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**Working Paper**

## Analysis of the President's Budget for 2012

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*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

## Analysis of the President's Budget for 2012

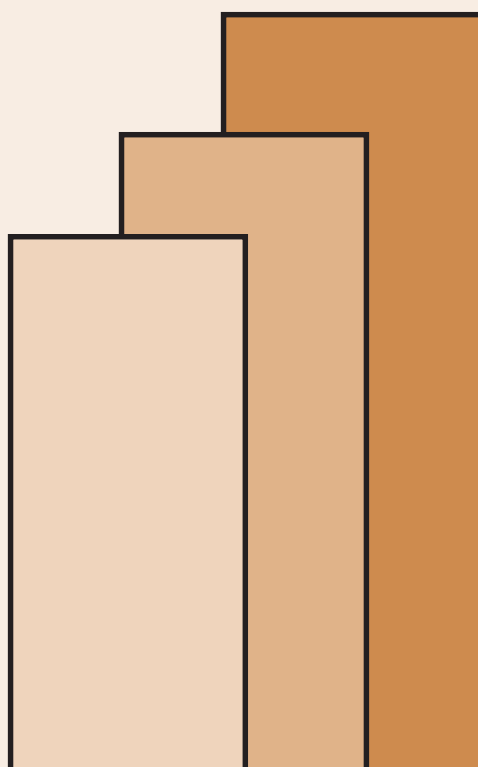
*Rosario G. Manasan*

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# **ANALYSIS OF THE PRESIDENT'S BUDGET FOR 2012**

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*Rosario G. Manasan*

**Philippine Institute for Development Studies**

*November 2011*

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## ABSTRACT

The 2011 and 2012 fiscal program appears to score high in terms of contributing to the speed of fiscal consolidation despite limited gains in revenue generation. This came about largely because of fairly serious underspending during the first nine months of 2011. The slow utilization of spending authority has been attributed to the diligence that many government agencies have directed on the contracting/procurement process given the new administration's focus on anti-corruption and good governance. However, it cannot be denied that such "underspending" necessarily contributed to the lower-than-target rate of economic growth.

The proposed expenditure program for 2012 is PhP 171 billion (or 10.4%) higher than the PhP 1.6 trillion expenditure program for 2011. Close to two-thirds of the increment in the proposed expenditure program net of debt service is captured by the social service sectors and the economic service sectors combined. In particular, 33.2% of the increment in the expenditure program net of debt service in 2012 relative to the 2011 program is allocated for all the social service sectors combined while 31.0% of the increment is allotted for all the economic service sectors as a group. In a sense, the bias towards the social service sectors that was very much evident in the national government expenditure program in 2011 has been replaced by a more balanced distribution between the social services sectors and the economic services sectors.

Despite the higher allocation that is provided the economic services sectors (particularly, infrastructure) under the 2012 National Expenditure program, the level of national government spending on the infrastructure sector compares unfavorably with the amount of resources needed to achieve high, sustained and inclusive growth. On the other hand, 2012 spending levels on education, health and social welfare services will continue to lag behind those of other countries in the region. Moreover, programmed national government spending on basic education is estimated to fall short of the amount required to achieve the MDG target for education.

Given the evidence that significant levels of unmet needs are not being addressed, this study echoes previous calls for government to recognize that national government revenues has to expand at a faster rate than has been demonstrated by the collection agencies so far. Although there is evidence that some gains have been made in BIR tax effort since the Aquino II administration came into power, the improvement in tax effort to date pales in comparison with the amount needed to achieve sustained and inclusive growth with fiscal consolidation. Furthermore a comparison of actual revenue collection in January – September 2011 with that in January – June 2011 also suggests that the pace of improvements (or lack of it) in tax administration may have faltered in the third quarter of the year. It is, thus, critical that efforts towards improving collection efficiency be renewed and re-invigorated in the fourth quarter.

**Keywords:** *fiscal deficit, fiscal consolidation, budget share, revenue program, 4Ps, irrigation investments, government spending*

## ANALYSIS OF THE PRESIDENT'S BUDGET FOR 2012

*Rosario G. Manasan\**

### 1. INTRODUCTION

The purpose of this short note is to evaluate the President's Budget (PB) for 2012. The assessment is composed of four parts: (i) an evaluation of the overall fiscal picture as projected in the President's Budget; (ii) an examination of its revenue program; (iii) an appraisal of the expenditure program; and (iv) an analysis of the financing program.

The national government's fiscal position in any given year (by showing whether the government has a surplus or a deficit) provides shorthand information on the fiscal health of the nation. Given this perspective, **Section 2** evaluates the likelihood that the estimate of the fiscal deficit that is targeted in the President's Budget will be met. At the same time, it also assesses if the projected fiscal position will lead to greater fiscal instability.

**Section 3** assesses the Aquino (II) administration's expenditure priorities relative to its policy pronouncements and relative to the overarching imperative for inclusive growth. On the other hand, **Section 4** presents an analysis of the present administration's revenue program in support of the 2012 President's Budget.

### 2. OVERALL FISCAL POSITION IN PERSPECTIVE

Following the Asian financial crisis of 1997/1998, the national government fiscal position deteriorated quite rapidly and continuously, from small surpluses in 1996 and 1997 to deficits that grew from 1.9% of Gross Domestic Product (GDP) in 1998 to an average of 3.7% in 1999-2001 and 5.0% in 2002 (**Figure 1**).<sup>1</sup> This deterioration in the government's fiscal position was largely due the Asian financial crisis, which exacted a heavy toll on the tax revenue performance of the national government. Subsequently, the national government successfully managed to turn around its fiscal position, as the overall fiscal deficit started to decline gradually from 4.4% of GDP in 2003 to 1.0% in 2006 and 0.2% in 2007.

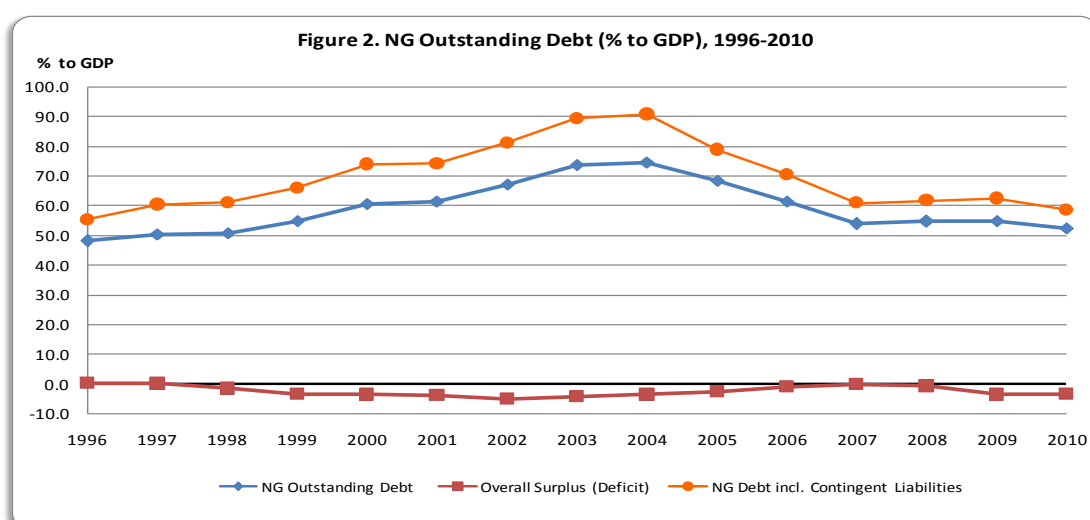
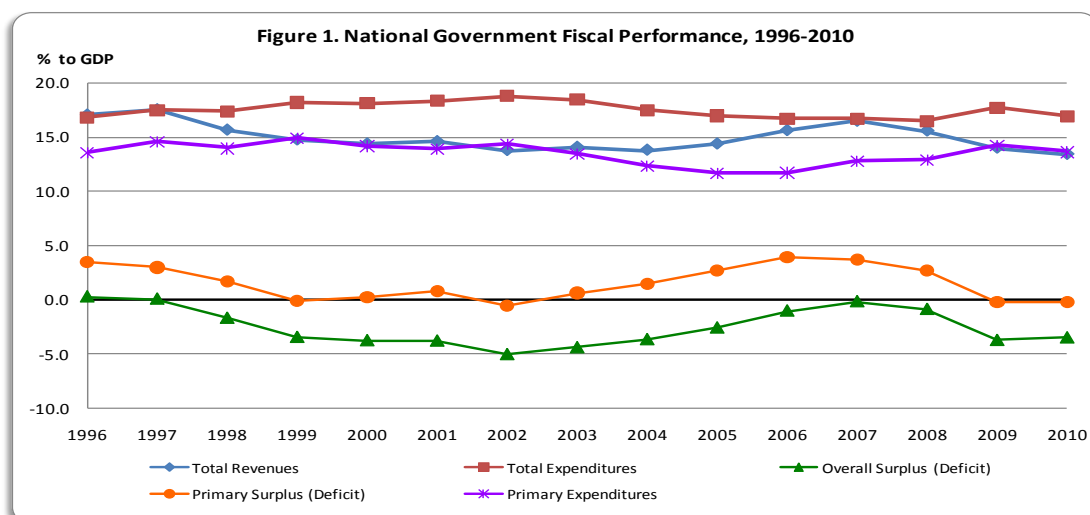
As a result of the fiscal consolidation achieved in 2002-2007, national government outstanding debt contracted from 74.4% of GDP in 2004 to 53.4% in 2007 (**Figure 2**). If contingent liabilities are included, national government debt went down from 90.7% of GDP in 2004 to 60.9% in 2007.

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\* The contribution of Janet S. Cuenca in **Section 3** of this paper is acknowledged. The author also wishes to thank the research assistance of Ma. Laarni Revilla and Lucita Melendez.

<sup>1</sup> These figures are reckoned to the rebased National Income Accounts.





More than half of the reduction in the fiscal deficit during this period was due to expenditure compression as total national government expenditures went down from 18.8% of GDP in 2002 to 16.7% in 2006 and 2007 (**Figure 1**) and national government expenditures net of interest payments contracted from 14.4% of GDP in 2002 to 11.7% in 2006. On the other hand, less than half of the reduction in the fiscal deficit in 2002-2006 was attributable to the rise in tax effort from 11.8% of GDP in 2004 to 13.7% in 2006.

The increase in tax effort was due to the enactment of new tax measures in late 2004 and in the first half of 2005. Republic Act (RA) No. 9334, which amended excise tax rates on sin products, was legislated in late 2004 and took effect in January 2005. Meanwhile, Republic Act No. 9337, otherwise known as the Reformed VAT Law, was legislated in the first half of 2005 and took effect in the last quarter of that year. RA 9337 expanded the coverage of the VAT and provided for a temporary increase in the corporate tax rate from 32% to 35%<sup>2</sup> and increases in the gross receipts tax (on royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income) of banks and non-bank financial intermediaries from

<sup>2</sup> The reformed VAT law provides that the corporate income tax rate will subsequently be reduced to 30% starting in 2009.

5% to 7%. In addition, as provided under RA 9337, the President authorized the increase in the VAT rate from 10% to 12% in January 2006.

