC	FAP	Follow-On Search and Rescue Vessels Acquisition Project	649,999,000		✓
Senate	LF	Operational Requirements or the Congressional Commission on Agricultural Modernization	21,149,000		✓
Senate	LF	Congressional Oversight Committee on Labor and Employment	23,179,000		✓
Senate	LF	Operational Requirements of the Joint Congressional Power Commission	25,000,000		✓
Senate	LF	Operational Requirements of the Congressional Oversight Committee on E-Commerce	1,000,000		✓

Theme/Sector/ Implementing Agency	Program/ Project Category	Program/Project	Amount	Included in MTPIP But Not Funded	Not Included in MTPIP But Funded
Senate	LF	Operational Requirements of the Legislative Oversight Committee to Monitor and Oversee the Implementation of the RP-US Visiting Forces Agreement	7,000,000		✓
Senate	LF	Operational Requirements of the Joint Congressional Oversight Committee on Clean Air Act	4,250,000		✓
Senate	LF	Operational Requirements of the Joint Congressional Oversight Committee on Ecological Solid Waste Mgt.	4,250,000		✓
Senate	LF	Operational Requirements of the Comprehensive oversight Committee on the Comprehensive Tax Reform Program	10,000,000		✓
Senate	LF	Congressional Committee on Absentee Voting Act	10,000,000		✓
Senate	LF	Congressional Committee on Anti-Money Laundering	5,000,000		✓
OP	LF	Repair/Lease of Air Transportation Equipment	300,000,000		✓
OP	LF	Mindanao Economic Development Council	25,579,000		✓
OP	LF	North Luzon Growth Commission	15,034,000		✓
OP	LF	Office of the Presidential Adviser on the Peace Process	99,025,000		✓
OP	LF	Office of the Presidential Adviser for Regional Development	64,429,000		✓
OP	LF	Presidential Anti-Graft Commission	18,521,000		✓
OP	LF	Presidential Anti-Organized Crime Commission	580,369,000		✓
OP	LF	Presidential Anti-Organized Crime Commission Proper, including P500,000,000 for confidential and intelligence expenses to be released upon approval f the President	545,654,000		✓
OP	LF	Philippine Center on Transnational Crime	34,715,000		✓
OP	LF	Presidential Visiting Forces Agreement Commission	2,000,000		✓
OP	LF	Commission on Information and Communications Technology	1,040,549,000		✓
DND	LF	Operational requirement of Ad-Hoc Veterans Ofc, Washington, DC	4,657,000		✓
PSC	LF	Hosting of South East Asian Games	30,000,000		✓
CHR	LF	Establishment of Human Rights Center	1,417,000		✓
CHR	LF	IT-Based Monitoring of Human Rights Condition	200,000		✓
CHR	LF	Development of Indicators of Human Rights Monitoring of Gov't Compliance with International Human Rights Instruments	200,000		✓
LCP	LF	Rehabilitation of Lung Center of the Phils. (LCP) Building	60,000,000		✓
MMDA	LF	Pasig River Rehabilitation Project (information and advocacy)	1,024,000		✓
PRRC	LF	Acquisition/Expropriation of Titled Lands within the 10-meter Environmental Areas (EPAs) along the Pasig River under the Pasig Rehabilitation Plan	11,648,000		✓
PRRC	FAP	Pasig River Environment Management and Rehabilitation Project (ADB)	427,723,000		✓

Conclusion and Recommendations

Notable in the proposed 2007 budget is the decline in debt service by 3.3% while allocations for economic and social services will grow by 34.5% and 21.9%, respectively. This is in line with the government's second phase of the economic turnaround plan which focuses on investments in important sectors such as infrastructure, education and health care.

Financing the second phase, however, might be difficult as CPBD's assessment of the macroeconomic assumptions upon which the 2007 proposed fiscal program is based calls for guarded optimism. For one, CPBD projected that GDP would grow by 4.7% to 5.3% only as compared to the government's estimate of 5.7% to 6.5% in 2007 as economic growth will still be weighed down by external and internal downside risks such as the slowdown in export markets, volatile oil prices, the looming El Nino plus concerns relating to political events. Also, CPBD computed that tax efforts would be lower at 16.3% compared to the government's 16.5%.