The improvement in tax effort was very short-lived, lasting between 2004 and 2006 only. Thus, the tax-to-GDP ratio slipped persistently from 13.7% of GDP in 2006 to 12.2% in 2010. Furthermore, when privatization proceeds are netted out, total revenue effort of the national government, likewise, decreased in 2007-2010. At the same time, while total national government spending (when measured relative to GDP) continued to decline in 2005-2008 (as a result of the downward movement in interest payments), it expanded from 16.5% of GDP in 2008 to 17.7% in 2009 and 16.9% in 2010 (on account of the expansionary fiscal stance that government took in response to the 2008 global financial and economic crisis).

Consequently, the fiscal deficit surged from 0.2% of GDP in 2007 and 0.9% in 2008 to 3.7% in 2009 and 3.5% in 2010. Even more worrisome, the national government incurred a small primary deficit in 2009 and 2010, indicating that government had to borrow in order to finance its interest payments. As a result, outstanding debt of the national government started to rise again from 53.9% of GDP in 2007, reaching 54.7% of GDP in 2008 and 2009 before declining to 52.4% in 2010 (**Figure 2**). If contingent liabilities were included, total outstanding debt went up from 60.9% of GDP in 2007 to an average of 62.1% in 2008-2009 before going down to 58.5% in 2010.

*Macroeconomic Assumptions in the President's Budget for 2012.* The President's Budget assumes that GDP will grow by 5%-6% in real terms in 2011 and 5.5%-6.5% in 2012 while inflation is pegged at 3%-5% in 2011-2012. It also assumes that the foreign exchange rate will range between PhP 42 and PhP 45 per dollar while the 364-day Treasury Bill rate is assumed to vary between 3% and 5% during the said years.

The analysis that follows makes use of slightly different assumptions and are based from the forecasts of various organizations and experts (e.g., WB, ADB, Consensus Economics, Yap). In particular, we assumed that GDP will grow by 4.7% in 2011 and 5.0% in 2012 while the inflation rate is assumed to be 4.5% in 2011 and 4.0% in 2012. At the same time, the (end-of-period) foreign exchange rate is assumed to be equal to PhP 42.70 per dollar in 2011 and PhP 41.20 per dollar in 2012.

*Emerging Fiscal Picture in 2011.* Given actual collections in January – September 2011, revenue collections by the Bureau of Customs (BOC) is projected to fall short of its PhP 320 billion target for 2011 by PhP 56.7 billion or (0.5% of GDP) [**Table 1**]. At the same time, revenue collections by the Bureau of Internal Revenue (BIR) is projected to fall short of its PhP 940 billion target by PhP 13.5 billion (or 0.1% of GDP). The underperformance of the BIR and BOC collections relative to the revenue target appears to have worsened further in the third quarter of 2011 as seen if **Table 1** is compared with **Appendix Table 1** where revenue projections are based on actual collections in January – June 2011. Fortunately, non-tax revenues are projected to exceed the target by PhP 24.5 billion primarily because of what appears to be an unprecedented increase in national government dividend income from shares of stocks in January 2011. This compensates somewhat for the gaps in BIR and BOC collections. Thus, aggregate revenue gap in 2012 is projected to be equal to PhP 46.2 billion (or 0.4% of GDP).

Table 1. National Government Fiscal Position, 2010-2012

Particulars	Actual 2010 (PhP B)	Actual 2010 (% GDP)	BESF Program 2011 (PhP B)	BESF Program 2011 (% GDP)	Author's Projections 2011 a/ (PhP B)	Author's Projections 2011 a/ (% GDP)	Difference <sup>b/</sup> 2011	BESF Program 2012 (PhP B)	BESF Program 2012 (% GDP)	Author's Projections 2012 (PhP B)	Author's Projections 2012 (% GDP)	Difference <sup>b/</sup> 2012
<b>Revenues</b>	<b>1,207.9</b>	<b>13.4</b>	<b>1,411.3</b>	<b>14.3</b>	<b>1,365.1</b>	<b>13.9</b>	<b>46.2</b>	<b>1,568.5</b>	<b>14.6</b>	<b>1,538.3</b>	<b>14.3</b>	<b>30.2</b>
<i>Tax Revenues</i>	<i>1,093.6</i>	<i>12.1</i>	<i>1,273.2</i>	<i>12.9</i>	<i>1,202.6</i>	<i>12.2</i>	<i>70.6</i>	<i>1,445.5</i>	<i>13.4</i>	<i>1,391.5</i>	<i>12.9</i>	<i>54.0</i>
BIR	822.6	9.1	940.0	9.5	926.5	9.4	13.5	1,066.1	9.9	1,054.2	9.8	11.9
BOC	259.2	2.9	320.0	3.2	263.3	2.7	56.7	365.1	3.4	323.3	3.0	41.8
Other Offices	11.8	0.1	13.2	0.1	12.9	0.1	0.4	14.2	0.1	14.0	0.1	0.3
<i>Non-Tax Revenues</i>	<i>113.9</i>	<i>1.3</i>	<i>138.1</i>	<i>1.4</i>	<i>162.5</i>	<i>1.6</i>	<i>(24.5)</i>	<i>123.0</i>	<i>1.1</i>	<i>146.7</i>	<i>1.4</i>	<i>(23.7)</i>
of which:												
BTr Income	54.3	0.6	69.0	0.7	80.6	0.8	(11.6)	51.6	0.5	75.3	0.7	(23.7)
Privatization	0.9	0.0	6.0	0.1	1.4	0.0	4.6	2.0	0.0	2.0	0.0	0.0
<b>Disbursements</b>	<b>1,522.4</b>	<b>16.9</b>	<b>1,711.3</b>	<b>17.4</b>	<b>1,505.9</b> c/	<b>15.3</b> c/	<b>205.4</b>	<b>1,854.5</b>	<b>17.2</b>	<b>1,830.0</b>	<b>17.0</b>	<b>24.5</b>
of which:												
Allotments to LGUs	279.6	3.1	301.7	3.1	327.0	3.3	(25.3)	290.0	2.7	290.0	2.7	<b>0.0</b>
Interest Payments	294.2	3.3	321.6	3.3	281.4	2.9	40.2	333.1	3.1	308.6	2.9	<b>24.5</b>
Net Lending	9.3	0.1	23.0	0.2	16.2	0.2	6.8	23.0	0.2	23.0	0.2	<b>0.0</b>
Total Disbursements												
less interest	1,228.1	13.6	1,389.7	14.1	1,224.5 d/	12.4 d/	165.2	1,521.4	14.1	1,521.4	14.1	<b>0.0</b>
<b>Overall Surplus/ (Deficit)</b>	<b>(314.5)</b>	<b>(3.5)</b>	<b>(300.0)</b>	<b>(3.0)</b>	<b>(140.8)</b> e/	<b>(1.4)</b> e/	<b>(159.2)</b>	<b>(286.0)</b>	<b>(2.7)</b>	<b>(291.7)</b>	<b>(2.7)</b>	<b>5.7</b>
<b>Primary Surplus/ (Deficit)</b>	<b>(20.2)</b>	<b>(0.2)</b>	<b>21.6</b>	<b>0.2</b>	<b>140.6</b> f/	<b>1.4</b> f/	<b>(119.0)</b>	<b>47.1</b>	<b>0.4</b>	<b>16.9</b>	<b>0.2</b>	<b>30.2</b>

a/ based on Jan-Sep 2011 data

b/ Difference = BESF target less author's projections.

c/ equal to 1,577.9 (or 16.0% of GDP) if projected underspending were cut by PhP 72 billion due to stimulus spending that was proposed recently

d/ equal to PhP 1,296.5 billion (or 13.2% of GDP) if projected underspending were cut by PhP 72 billion due to so-called stimulus package

e/ equal to negative PhP 212.8 billion (or negative 2.2% of GDP) if projected underspending were cut by PhP 72 billion due to so-called stimulus package

f/ equal to positive PhP 68.6 billion (or 0.7 of GDP) if projected underspending were cut by PhP 72 billion due to so-called stimulus package

Despite the projected shortfall in total national government revenues in 2011, the national government fiscal deficit is projected to be lower than the PhP 300 billion target. This better-than-expected performance in keeping the fiscal deficit in check is expected to occur largely because government spending will likely be significantly lower than planned during the year.

On the one hand, interest payments is estimated to be PhP 40.2 billion (or 0.4% of GDP) lower than originally programmed in 2011 mainly because interest rates and the foreign exchange rate are lower than anticipated. Also, if the trend prevailing in the first nine months of the year were to persist for the rest of the year, total national government spending is estimated to be PhP 205.4 billion (or 2.1% of GDP) below the programmed level for the entire year.<sup>3</sup> The slower disbursement in the first nine months of 2011 is reportedly linked to the extraordinary diligence that many government agencies have directed on the contracting/procurement process given the new administration's focus on anti-corruption and good governance. As a result, the fiscal deficit for 2011 is projected to be equal to PhP 140.8 billion (or 1.4% of GDP). This figure is PhP 159.2 billion (or 1.6% of GDP) lower than the PhP 300 billion target.

Even if one were to assume that the utilization of the spending authority will be further accelerated in the last three months of the year because of the announced fiscal stimulus package that is reported to be worth PhP 72 million pesos, it is estimated that the amount of "underspending" will still be equal to PhP 133.4 billion (or 1.4% of GDP).<sup>4</sup> In this case, the overall fiscal deficit will be equal to PhP 212.8 billion (or 2.2% of GDP).

*Fiscal Outlook for 2012.* The proposed President's Budget places the fiscal deficit of the national government at PhP 286 billion (or 2.7% of GDP<sup>5</sup>) in 2012 (**Table 1**). The overall fiscal picture in 2012 is projected to be roughly consistent with that programmed in the President's Budget.

On the one hand, it is projected that aggregate national government revenue targets are likely to be PhP 30.2 billion (or 0.2% of GDP) short of what is targeted in the 2012 BESF. Given the creditable performance of the BIR in 2011, it is projected that BIR tax effort will increase by 0.4 percentage points of GDP in 2012 to reach PhP 1054.2 billion, PhP 11.9 billion below the BESF target. However, the lackluster performance of the BOC in 2011 indicates that the target increase in the BOC tax effort (equal to 0.7 percentage points of GDP) in 2012 may not be realized. Instead, it is projected that BOC tax effort will rise by 0.3 percentage points of GDP in 2012 to reach PhP 323.3 billion, PhP 41.8 billion below the BESF target. Also, based on historical performance, non-tax revenues are projected to exceed the BESF target level by PhP 23.7 billion in 2012.

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<sup>3</sup> It is notable that government spending appears to have accelerated in the third quarter relative to the first two quarters of the year. In particular, the projected "underspending" based on data for the first six months of 2011 is PhP 277.8 billion, PhP 72.4 billion higher than the estimate based on actual disbursements in January – September 2011.

<sup>4</sup> It is not clear, however, if the PhP 72 billion stimulus package will be disbursed within 2011 given the normal time it takes between the release of spending authority and actual disbursement.

<sup>5</sup> This is computed relative to the lower GDP projections that this paper is using.

On the other hand, total national government expenditure is projected to be lower than planned because interest payments are likely to be PhP 24.5 billion lower than the programmed level (**Table 1**). Thus, the overall fiscal deficit is projected to be equal to PhP 291.7 billion (or 2.7% of GDP), PhP 5.7 billion above the BESF target for 2012.

*Fiscal sustainability.* Fiscal deficits *per se* are not bad. However, persistently large fiscal deficits may lead to fiscal instability. This is so because as government debt accumulates over time, interest payments on the debt may increase as the government pays interest not only on debt that it had in the past but also on the new debt that was issued to cover the deficit of the current year. This development results in even larger fiscal deficits and even higher levels of government debt stock, thus leading to an explosive situation where fiscal deficit feeds on itself. In this subsection, the sustainability of the fiscal policy is evaluated in terms of its ability to stabilize the ratio of government debt to GDP.

Anand and van Wijbergen (1989), Catsambas and Pigato (1989) and Fedelino et al. (2009) have established that the change in the debt-to-GDP ratio depends on the interrelationship amongst the GDP growth rate, the domestic real interest rate, the rate of inflation, the foreign interest rate, the exchange rate, the stock of domestic and foreign government debt at the start of the period, and the primary deficit. Said relationship suggests that the higher the domestic real interest rate and the lower the GDP growth rate, the more likely is the rise in the debt-to-GDP ratio. Similarly, the higher the foreign interest rate, the higher the depreciation of the exchange rate and the lower the domestic inflation rate, the greater is the tendency of the debt-to-GDP ratio to increase.

Debt sustainability analysis that was undertaken for this paper suggests that the level of fiscal deficit targeted in 2011-2012 will likely result in a downward trajectory for the national government debt stock. Given the emerging fiscal picture for 2011 that is described above, the analysis shows that with the overall fiscal deficit declining from 3.5% of GDP in 2010 to 2.2% of GDP in 2011 before rising to 2.7% of GDP in 2012, national government outstanding debt stock is projected to contract persistently from 54.8% of GDP in 2009 to 52.4% in 2010, 49.5% in 2011 and 47.5% in 2012 (**Table 2**).

### **3. EXPENDITURE PROGRAM**

The President's Budget Message for 2012 is very clear on the thrust of the Aquino Administration's spending priorities for the year. Dubbed as "*Paggugol na Matuwid: Diretso sa Tao*" (Right Spending: Direct to the People), the President's Budget for 2012 purports to be the financial reflection of the administration's Social Contract with the Filipino people (Executive Order No. 43 dated May 13, 2011). As such, it is said to be geared towards achieving the five priority areas of the said Social Contract, namely, (i) transparent, accountable and participatory governance; (ii) poverty reduction and empowerment of the poor and vulnerable; (iii) rapid, inclusive and sustained economic growth; (iv) just and lasting peace and the rule of law; and (v) integrity of the environment and climate change adaptation and mitigation.

The 2012 National Expenditure Program is envisioned to be a results-focused budget. As in the previous year, the government is said to have adopted the zero-based budgeting (ZBB) approach to foster efficiency and effectiveness in spending. In particular, the ZBB is employed to weed out wasteful programs and direct government funds to programs, activities, and projects (PAPs) that will benefit the Filipino people most. For 2012, all departments and agencies are expected to center their PAPs on the five priority areas mentioned earlier. To promote transparency and accountability in the bureaucracy and ensure that public spending directly benefits the people, the government fleshed out agency lump-sum funds and directed the release of funds, to the extent possible, to the smallest implementing units of departments and agencies. It has also strengthened the oversight of the Department of Budget and Management (DBM) on the generation and use of savings including the realignment of funds across allotment classes, within capital outlays, and over their use for allowances and additional benefits. In line with this, the allocation for the salaries of unfilled positions is included in the Miscellaneous Personnel Benefits Fund and will be released only upon submission of concerned departments and agencies that personnel have actually been hired. At the same time, special provisions in the Department of National Defense (DND) and Armed Forces of the Philippines (AFP) that allow so-called “conversions” through budget realignments have been removed in the 2012 National Expenditure Program. In this way, the proposed spending program is clearly an attempt to make more concrete the government’s battlecry: *“kung walang corrupt, walang mahirap.”*

**Table 2. Debt Sustainability Simulation**

	2009 actual	2010 actual	2011 projected	2012 projected
<b>Assume:</b>				
NG total revenues (in million pesos)	1,123,211	1,207,926	1,365,134	1,538,255
% to GDP	14.0	13.4	13.9	14.3
Non-interest expd (in million pesos)	1,142,877	1,228,140	1,296,542	1,521,393
% to GDP	14.2	13.6	13.2	14.1
<b>Implied fiscal deficit &amp; NG outstanding debt:</b>				
Fiscal deficit (in million pesos)	298,532	(314,458)	(212,760)	(291,741)
% to GDP	3.7	(3.5)	(2.2)	(2.7)
NG outstanding debt (in million pesos)	4,396,640	4,718,171	4,876,927	5,108,557
% to GDP	54.8	52.4	49.5	47.5
Interest payments (in million pesos)	278,866	294,244	281,352	308,603
% to GDP	3.5	3.3	2.9	2.9

### 3.1. Spending Priorities in the Proposed President’s Budget for 2012

The proposed national expenditure program (NEP) for 2012 under the President’s Budget amounts to PhP 1.8 trillion. About 60 percent of the proposed expenditure program for 2012 will be funded from new appropriations for various departments and agencies as well as for special purpose funds<sup>6</sup>. The remaining 40% will be funded from automatic appropriations<sup>7</sup>.

<sup>6</sup> Special Purpose Funds include the Miscellaneous Personnel Benefits Fund (MPBF), Retirement Benefits Fund (RBF), Priority Development Assistance Fund (PDAF), Budgetary Support to Government Corporations (BSGC), and Allocation to Local Government Units (ALGU).

However, a total of PhP 161.7 billion is proposed as standby authority (i.e., unprogrammed appropriations) in case the national treasury collects more than the revenue targets (**Table 3**).

**Table 3. 2012 National Budget Program (in million pesos)**

	Amount	% dist.
New General Appropriations		
Departments and Agencies	880,053	
Special Purpose Funds	374,009	
Total, New General Appropriations	1,254,061	
Less: Unprogrammed Appropriations	161,690	
Total, Programmed New Appropriations	1,092,371	60.15
Automatic Appropriations	723,629	39.85
Total Expenditure Program	1,816,000	100.00

*Source: 2012 National Expenditure Program*

The proposed expenditure program for 2012 is PhP 171 billion (or 10.4%) higher than the PhP 1.6 trillion expenditure program for 2011 (**Table 4**). However, debt service (i.e., interest payments) is projected to decline by 6.7% in 2012 compared to 2011 level due to the declining peso-dollar exchange rate and lower interest rate as well as declining debt stock. Consequently, debt service is expected to fall by PhP 24.0 billion from PhP 357.1 billion in 2011 to PhP 333.1 billion in 2012. Thus, total national government expenditure net of debt service for 2012 is programmed to be PhP 195.0 billion (or 13.0%) higher than the 2011 level.

Close to two-thirds of the increment in the proposed expenditure program net of debt service is captured by the social service sectors and the economic service sectors combined. In particular, 33.2% of the increment in the expenditure program net of debt service in 2012 relative to the 2011 program is allocated for all the social service sectors combined while 31.0% of the increment is allotted for all the economic service sectors as a group (**Table 4**). In a sense, the bias towards the social service sectors that was very much evident in the national government expenditure program in 2011 has been replaced by a more balanced distribution between the social services sectors and the economic services sectors. Meanwhile, 35.8% of the increase in the aggregate expenditure program net of debt service is allocated to public administration (14.2%), other sectors not elsewhere classified (10.2%), peace and order (7.2%) and national defense (4.2%).

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<sup>7</sup> Automatic appropriations refer to appropriations programmed annually or for some other period prescribed by law, by virtue of outstanding legislation which does not require periodic action by Congress. They include debt servicing (i.e., interest payments and net lending); internal revenue allocation (IRA), government contribution for employees' retirement and life insurance premiums, special accounts in the general fund, grant proceeds, and donations.

**Table 4. Comparative Analysis of National Expenditure Program, by Sector, 2010-2012**

	Level (in million pesos)			Difference (in million pesos)		growth rate		Difference - % dist a/	
	2010	2011 b/	2012 b/	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012
<b>GRAND TOTAL</b>	1,472,977	1,645,000	1,816,000	172,023	171,000	11.7	10.4	157.6	87.7
<b>Total Economic Services</b>	282,312	228,378	288,874	(53,934)	60,497	(19.1)	26.5	(49.4)	31.0
Agriculture	75,400	39,749	62,932	(35,651)	23,183	(47.3)	58.3	(32.7)	11.9
Agrarian Reform	14,428	17,827	19,412	3,399	1,584	23.6	8.9	3.1	0.8
Natural Resources	14,456	13,069	19,075	(1,387)	6,006	(9.6)	46.0	(1.3)	3.1
Industry	5,838	3,993	5,695	(1,844)	1,702	(31.6)	42.6	(1.7)	0.9
Trade	410	451	693	41	241	10.0	53.4	0.0	0.1
Tourism	1,700	1,838	2,226	138	388	8.1	21.1	0.1	0.2
Power & Energy	2,445	1,819	11,849	(626)	10,030	(25.6)	551.5	(0.6)	5.1
Water Resources Devt.	47	53	45	6	(8)	12.3	(14.8)	0.0	(0.0)
Transportation & Communication	163,769	145,232	162,615	(18,536)	17,383	(11.3)	12.0	(17.0)	8.9
Other Econ. Services	3,820	4,346	4,332	526	(14)	13.8	(0.3)	0.5	(0.0)
<b>Total Social Services</b>	300,418	385,623	450,359	85,205	64,736	28.4	16.8	78.0	33.2
Education	226,207	284,926	322,261	58,719	37,334	26.0	13.1	53.8	19.1
Health	31,154	37,360	48,875	6,206	11,516	19.9	30.8	5.7	5.9
Soc. Security, Labor/ Emp., & Soc. Welfare Serv.	35,894	57,630	72,200	21,737	14,570	60.6	25.3	19.9	7.5
Housing & Com. Devt.	7,164	5,707	7,023	(1,456)	1,316	(20.3)	23.1	(1.3)	0.7
<b>National Defense</b>	95,808	107,450	115,628	11,642	8,177	12.2	7.6	10.7	4.2
<b>Total Public Services</b>	213,690	205,770	247,546	(7,920)	41,776	(3.7)	20.3	(7.3)	21.4
Public Administration	100,314	79,290	107,062	(21,024)	27,772	(21.0)	35.0	(19.3)	14.2
Peace and Order	113,375	126,480	140,484	13,104	14,004	11.6	11.1	12.0	7.2
<b>Others, n.e.c.</b>	286,505	360,689	380,486	74,183	19,797	25.9	5.5	67.9	10.2
<b>Debt Service</b>	294,244	357,090	333,107	62,846	(23,983)	21.4	(6.7)	57.6	(12.3)
<b>MEMO ITEM:</b>									
IRA	265,802	286,944	273,310	21,142	(13,635)	8.0	(4.8)	19.4	(7.0)
Grand Total - Debt Service	1,178,733	1,287,910	1,482,893	109,177	194,983	9.3	15.1	100.0	100.0
Grand Total-Debt Service-LGU share	901,486	989,045	1,192,854	87,559	203,809	9.7	20.6	80.2	104.5
Defense & Peace & Order	209,184	233,930	256,111	24,746	22,182	11.8	9.5	22.7	11.4
Infrastructure	166,261	147,104	174,510	(19,157)	27,405	(11.5)	18.6	(17.5)	14.1

a/ as % of total expenditure net of debt service

b/ allocation for Miscellaneous Personnel Benefits Fund and Pension and Gratuity Fund are distributed to the various agencies in direct proportion to their budgets for personal services

Source of basic data: Budget of Expenditures and Sources of Finance



*Social services sectors.* As indicated earlier, the social services sector has the biggest share in the overall increase in the aggregated expenditure program in 2012. However, the PhP 64.7 billion increase in the total allocation for all the social services sectors combined in 2012 is significantly lower than the PhP 85.2 billion increase that was programmed for 2011. As a result, although the implied growth in the total allocation for all the social services sector as a group in 2012 (16.8% over the 2011 level) is higher than that of the average sector (10.4%), it is lower than that of the total allocation for all the economic services sectors combined (26.5%).