As such, CPBD simulation indicates that the 2007 revenue target of P1,118.8 billion may not be achieved. Consequently, CPBD estimates that the deficit would likely be 1.4%-1.5% of GDP, moderately higher than the official target of 0.9% of GDP for 2007.

Moreover, government should take into account that without new tax measures next year, achieving additional revenues in 2007 would depend on improvements/efficiencies in tax administration and on how much resources are "freed" from interest payments. Interest payments, however, relies heavily on very volatile factors such as interest rates and exchange rates that, in turn, are influenced by shifts in expectations.

Thus, sustaining reforms especially on the fiscal front are necessary to meet requirements for the "super regions" as well as meeting the MDG targets. Reforms should include improving efficiency in tax administration to increase revenue collection and practicing prudent and efficient use of the budget.

A positive development in the fiscal front, however, is the formulation of a budget strategy paper (BSP) which seeks to strengthen the link between policy priorities and longer-term spending plans, improve expenditure allocation and control, and ensure predictability of funds for priority programs and projects. If properly designed, the BSP should commit decision-makers –from the President down –to a sustainable fiscal policy and to a clear set of sectoral priorities.

Because achieving the targets for 2007 hinges mostly on the outcome of key macroeconomic variables, the ability of the government to deliver on the policy front is critical. The government must guard against complacency and policy reversals, which could create the dangerous potential for a shift in expectations. Thus, based on the assessment of the President's proposed budget for FY 2006, it has become crucial for Congress to still pursue the following reforms:

- Sustain reforms on the fiscal area to ensure the continued increase in revenue collection and the prudent and efficient use of the budget and to give room for higher spending on social infrastructure.

- Mobilize and safeguard MDG financing by prioritizing MDG-related spending in the budget appropriations. Measures to address the debt burden should be executed including the use of more progressive taxation and reducing the debt burden through debt conversion schemes, debt treatments and debt-equity conversions.

- Address concerns on competitiveness especially in the areas of human development (including health), infrastructure, and agriculture that will also encourage private investment inflows to attain growth targets and to address prevailing concerns over unemployment.

- Specifically, government should solve the problem of deteriorating basic education by instituting reforms such as: 1) increasing the ratio of education expenditures to GDP; 2) shifting the emphasis at the secondary level away from further expansion of public education provision towards greater financial support for private education; 3) redesigning the voucher system to function as a means-tested subsidy program aimed at improving access of poor students to secondary education; and 4) encouraging LGUs to increase the allocation of the Special Education Fund from real property tax.

- For health, 1) grant autonomy to government hospitals to collect user fees and earmark the same for their MOOEs; 2) strengthen DOH capacity to adequately implement vital public interventions such as diseases control programs and motherhood and child nutrition and immunization programs, 3) encourage LGUs to work with the DOH to improve the quality and lower the prices of drugs in their health facilities; 4) oversee that the DOH pursue good procurement practices and efficient logistics to eliminate high purchase prices, inaccurate or miscalculated inventories and wastage; and 5) expand the revenue base among paying members of NHIP, increasing premiums of the better-off and reducing its reserves to mobilize more resources into the health system.

- In agriculture, expand irrigation to boost grain yield; strengthen research and extension system to enhance productivity and facilitate on-farm diversification; and improve rural infrastructure to reduce transport cost and increase access to markets and public service.
- For infrastructure, improve the BOT framework to restore private infrastructure investment while protecting public interests; develop long-term debt and bond market as a source for financing; reassess the super regions' budget to address skewed investments among regions; and improve central oversight and encourage private sector participation in the oversight process.
- Lastly, institutionalize the submission by the Executive of a budget strategy paper which will include reports on the amount of "freed" resources and where these will go, factors that created the fiscal space, the prioritization process and the rationale for reallocation of resources.

It should be overemphasized that government should not depend on short-term solutions to prop up expectations but rather institute solid reforms that would address long-term economic growth and social equity issues.

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