### Education

The education sector has the largest share in the increment in the total expenditure program of the national government net of debt service in 2012. To wit, national government spending on the education sector is programmed to increase by PhP 37.3 billion from PhP 284.9 billion in 2011 to PhP 322.3 billion in 2012. This figure is equal to 19.1% of the increase in total obligations program net of debt service in 2012 (**Table 4**).

The bulk of the additional allocation earmarked for the education sector (or PhP 33.4 billion) is meant for the Department of Education (DepEd), making it the top gainer among the various departments in the 2012 Expenditure Program. Thus, the budget of the DepEd is programmed to rise from PhP 246.4 billion in 2011 to PhP 279.9 billion in 2012 (**Table 5**).<sup>8</sup> The increased allocation for the DepEd in 2012 is directed at closing the deficit in crucial resources needed to deliver quality basic education, including an increase of PhP 6.1 billion for classroom construction over the corresponding allocation in the previous year, PhP 5.2 billion for new teacher items, PhP 847 million for textbooks, PhP 457 million for GASTPE and PhP 118 million for multigrade schools and close to PhP 10 billion for salary increases under the most recent tranche of the Salary Standardization Law (SSL3).<sup>9</sup>

However, it is notable that the PhP 33.4 billion increase in the proposed budget of DepEd in 2012 is considerably lower than the PhP 55.6 billion increase in its budget in 2011 and is about PhP 68.3 billion short of the estimated amount that is required to close the existing input gaps so as to achieve the MDG for the basic education sector (Manasan 2010). Moreover, despite the proposed PhP 33.4 billion increase in the DepEd budget in 2012, the Philippines' total allocation for the basic education (which is estimated to be equal to 2.6% of GDP in that year) still compares unfavorably with those of its neighbors in Southeast Asia.<sup>10</sup>

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<sup>8</sup> These numbers are inclusive of the automatic appropriation for the retirement and life insurance premium of personnel, and the share of the department in the miscellaneous personnel benefits fund including the amount earmarked for the salaries of unfilled positions.

<sup>9</sup> The department launched the universal Kinder program in 2011. As such, the proportion of children aged 5 who will enroll in the DepEd pre-school program is expected to rise significantly in 2011 and 2012. Thus, it is surprising that the proposed allocation for the Kinder program in 2012 is PhP 411 million lower than its 2011 level.

<sup>10</sup> Indonesia, Malaysia, Thailand and Vietnam are estimated to spend 4.1% of GDP on the average in 2002-2007 on basic education (World Bank 2010).

Table 5. Top Gainers in 2012 National Expenditure Program, Selected Agencies

	Level (in million pesos)			Difference (in million pesos)		growth rate	
	2010	2011 b/	2012 b/	2010-2011	2011-2012	2010-2011	2011-2012
<b>GRAND TOTAL</b>	1,472,977	1,645,000	1,816,000	172,023	171,000	11.7	10.4
<b>Total Economic Services</b>	282,312	228,378	288,874	(53,934)	60,497	(19.1)	26.5
Agriculture	75,400	39,749	62,932	(35,651)	23,183	(47.3)	58.3
DA	29,961	31,118	50,765	1,157	19,647	3.9	63.1
NIA	0	0	2,061	0	2,061	na	na
NFA	38,394	2,500	4,000	(35,894)	1,500	(93.5)	60.0
Agrarian Reform	14,428	17,827	19,412	3,399	1,584	23.6	8.9
DAR	10,399	17,827	19,412	7,428	1,584	71.4	8.9
Natural Resources	14,456	13,069	19,075	(1,387)	6,006	(9.6)	46.0
DENR	9,671	10,389	15,889	718	5,499	7.4	52.9
Industry	5,838	3,993	5,695	(1,844)	1,702	(31.6)	42.6
MIRDC	148	146	263	(2)	117	(1.0)	80.0
Phil. Coun. for Industry & Energy Res. & Devt.	275	149	602	(127)	454	(46.0)	305.0
DTI	2,653	2,395	2,572	(258)	177	(9.7)	7.4
Aurora Special Economic Zone Authority	123	145	333	23	188	18.4	129.3
Cagayan Special Economic Zone Authority	1,114	295	916	(820)	621	(73.6)	210.8
Securities & Exchange Commission	273	298	543	24	245	8.9	82.4
Trade	410	451	693	41	241	10.0	53.4
Phil. Trade Training Center - (DTI)	39	39	79	0	40	0.5	102.7
Tourism	1,700	1,838	2,226	138	388	8.1	21.1
DOT	1,324	1,360	1,437	36	77	2.7	5.7
Tourism Promotion Board	38	65	250	27	185	71.4	284.6
Power & Energy	2,445	1,819	11,849	(626)	10,030	(25.6)	551.5
DOE	988	1,422	8,874	434	7,452	43.9	524.1
NEA	1,046	0	2,569	(1,046)	2,569	(100.0)	na
Water Resources Devt.	47	53	45	6	(8)	12.3	(14.8)
Transportation & Communication	163,769	145,232	162,615	(18,536)	17,383	(11.3)	12.0
DPWH	141,779	111,647	126,597	(30,132)	14,949	(21.3)	13.4
DOTC	19,885	32,413	34,514	12,528	2,100	63.0	6.5
Other Econ. Services	3,820	4,346	4,332	526	(14)	13.8	(0.3)
DOST	1,348	2,343	2,117	995	(226)	73.9	(9.6)
Advanced Science and Technology Institute	71	61	88	(10)	27	(14.2)	44.9

Table 5. Top Gainers in 2012 National Expenditure Program, Selected Agencies (continuation)

	Level (in million pesos)			Difference (in million pesos)		growth rate	
	2010	2011 b/	2012 b/	2010-2011	2011-2012	2010-2011	2011-2012
<b>Total Social Services</b>	300,418	385,623	450,359	85,205	64,736	28.4	16.8
Education	226,207	284,926	322,261	58,719	37,334	26.0	13.1
<i>DepEd</i>	190,873	246,446	279,884	55,573	33,438	29.1	13.6
<i>SUCs</i>	26,710	28,737	30,469	2,028	1,732	7.6	6.0
<i>CHED</i>	1,662	1,749	2,297	87	548	5.2	31.4
Science Education Institute	723	516	1,375	(207)	859	(28.7)	166.6
National Historical Institute	115	100	177	(15)	78	(13.4)	78.1
Health	31,154	37,360	48,875	6,206	11,516	19.9	30.8
<i>DOH</i>	24,494	34,559	45,713	10,064	11,154	41.1	32.3
Phil. Council for Health Research and Devt.	128	83	267	(45)	184	(35.1)	221.7
Soc. Security, Labor/ Emp., & Soc. Welfare Serv.	35,894	57,630	72,200	21,737	14,570	60.6	25.3
<i>DSWD</i>	15,901	34,395	49,474	18,495	15,079	116.3	43.8
Housing & Com. Devt.	7,164	5,707	7,023	(1,456)	1,316	(20.3)	23.1
<i>NHA</i>	3,423	4,375	5,631	952	1,256	27.8	28.7
<b>National Defense</b>	95,808	107,450	115,628	11,642	8,177	12.2	7.6
<i>DND</i>	534	339	715	(195)	376	(36.5)	110.9
<i>AFP-GHQ</i>	34,105	41,219	45,750	7,114	4,531	20.9	11.0
<i>Phil Army</i>	36,784	40,528	42,414	3,744	1,887	10.2	4.7
<i>Phil Navy</i>	12,698	13,241	14,002	543	762	4.3	5.8
<b>Total Public Services</b>	213,690	205,770	247,546	(7,920)	41,776	(3.7)	20.3
Public Administration	100,314	79,290	107,062	(21,024)	27,772	(21.0)	35.0
<i>BOC</i>	2,486	2,231	9,712	(256)	7,482	(10.3)	335.4
<i>BIR</i>	6,508	7,891	11,615	1,382	3,724	21.2	47.2
<i>DILG</i>	2,799	3,191	6,077	392	2,885	14.0	90.4
<i>Office of Vice President</i>	177	197	415	21	217	11.7	110.1
<i>Comelec</i>	4,865	5,542	8,070	677	2,528	13.9	45.6
<i>COA</i>	12,841	2,787	10,577	(10,054)	7,790	(78.3)	279.5
Peace and Order	113,375	126,480	140,484	13,104	14,004	11.6	11.1
<i>PNP</i>	77,074	84,468	93,981	7,395	9,512	9.6	11.3
<i>Bureau of Fire Protection</i>	7,834	9,743	10,384	1,909	641	24.4	6.6
<i>Bureau of Jail Management and Penology</i>	5,064	5,947	6,551	883	604	17.4	10.1
<i>Office of Civil Defense</i>	273	113	1,246	(160)	1,133	(58.6)	1,001.6
<i>Judiciary</i>	13,159	15,155	16,158	1,996	1,003	15.2	6.6
<b>Others, n.e.c.</b>	286,505	360,689	380,486	74,183	19,797	25.9	5.5
<i>Calamity Fund</i>	0	5,000	7,500	5,000	2,500	na	50.0
<i>IRA</i>	265,802	286,944	273,310	21,142	(13,635)	8.0	(4.8)
<i>Special LGU share in National Taxes</i>	11,445	11,871	16,680	426	4,809	3.7	40.5
<b>Debt Service</b>	294,244	357,090	333,107	62,846	(23,983)	21.4	(6.7)

a/ as % of total expenditure net of debt service

b/ allocation for Miscellaneous Personnel Benefits Fund and Pension and Gratuity Fund are distributed to the various agencies in direct proportion to their budgets for personal services

Source of basic data: Budget of Expenditures and Sources of Finance

In particular, the PhP 1.9 billion allocation that is proposed for the Kinder program in 2012 is PhP 411 million lower than its 2011 level. This is surprising given that the proportion of children aged 5 who will enroll in the DepEd pre-school program is expected to rise significantly in 2011 and 2012 with the launching of the universal Kinder program in 2011. Enrollment in the Kinder program of the DepEd rose from 1.2 million in 2010 to 1.6 million in 2011. Given this, the budgetary requirement of providing the needed teachers, classrooms, instructional materials and other crucial resources for the program is estimated to cost some PhP 28 billion in 2012.

On the other hand, the aggregate budget for State Universities and Colleges (SUCs) is programmed to rise by PhP 1.7 billion in 2012, primarily because of the higher salaries and wages under SSL3. In addition, an increase of another PhP 500 million is available for the programs and projects of SUCs under the budget of the Commission on Higher Education (CHED). At the same time, the budget for the Science Education Institute is programmed to increase by 167% (or PhP 858 million) in 2012, largely on account of higher allocation for science and technology scholarships (**Table 5**).

These movements are consistent with the financing framework for higher education which recognizes that (i) since graduates of higher education institutions (HEIs) do internalize a significant portion of the benefits of higher education schooling in the form of a higher income stream in the future, it is but proper that graduates of higher education should contribute to the cost of their degree (Barr 2009) in the form of fees/ user charges and some form of cost recovery even in public HEIs; (ii) equity concerns dictate the expansion of financial aid programs to needy students as well as student loan programs to provide bridge financing to students and their families; and (iii) some national government subsidy to higher education is justified primarily because higher education has a public good element that creates benefits to society that go beyond the income and employment gains accruing to individual graduates.<sup>11</sup>

Prospectively, however, there is a need to (i) revisit the manner by which the national government funding for SUCs is allocated through the normative funding formula which was envisioned to help promote and reward quality instruction, research and extension services as well as financial prudence and fiscal responsibility, (ii) improve the mechanisms for public financing of research in universities, an important public good produced in higher education institutions, since it is not quite clear whether normative funding formula has been a good vehicle in this regard given the difficulties in measuring research outputs; and (iii) promote the amalgamation of SUCs, possibly through the establishment of regional university systems, given the diseconomies of scale that is evident among SUCs (Manasan 2011a).

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<sup>11</sup> In particular, universities play an important role in driving innovation that is so essential for economic development in a knowledge-driven world. First, countries need a critical mass of high-quality higher education graduates to compete internationally (Barr 2009). Second, research done in universities contributes to the creation, dissemination and application of knowledge. Third, higher education is said “to promote nation building through its contributions to increased social cohesion, trust in social institutions, democratic participation and open debate, and appreciation of diversity in gender, ethnicity, religion, and social class” (World Bank 2002).

## Health

In 2012, national government spending on the health sector is programmed to increase by PhP 11.5 billion from its 2011 level. To wit, the allocation for the Department of Health (DOH) is programmed to increase by 32% from PhP 34.6 billion in 2011 to PhP 45.7 billion in 2012, making the DOH the fifth largest gainer among the various government departments in the 2012 National Expenditure Program (**Table 5**). The bulk of the programmed increase in the DOH budget for 2012 (or PhP 8.5 billion) is allocated for higher national government subsidy for the premium contribution of beneficiaries under the PhilHealth Sponsored Program. Thus, the allocation for NG subsidy for the health insurance premium of indigent families enrolled in the Sponsored Program is programmed to increase from PhP 3.5 billion in 2011 to PhP 12.0 billion in 2012. Starting in 2012, the premium contribution for each indigent family enrolled in the Sponsored Program will be doubled from PhP 1,200 to PhP 2,400.

Furthermore, the national government will shoulder in full the premium contributions for the Sponsored Program starting in 2012.<sup>12</sup> The latter initiative is meant to achieve three things and appears to be well justified. First, it is expected to address the political economy issues that arise when local government units (LGUs) are required to initiate the enrollment of poor families identified by the National Household Targeting System for Poverty Reduction (NHTS-PR) in the Sponsored Program. Second, considering the positive and statistically significant relationship between the coverage rate of the Sponsored Program and per capita LGU own-source revenue (Manasan 2011b), it is expected to improve the coverage of indigent families even in areas where the fiscal capacity of the LGU is low. Third, it is also meant to help ensure greater stability in the enrollment of indigent families as the national government no longer has to wait for the LGUs to initiate the selection and enrollment process.

On the other hand, PhP 1.8 billion of the increase in the DOH budget is allocated for the Family Health and Responsible Parenthood Program, increasing the allocation for this program from PhP 731 million in 2011 to PhP 2.5 billion in 2012. Part of these funds will be used for the vaccination of 1.2 million senior citizens against influenza and pneumonia. Meanwhile, the allocation for the Doctors to the Barrios Program will increase by PhP 1.6 billion in 2012 from the 2011 level of PhP 123 million. These funds will be used to deploy 200 doctors, 12,000 nurses and 1,021 midwives in hospitals, rural health units (RHUs) and barangay health stations (BHSs) nationwide.

At the same time, close to PhP 1 billion of the said increase in the budget of the DOH is allocated for the upgrading of health facilities. While the proposed budget for the DOH in 2012 includes new funding of PhP 3 billion for national government equity for the modernization of 25 regional hospitals under the private-public partnership (PPP) framework, the budget for the upgrading of public health facilities (including LGU-operated hospitals) under the Health Facilities Enhancement Program (HFEP) in 2012 is reduced by PhP 2.0 billion to PhP 5.1 billion from its 2011 level of PhP 7.1 billion. Hence, the net increment in the allocation for the improvement of health facilities in 2012 is PhP 1.0 billion.

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<sup>12</sup> Prior to 2012, the premium contribution for the Sponsored Program is paid for jointly by the national government and LGUs.

The importance of upgrading of rural health units (RHUs) and barangay health stations (BHSs) to serve as basic emergency obstetric and neonatal care (BEmONC) facilities and upgrading of selected LGU provincial and district hospitals to serve as comprehensive emergency obstetric and neonatal care (CEmONC) facilities is premised on the need to treat every delivery as an emergency case and the importance of facility-based deliveries in reducing the maternal mortality rate. The upgrading of RHUs/ BHSs and selected LGU hospitals is also expected to improve their “gatekeeping” function and, thereby, reduce hospital patient case load at the tertiary level (Manasan and Cuenca 2010). At the same time, the HFEP is best seen as a critical component of the DOH health care financing strategy (DOH 2010) (i) by enhancing the ability of national government and LGU health facilities to provide quality and appropriate services that are responsive to the priority health needs of their catchment population, and (ii) by enabling them to operate on a more sustainable basis by securing appropriate PhilHealth accreditation.

The allocation for non-communicable disease prevention and control is also programmed to increase by PhP 32.9 million (or 92% of its 2011 level). This movement appears to be premised on the observed increasing importance of non-communicable diseases like hypertension, cardiovascular disease, diabetes and the like in overall morbidity in recent years. In contrast, the allocation for vaccine-preventable disease control is programmed to decline by PhP 618 million (or 25% of its 2011 level). It should be noted that vaccine-preventable disease control is a major component of the country’s public health program and is important towards the achievement of the MDG target for infant and child mortality.

#### Social security, labor/ employment and social welfare services

Some 7.5% of the total increment in the national government expenditure program in 2012 will go to social security, labor/ employment and other social welfare services. In particular, the budget of the Department of Social Welfare and Development (DSWD) will increase by PhP 15.1 billion in 2012, making it the third largest gainer among the various departments in the 2012 National Expenditure Program. Thus, the expenditure program of the DSWD will grow by 44% from PhP 34.4 billion in 2011 to PhP 49.5 billion in 2012 (**Table 5**).

The large increase in the DSWD budget for 2012 is primarily due to the Pantawid Pamilyang Pilipino Program (4Ps), with the allocation for program increasing by PhP 18.3 billion (or 86% of its 2011 level). This amount is meant to fund the programmed expansion in the number of families benefitted by the 4Ps from 2.3 million by the end of 2011 to 3 million 2012.

The increased allocation for the 4Ps and the program’s expansion is one of the more controversial programs of the Aquino II administration for a number of reasons. First, there has been some debate as to the real objectives of the program. On the one hand, some sectors see the 4Ps as a dole-out program that encourages mendicancy. On the other hand, its supporters argue that while the program indeed provides cash grants to the poor that will address their immediate needs, the program imposes certain conditionalities that the poor have to comply with. These conditionalities are meant to ensure that beneficiaries invest in the human capital of their children by sending them to school and by making sure that

mothers and their children receive basic health services. The program's detractors, however, argue that poor families should not be given incentives to do what is their inherent responsibility in the first place, i.e., to provide for the education and health needs of their children. In response to this, supporters of the program argue that the cash grants under the program are meant to provide poor parents the means to cover the indirect cost of accessing basic education and basic health services. Without this support, inequitable access to these basic services (as seen in **Table B1.1** and **Table B1.2** in **Box 1**) will be difficult to reverse.

Second, while conditional cash transfer programs in other countries, particularly those in Latin America, do provide some evidence of success, some sectors point out that this is not always the case. Thus, there is a demand for evidence that the program is effective. Unfortunately, no rigorous impact evaluation of the 4Ps is available to date. Nonetheless, a before-and-after comparison of the growth rate of enrollment in areas covered by the 4Ps does provide some early indication of the program's positive influence on school attendance (**Box 1**). Unfortunately, no data is yet available to perform a similar exercise to validate the effect of the 4Ps on increasing household demand for basic public health services.

Third, still other observers point out that there might be a need to rethink the appropriate scale of the 4Ps. They note that poor families may be subdivided into those which are chronic poor and those which are transient poor. Given the relatively long-term nature of the assistance provided under the 4Ps, it appears to be the appropriate type of assistance for the chronic poor. The question that begs to be answered then is: Is the 4Ps also the best type of social protection program to address the needs of the transient poor? If not, does the DSWD have such programs in its portfolio of interventions?

At the same time, a number of projects/ programs are either being introduced for the first time or expanded in the 2012 expenditure program of the DSWD. To wit, the 2012 expenditure program of the DSWD allocates PhP 587 million for the implementation and monitoring of the department's component of the PAMANA project. The PAMANA project is an inter-agency project led by the Office of the Presidential Adviser for the Peace Process (OPAPP) that aims to strengthen government's efforts towards building peaceful communities in 1,921 conflict-affected barangays in 171 municipalities in 34 provinces (Office of the President 2011). The DSWD component involves livelihood activities in 845 barangays and the construction of 989 Core Shelter Units.

The 2012 National Expenditure Program also increases the allocation for assistance to Social Pension for Indigent Senior Citizens by PhP 356 million (41%), bringing the total allocation for the said program to PhP 1.2 billion in 2012. This program which was started in 2011 provides indigent senior citizens aged 75 and up monthly assistance of PhP 500. The number of beneficiaries is projected to increase from 138,960 in 2011 to 198,370 in 2012.

**Box 1. Early Indications of the Effect of the Pantawid Pamilyang Pilipino Program on School Attendance**

The Pantawid Pamilyang Pilipino Program (4Ps) is a conditional cash transfer program that aims to improve the living conditions of poor households while at the same time encouraging them to increase their investments on the education and health of their children. It provides cash grants to poor households conditional on said households increasing their investments in their children's human capital.

The 4Ps provides an education grant equal to PhP 300 per child per month during the school year (up to a maximum of 3 children per household) provided they comply with the following conditions:

- Children 3-5 years of age attend day care or pre-school classes at least 85% of the time; and
- Children 6-14 years of age enroll in elementary or high school and attend school at least 85% of the time;

The education grant comes up to PhP 3,000 per year for a household with one child or PhP 9,000 a year for a household with three children assuming that they comply with the education conditionalities.

At the same time, 4Ps provides a health grant equal to PhP 500 per month to targeted poor households provided they comply with the following conditions:

- Pregnant women avail of pre-natal and post-natal care and be attended during childbirth by skilled attendant;
- Parents attend responsible parenthood sessions;
- Children 0-5 years of age receive regular preventive check-ups and vaccines; and
- Children 0-5 years of age receive deworming twice a year.

The health grant comes up to PhP 6,000 per year per household who comply with the health conditionalities. Thus, a 4Ps household with one eligible child stands to receive a total of PhP 9,000 per year while a 4Ps household with three 4Ps eligible children stands to receive a total of PhP 15,000 per year in government assistance.

The 4Ps beneficiary-families are selected on the basis of a proxy means test that is applied on household level information obtained from a household survey that is administered in the selected municipalities. Beneficiaries are then registered and issued identification cards and bank cards. The payment of the cash grants to household beneficiaries is made to the most responsible adult in the family through automated teller machines of the Land Bank of the Philippines.

The 4Ps is being implemented in phases. The first phase of expansion, which was completed in March - December 2008, benefited close to 340,000 poor families in 160 municipalities and cities (Set 1 areas) in the 20 poorest provinces nationwide (based on the 2006 FIES), in the poorest province in each of the 5 regions which were not represented by the 20 poorest provinces, and in three ARMM provinces.<sup>1</sup> The second phase of expansion benefited an additional 325,000 poor families in 111 municipalities and cities (Set 2 areas) and was completed in March - July 2009. The third phase of expansion benefited some 400,000 poor families in 469 municipalities and cities (Set 3 areas) and was completed in October 2009 – December 2010. The fourth phase of expansion, which is programmed to be completed in January – December 2011, aims to include an additional 1.3 million poor families in 270 municipalities and cities (Set 4 areas). Thus, the 4Ps aims to cover a total of 2.3 million poor families by the end of December 2011.

As with conditional cash transfer programs in other countries, the expected outcomes of the 4Ps include:

- a significant increase in the number of children enrolling in day care/ pre-school;
- a significant increase in number of children enrolling in elementary and secondary school;
- a significant increase in the school attendance of children in elementary and secondary school;
- a significant increase in the number of years of education completed;
- a significant increase in the number of pregnant women getting pre-natal, post-natal care and whose child birth is in a health facility and attended by health professional;



Box 1 (cont.)

- a significant increase in the number of children 0-5 years old availing of preventive services and immunization;
- a significant decrease in stunting among children 0-5 years old;
- a significant decrease in the baseline level of population growth; and
- a significant increase in food consumption.

If the said outcomes are realized, it is expected that the intergenerational cycle of poverty will be broken by reversing the prevailing inequitable access to basic education and basic health services (**Table B1.1** and **Table B1.2**). The income divide is evident in school attendance as well as access to key maternal and child health indicators. In particular, the percentage of children aged 6-11 years from households belonging to the poorest quintile who are not in school is more than 7 times as large as that of children from households in the richest quintile while the percentage of children aged 12-15 from households belonging to the poorest quintile who are not in school is more than 11 times as large as that of children from households in the richest quintile (**Table B1.1**). On the other hand, the percentage of pregnant women from the poorest quintile who did not receive any antenatal care is more than 14 times as large as that of pregnant women from the richest quintile while the percentage of births among mothers from the poorest quintile which were not attended by a health professional is more than 13 times as large as that of mothers from the richest quintile (**Table B1.2**).

To date, no rigorous impact evaluation of the 4Ps is available to date. However, a before-and-after comparison of the growth rate of enrollment in Set 1 areas of the 4Ps provides some early indication of the program's positive influence on school attendance. The growth rate of the number of students in public elementary and schools in Set 1 areas of the 4Ps outside of NCR and ARMM in 2008-2010 is considerably higher than the average growth rate of enrollment in these areas in the pre-4Ps period (**Table B1.3**). Moreover, it is also significantly higher than the growth rate of enrollment in public elementary and secondary schools in non-Set 1 areas in 2008-2010 despite the fact that the growth rate of the population aged 6-15 in the Set 1 areas outside of NCR and ARMM is markedly lower than that in non-Set 1 areas during the period.

It is notable, however, that the effect of the 4Ps on public secondary school enrollment in Set 1 areas outside NCR and ARMM is more muted relative to the program's effect on public elementary school enrollment. Consequently, the improvement in the gross enrollment rate in public elementary schools is more marked than that in public secondary schools in Set 1 areas outside of NCR and ARMM. To wit, the gross enrollment rate in public elementary schools in Set 1 areas outside of NCR and ARMM rose from 104.5 in 2007 to 108.8 in 2010 while the gross enrollment in public secondary schools in these areas inched up almost imperceptibly from 63.2 in 2007 to 64.5 in 2010 (**Table B1.4**).

In the Set 1 areas in ARMM, the program's effect on enrollment at the elementary level appears to be somewhat delayed, with public elementary school enrollment in Set 1 areas in ARMM exhibiting a dramatic increase of 19% in 2010, two years after the introduction of the 4Ps in these areas in 2008 (**Table B1.3**). On the other hand, while the growth rate of public secondary school enrollment in these areas increased substantially in 2008 and 2009 relative to the pre-4Ps period, the enrollment growth accelerated even faster in 2010. As is the case with Set 1 areas outside of NCR and ARMM, the effect of the 4Ps on school attendance is less marked at the secondary level compared to the elementary level. Thus, gross enrollment rate in public elementary schools in the Set 1 areas in ARMM went up from 122.9 in 2007 to 154.3 in 2010 while gross enrollment rate in public secondary schools in these areas rose from 32.9 in 2007 to 33.8 in 2010 (**Table B1.4**).

Box 1 (cont.)

**Table B1.1. Selected Education Indicators by Income Quintiles, 2008**

Income quintile	Percentage of children not in school			Net enrollment rate		
	age 0-5	age 6-11	age 12-15	pre-school	elem	sec
1st	77.5	8.1	17.8	20.8	86.5	48.6
2nd	69.1	5.0	11.0	28.8	90.9	65.3
3rd	60.9	2.6	6.9	36.8	92.3	74.7
4th	53.1	1.4	4.0	45.2	92.8	79.8
5th	40.4	1.1	1.5	57.3	91.9	84.3
<b>ALL</b>	65.4	4.8	10.4	32.7	90.0	65.7
ratio of 1st Q to 5th Q	1.9	7.4	11.7	0.4	0.9	0.6

Source: 2008 Annual Poverty Indicator Survey (APIS)

**Table B1.2. Selected Maternal and Child Health Indicators by Wealth Quintiles, 2008**

Wealth index quintile	percentage of mothers who did not receive any antenatal care	percentage of births not delivered in health facility	percentage of birth not assisted by health professional	percentage of children aged 12-23 mo who have no vaccinations	percentage of children aged 6-59 mo not given iron supplements
Lowest	22.9	87.0	74.2	13.4	83.8
Second	8.6	66.0	44.5	5.7	72.8
Middle	4.1	51.7	24.3	2.0	62.2
Fourth	2.4	31.3	14.0	2.0	45.2
Highest	1.6	16.1	5.5	1.5	32.6
<b>Total</b>	9.0	55.8	37.9	5.6	63.0
ratio of 1st Q to 5th Q	14.3	5.4	13.5	8.9	2.6

Source: 2008 National Demographic and Health Survey (NDHS)

In contrast, the apparent positive effect of 4Ps on school attendance at the elementary and secondary level in Set 1 areas in ARMM and in Set 1 areas outside of ARMM and NCR is not replicated in Set 1 areas in NCR, a development that needs further study. The growth rate of public elementary school enrollment in Set 1 areas in NCR in 2008-2010 is not only lower than the growth rate in public elementary school enrollment in these same areas in the pre-4Ps period but it is also lower than the growth rate of public elementary school enrollment in non-Set 1 areas in 2008-2010 even if the growth rate of the population aged 6-11 in the Set 1 areas in NCR is faster than the corresponding figure for non-Set 1 areas during the same period (**Table B1.3**). On the other hand, although the growth of public secondary school enrollment in Set 1 areas in NCR in 2008-2010 is faster than that in pre-4Ps period, it is slower than the growth in public secondary school enrollment in non-Set 1 areas in 2008-2010 even if the growth rate of the population aged 12-15 in the Set 1 areas of NCR higher than the comparable figure for non-Set 1 areas during the same period. Consequently, gross enrollment rate in public elementary schools in Set 1 areas in NCR declined from 86.3 in 2007 to 83.9 in 2010 while the gross enrollment rate in public secondary schools in these areas went down from 73.9 in 2007 to 73.2 in 2010 (**Table B1.4**).

## Box 1 (cont.)

**Table B1.3. Growth Rate in Public School Enrollment in 4Ps Set 1 Areas, 2004-2010 (%)**

	2004-2007	2008-2010	2008	2009	2010	Popn g.r. in 2007- 2010
<b>Elementary level</b>						
Set 1 areas outside of NCR & ARMM	0.6	3.5	2.9	4.3	3.2	0.6
Set 1 areas in NCR	1.1	0.8	1.6	0.4	0.5	1.8
Set 1 areas in ARMM a/	6.7	4.9	-2.8	-0.3	19.0	4.0
Non-set 1 areas	2.2	1.8	2.1	1.7	1.5	1.5
Total Philippines	2.2	1.9	2.1	1.8	1.7	1.4
<b>Secondary level</b>						
Set 1 areas outside of NCR & ARMM	-0.5	3.2	5.3	1.4	2.8	1.3
Set 1 areas in NCR	0.5	2.0	5.0	-0.3	1.4	2.3
Set 1 areas in ARMM a/	3.0	7.2	6.3	5.7	9.8	4.0
Non-set 1 areas	1.4	2.5	4.9	0.7	2.1	1.9
Total Philippines	1.3	2.6	4.9	0.7	2.1	1.9

a/ average growth rate for 2004-2007 refers to growth rate in 2006-2007

Source: Author's estimates using data from the BEIS (various years)

**Table B1.4. Gross Enrollment Rate in Public Elementary and Secondary Schools in Set 1 Areas of 4Ps, 2004-2010**

	2004	2005	2006	2007	2008	2009	2010
<b>Elementary level</b>							
Set 1 areas outside of NCR & ARMM	105.5	104.0	103.6	104.5	106.1	107.8	108.8
Set 1 areas in NCR	88.2	86.2	86.7	86.3	86.1	84.9	83.9
Set 1 areas in ARMM a/	n. d.	n. d.	145.3	122.9	119.0	154.0	154.3
Non-set 1 areas	113.0	109.5	119.0	119.0	120.0	121.9	122.1
Total Philippines	95.0	92.9	97.0	97.4	98.1	98.4	98.7
<b>Secondary level</b>							
Set 1 areas outside of NCR & ARMM	66.2	63.5	62.5	63.2	65.3	65.2	64.5
Set 1 areas in NCR	78.4	75.7	75.6	73.9	75.8	73.8	73.2
Set 1 areas in ARMM a/	n. d.	n. d.	32.4	32.9	33.7	33.6	33.8
Non-set 1 areas	65.2	62.5	64.3	63.9	65.7	64.8	65.2
Total Philippines	65.5	62.7	63.9	63.7	65.6	64.9	65.0

a/ enrollment data for ARMM divisions not available in 2004-2007

Source: Author's estimates using data from the BEIS (various years)

<sup>1</sup> In each of the poorest provinces, the poorest municipalities are selected based on the small area estimate (SAE) of poverty incidence and peace and order situation thereat. Poverty incidence is based on the 2006 Family Income and Expenditure Survey (FIES).

In 2012, PhP 662.5 million is included in the DSWD budget for the Quick Response Fund. Prior to 2012, the DSWD's share in the Quick Response Fund (QRF) was not part of the department's budget. Rather, it was part of the allocation for the Calamity Fund and is released to the DSWD during budget execution upon the recommendation of the National Disaster Risk Reduction and Management Council (NDRRMC). Making its share of the QRF part of its own budget is perhaps aimed at enabling the DSWD to respond in a more timely manner to natural disasters, epidemics and crisis resulting from armed conflict, terrorism and the like. It should be noted that the inclusion of the QRF in the DSWD budget did not result in the diminution of the allocation for the Calamity Fund in 2012. Thus, it actually meant that there will be more funds for the relief, rehabilitation and reconstruction activities in times of calamities.

In contrast, the allocation for the KALAHY-CIDSS, a community driven development project that was first launched in 2003 is programmed to decrease by PhP 676 million in 2012 relative to the 2011 level. Likewise, the Rice Subsidy Program which received an allocation of PhP 4.2 billion in 2011 is no longer funded under the DSWD budget in 2012.

*Economic services sectors.* The growth rate in the aggregate allocation for all the economic services sectors in 2012 (26.5%) is fastest among the major expenditure groups. The PhP 60.5 billion increase in the allocation for all the economic sectors as a group in 2012 is equal to 31% of the total increment in the national expenditure program. It is just a tad lower than the PhP 64.7 billion increase in the aggregate budget for all the social services sectors combined in 2012. But more importantly, it represents a dramatic turnaround from the PhP 53.9 billion reduction in the combined allocation for the economic services sectors in 2011 (**Table 4**). Thus, the combined allocation for all the economic services sector is programmed to rise from PhP 228.4 billion in 2011 to PhP 288.9 billion in 2012.

### Agriculture

The PhP 23.2 billion increase in the allocation for the agriculture sector in 2012 stands in sharp contrast to the PhP 35.7 billion reduction in the sector's budget in 2012 (**Table 4**). Thus, the national government's expenditure program for the agriculture sector in 2012 (PhP 62.9 billion) is 58% higher than that in 2011 (PhP 39.7 billion).

Close to 85% (or PhP 19.7 billion) of the PhP 23.2 billion increase in the allocation for the entire agriculture sector is attributable to the Department of Agriculture (DA). In more specific terms, the expenditure program of the DA is programmed to increase by 63% from PhP 31.1 billion in 2011 to PhP 50.8 billion in 2012, making the DA the second top gainer among the various government departments in the 2012 National Expenditure Program (**Table 5**).

Over 62% of the increase in DA's budget in 2012 (or PhP 12.0 billion) is programmed to go to the restoration, rehabilitation and construction of irrigation systems, including PhP 6.4 billion for small irrigation projects. Thus, the appropriation for irrigation that is included in the proposed DA budget for 2012 is equal to PhP 24.8 billion, almost double the PhP 12.8 billion allocation in 2011. In addition, the President's Budget for 2012 also allots PhP 2.1 billion as subsidy to the National Irrigation Administration (NIA). Said amount is meant to

cover the engineering and administrative overhead expense (including expenses for pre-construction activities after detailed engineering, construction project management, testing and quality control, acquisition, rehabilitation and repair of heavy equipment) for the irrigation projects to be implemented by the NIA under the DA budget.

On the other hand, another PhP 2.5 billion of the increment in the DA budget in 2012 is allotted for farm-to-market roads, bringing to PhP 5.0 billion the total allocation for farm-to-market roads in the proposed 2012 President's Budget. At the same time, the National Expenditure Program for 2012 proposed an increase of close to PhP 1 billion for National Rice Program, PhP 467 million for National Corn Program, PhP 410 million for National High Value Commercial Crops Program, and PhP 346 for National Livestock Program. In addition, an increase of PhP 1.5 billion in the budgetary support for National Food Authority (NFA) is also included in the President's Budget for 2012, bringing the total subsidy to the NFA to PhP 4 billion.

The high priority given to irrigation, particularly small irrigation projects, in the budget is supported by the findings of earlier studies [including David (2003), World Bank (2007) as summarized in **Box 2**]. However, the governance reforms needed, in the area of greater cost recovery and transfer of management systems to farmers, to make the irrigation sector more efficient cannot be overemphasized.

Meanwhile, the proposed increase in funding for farm-to-market roads is well supported by empirical studies which have established the importance of market infrastructure, like farm-to-market roads, in improving the profitability of agricultural producers by linking production areas to markets. For instance, empirical studies have documented the high returns to public investment in market infrastructure in countries like India and China [Fan et al. 2000 as cited by David (2010)]. On the other hand, Edillon (2006) have found that investments in roads have positive impact on pro-poor growth.

However, David (2010) questions the appropriateness of letting the Department of Agriculture handle portions of the market infrastructure budget from the perspective of improving allocative efficiency in infrastructure development. She argues that "shifting part of the infrastructure budget to agriculture agencies [like the DA and the Department of Agrarian Reform (DAR)], has likely crowded out potential budgetary resources for agriculture-specific, productivity enhancing policy instruments that agriculture agencies are better equipped to administer. Moreover, it may have reduced the national and local public works agencies ability to efficiently plan and implement new construction of road networks, as well as improve the timeliness and adequacy of road maintenance." She also pointed out that a number of COA audit reports (2005, 2007) have highlighted the poor quality of farm-to-market roads built by pork barrel funds administered by the DA.

### **Box 2. Strategic Priorities in Irrigation Investments**

Irrigation investment increases productivity and reduces risks of lower yield arising from bad weather conditions. Dawe (2006)<sup>1</sup> shows, however, that while irrigation investments are important to agricultural production, even significantly higher levels of government spending on irrigation are not likely to compensate for the comparative disadvantage arising from countries' natural endowments and geography. Nonetheless, the World Bank (2007) argues that better designed irrigation investments will likely improve food security by allowing farmers to increase their productivity and incomes and by promoting crop diversification.

Public investments on irrigation in the past primarily went to the construction of gravity irrigation systems which service areas that are largely devoted to rice production. Most of these irrigation systems have been performing "inefficiently and below expectations mainly because of (a) an inadequate database for planning; (b) inadequate institutional capacity and mechanisms for the development of large irrigation projects; (c) design mistakes; (d) poor quality of construction; and (e) the low cost-recovery of irrigation service fees" (World Bank 2007).

Citing David (2003) and de los Reyes and Aguilar (2006), the World Bank (2007) also point out that "small and farmer-controlled irrigation systems are likely to provide better alternatives to the currently common large-scale irrigation systems. These systems require much less investment costs, have very short gestation periods, yield higher productivity, give farmers a greater degree of control over their irrigation water, and are more amenable to crop diversification."

However, existing subsidies that tend to favor national irrigation systems and the weak policy toward cost-recovery are likely to increase farmers' demand for national irrigation systems relative to the more cost-effective irrigation technologies and to crowd out private investment in small-irrigation systems. Given this perspective, the World Bank (2007) maintains that the benefits from increased government spending on irrigation "would be larger if the expansion of irrigated areas is pursued through investments in farmer-controlled irrigation systems and complemented by reductions of subsidy that favor large gravity irrigation systems. [But], the rehabilitation of [large gravity] irrigation systems is a prerequisite for the transfer of national irrigation systems to irrigators' associations." After rehabilitation, these associations have the potential to operate and maintain these systems on a self-sustaining basis with full cost recovery from irrigation service fees.

<sup>1</sup> As cited in World Bank (2007).

On the other hand, the proposed increases in the budgetary allocation for commodity-specific production support programs need closer scrutiny. In the past, government expenditures on these programs went to the provision of private goods such as fertilizers, hybrid seeds, postharvest facilities and equipment, farm machineries, livestock and others. While it is recognized that some government subsidy may be justified "for certain inputs, for certain groups of producers, and at certain points in time," David (2010) argues that expenditures for production support must be limited to those that address market failures like lack of access to formal financial markets by small producers and non-viability of crop insurance. However, she recommends that subsidies for postharvest facilities and equipment, farm machineries, hybrid seeds, fertilizers, agricultural chemicals, animal distribution which are all private goods must be discontinued. In contrast, the World Bank (2007) suggests that "in the short term, some production subsidies to food-insecure farm households without ready access to markets can be provided, but even those should be time-bound, targeted and closely monitored and evaluated." This is very much consistent with admonition of Cummings et al.

(2006) that “The art of public policy making, therefore, is to know when to introduce government intervention and when to withdraw. The common mistake is to forget the withdrawal part, leading to unsustainably high costs - a dilemma that most Asian countries are confronted with today.”

The increased support to NFA in the 2012 budget is inevitable given that NFA operations inherently entail losses. Many analysts [e.g., David (2010) among others] have argued that variable tariffs can be an effective alternative policy instrument for achieving domestic rice price stability in Asian importing countries at lower cost than use of national marketing/trading corporations (**Box 3**). However, the phase of reform in this area has been slow.

### **Box 3: Reforming the NFA**

The NFA is mandated to stabilize palay and rice prices by setting a floor price for palay to protect farmers' income, setting a ceiling price for rice to protect consumers' welfare, and by maintaining a buffer stock. The floor and ceiling prices for palay and rice, respectively, are defended by NFA's procurement of palay stocks and disbursement of rice stocks at the officially determined prices. Thus, NFA procures palay from farmers at prices that are higher than the corresponding market price while NFA rice is sold by registered NFA retailers to consumers at prices that are lower price than prevailing market price for non-NFA rice. The NFA's monopoly of rice imports also helps it in supporting the ceiling price of rice.

The NFA's monopoly control over rice imports has been successful in maintaining a relatively stable annual average domestic price compared to the more volatile world price of rice (David 2010).<sup>1</sup> However, the average retail price of rice in the market has consistently been higher than the official NFA release price in 1985-2010 while the average farm gate price of palay is typically lower than the official NFA support price in the same period (Manasan 2011c). Roumasset (1999) attributes the inability of the NFA to enforce the floor and ceiling price for palay and rice, respectively, to the fact that the NFA is a relatively small player in the total rice market of the country. Nonetheless, David (2010) citing Intal (2009) points out that NFA's interventions (in the form of NFA procurement of palay, NFA distribution of rice and changes in the NFA stocks) have had an effect on the retail prices on the consumer side, rather than at the procurement or production side.

However, the NFA's rice price intervention is a universal consumer price subsidy and, as such, benefits even the non-poor. It is essentially an untargeted program but the extent of program leakage is influenced by the distribution of NFA rice releases across geographic locations which in turn impacts on the poor's access to NFA accredited stores. Given the actual distribution of NFA rice across provinces in 2006, Manasan (2011) estimates that 70% of NFA rice releases benefit the non-poor is based on the provincial level estimates of poverty incidence from the 2006 FIES. In comparison, the proportion of NFA rice releases that benefit the non-poor for 2010 is estimated to be 66% based on the provincial level estimates of poverty incidence.

Given this situation, David (2010) argues that adopting a variable tariff regime and relying on the private sector to undertake all domestic and international market operations can minimize the impact of world price instability while at the same time attaining the same or desired measure of price protection at a less costly manner than through NFA market operations as is the case at present. She also notes that such a shift to variable tariffs has been recommended since 1986 by many analysts, including David et al (1986), Clarete, et al. (1992), David (2003), and Clarete (2008). She points out that the imposition of variable tariffs will also increase government tariff revenues, which can then be allocated to productivity-enhancing public investments in the agricultural sector and better targeted subsidies for rice consumption (perhaps in cash rather than in rice) of poor households, especially during times of high world prices of rice.

<sup>1</sup> This is evidenced by the significantly lower coefficient of variations of domestic price compared to world price of rice.

### Environment and Natural Resources

The allocation for the environment and natural resources sector is programmed to increase by PhP 6.0 billion in 2012. This is a dramatic reversal of the PhP 1.4 billion decline in the allocation to the sector in 2011. Close to PhP 5.5 billion of the increase in the sector's allocation in 2012 is meant for the Department of Environment and Natural Resources (DENR). This will increase the total allocation for the DENR by 53% from PhP 10.4 billion in 2011 to PhP 15.9 billion in 2012 (**Table 5**).

About PhP 3.4 billion of the increment in the DENR's budget in 2012 is meant for land management services while PhP 1.0 billion is intended for forest management services. On the other hand, the allocation for ecosystem research and development will increase by PhP 445 million in 2012 while that for the protected areas and wildlife management services will increase by PhP 151 million.

Part of the allocation for land management services in 2012 will be used for the Cadastral Survey Project. The survey will make use of advance mapping technology to help clean the land database of the DENR. This will not only provide more accurate and more permanent information on the land area of LGUs but it will also make way for more efficient patent distribution that will contribute to countryside development.

On the other hand, the bulk of the total allocation for forest management services will be used in part for the planting of seedlings in about 215,000 hectares of land. It is expected that increasing forest cover will not only improve the water quality of rivers and irrigation of farmlands but will also reduce potential of flooding and promote the woods-product industry. The budget for forest management services will also be used for the strengthening of the Forest Protection Program through the hiring of 600 extension workers and 3,113 Bantay Gubat volunteers to patrol 4.1 million hectares of untenured forest lands.

### Infrastructure (i.e., power and energy, water resources development and transportation and communication)

The President's Budget for 2012 proposes a PhP 27.4 billion increase in allocation for all the infrastructure sectors combined over the 2011 level. This increment represents a dramatic reversal of the PhP 19.2 billion reduction in the aggregate allocation for the infrastructure sectors in the 2011 expenditure program. Of this amount, PhP 17.4 billion will go to the transportation and communication sector while PhP 10.0 billion will go to the energy sector (**Table 4**).

Some PhP 2.1 billion of the increase that is allocated to the transportation and communication sector is allotted for the Department of Transportation and Communication (DOTC) for the conduct of feasibility studies and legal, financial advice on public-private-partnership (PPP) projects. On the other hand, PhP 14.9 billion of the increase will be on account of the Department of Public Works and Highways (DPWH), making the department the fourth



largest gainer among the various government departments in the 2012 National Expenditure Program (**Table 5**). In particular, an additional PhP 9.9 billion is allocated for the maintenance, rehabilitation, reconstruction, and upgrading of national arterial and secondary roads and bridges (inclusive of both locally-funded and foreign assisted projects) in 2012 relative to the 2011 level, bringing the 2012 expenditure program for this item to PhP 78.2 billion. Furthermore, an additional PhP 3.0 billion is allotted for preparatory work on the DPWH's PPP projects. In contrast, the expenditure program for both locally-funded and foreign-assisted flood control projects in 2012 is programmed to decline by PhP 461 million relative to its 2011 level.

Meanwhile, the bulk (or PhP 7.5 billion) of the PhP 10.0 billion increase in the proposed expenditure program for the energy sector is allotted for the Department of Energy (DOE). Thus, the proposed expenditure program of the DOE in 2012 is 524% higher than the 2011 level (**Table 5**). Some PhP 251 million of the increment in the DOE's expenditure program in 2012 is attributable to the Philippine Energy Efficiency Project of the Asian Development Bank. At the same time, the DOE is programmed to receive an additional PhP 7.1 billion<sup>13</sup> from its use of income from the collections of fees and revenues from the exploration, development and exploitation of energy resources in 2012 relative to its 2011 level. Said amount will be used to finance energy resource development and exploitation. On the other hand, the National Electrification Administration (NEA) is programmed to get an additional PhP 2.6 billion allocation in 2012.

The higher priority given to the infrastructure sectors in 2012 relative to 2011 is consistent with the need to increase funding for basic infrastructure to help ensure more inclusive growth. Economic theory suggests that increased public infrastructure investment exerts a positive influence on economic growth by increasing the productivity of other factors of production (including labor and private capital). This is especially true when the initial stock of infrastructure assets is low. Moreover, public infrastructure investments is said to crowd-in private investments, thereby resulting in a higher private investment rate, precisely because of the higher returns to private investment resulting from higher factor productivity cited above. On the other hand, improved public infrastructure is conjecture to magnify the improvements in health and education outcomes from higher health and education investments by making it easier for individuals to attend schools and seek health care.

In this instance, theory is well supported by the empirical literature here and abroad. For instance, the significant output contribution of infrastructure is confirmed by Canning (1999) using panel data from a large number of countries, by Demetriades and Mamuneas (2000) using OECD data, by Fernald (1999) using industry data for the United States, and by Calderón and Servén (2003a) using data from Latin America. On the other hand, the statistically significant positive link between infrastructure and GDP growth is found by Sanchez-Robles (1998) using summary measures of physical infrastructure, by Easterly (2001) using a measure of telephone density to explain the growth performance of developing countries in the previous two decades and by Loayza, Fajnzylber and Calderón (2003) using

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<sup>13</sup> It should be emphasized that although this amount is part of the proposed expenditure program of the DOE, it will be funded outside of the General Appropriations Act (GAA).

the same telecommunications indicator in a large panel data set including both industrial and developing countries.<sup>14</sup>

On the other hand, Calderon and Serven (2004), using data for the period 1960-2000 from a sample of 121 countries provided an empirical evaluation of the impact of infrastructure development—as measured by larger stocks of infrastructure assets and improved quality of their services—on economic growth and the distribution of income. They found that: (i) the volume of infrastructure stocks has a significant positive effect on long-run economic growth, a conclusion that is robust to changes in the infrastructure measure used as well as the estimation technique applied and (ii) infrastructure quantity and quality have a robust negative impact on income inequality, i.e., regardless of the econometric technique and the inequality measure employed (Gini coefficients or income shares).

More specifically, they found that inequality declines not only with larger infrastructure stocks but also with an improved quality of infrastructure services. Their results were obtained in a framework that controls for reverse causation. They suggest that their conclusion that infrastructure both raises growth and lowers income inequality implies that infrastructure development may be a key win-win ingredient for poverty reduction.

Similar findings are found using Philippine data. For instance, the importance of increasing infrastructure spending is further bolstered by the well-documented causal link from infrastructure capital stock to GDP (World Bank 2005) and from real infrastructure spending to GDP growth (Manasan 1994). In turn, economic growth is found to be an important lever for poverty reduction even if economic growth does not translate into a one-for-one increase in the incomes of the poor (Balisacan and Pernia 2002). Moreover, the same study showed that the provision of basic education when complemented with infrastructure (roads) has a positive impact on the well-being of the poor. Furthermore, in modeling the relationship between poverty reduction and growth, Edillon (2006) found that investments in infrastructure (roads and electrification, in particular) and asset distribution (land reform) are significant determinants of poverty reduction. More importantly, her study reveals that the distribution of the same investments in favor of lagging regions contributes significantly to make growth more pro-poor.

#### Other economic sectors

Percentage-wise, the proposed expenditure program for the following agencies exhibit dramatic increases in 2012 vis-à-vis their 2011 levels: Philippine Council for Industry and Energy Research and Development (305% growth), Tourism Promotion Board (285% growth), Cagayan Special Economic Zone Authority (211% growth), Aurora Special Economic Zone Authority (129% growth), and Philippine Trade Training Center (103%).

*Public services sectors.* The expenditure program for the public services sectors combined will increase by PhP 41.8 billion in 2012 relative to its 2011 level. Of this amount, PhP 27.8 billion will go to the various agencies under the public administration sector while PhP 14.0 billion will go to the peace and order sector (**Table 4**).

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<sup>14</sup> As cited in Calderon and Serven (2004).

### Public administration

The agencies under the public administration sector that will receive significantly higher allocations in 2012 relative to their 2011 levels are: Commission on Audit (increment of PhP 7.8 billion), Bureau of Customs (increment of PhP 7.5 billion, of which PhP 6.0 billion is for the refund of input VAT on importations attributable to zero rated transactions and PhP 500 million is for the On-Line X-ray Imaging System and Petroleum Inventory System which are aimed at reducing customs fraud and smuggling), Bureau of Internal Revenue (increment of PhP 3.7 billion, of which PhP 2.3 billion represents the amount that is expected to be automatically appropriated for tax refunds for input taxes attributable to zero-rated transactions and PhP 511 million is for the Tax Administration Computerization Project which is envisioned to help the BIR enhance its tax collection efforts by improving its taxpayer database and expanding third party information), Department of Interior and Local Government (increment of PhP 2.9 billion, of which PhP 1.5 billion is for provision of potable water supply, close to PhP 1 billion for the PAMANA program, and PhP 250 million for LGU Challenge Fund<sup>15</sup>), and Commission on Election (increment of PhP 2.5 billion to be used in preparation for the national and local elections in 2013). Percentage-wise, the increase in the proposed budget of the Office of the Vice President in 2012 is also hefty – a growth of 110% over the 2011 level (**Table 5**).

### Peace and order

The agencies under the peace and order sector that will receive substantial increases in their expenditure program vis-à-vis their 2011 levels are: the Philippine National Police (PhP 9.5 billion inclusive of about PhP 3.0 billion for the payment of pensions of retirees), the Office of Civil Defense (PhP 578 million for disaster risk reduction and management and PhP 530 million in Quick Response Fund<sup>16</sup>), the Judiciary (PhP 1.0 billion), Bureau of Fire Protection (PhP 641 million), and Bureau of Jail Management and Penology (PhP 604 million).

*National defense.* The proposed allocation for the national defense sector in 2012 is PhP 8.2 billion higher than that in 2011. Of this increment, PhP 4.5 billion is meant for the Armed Forces of the Philippines – General Headquarters (of which PhP 3.1 billion is for the military pension administration), PhP 1.9 billion for the Philippine Army, PhP 762 million for the Philippine Navy, and PhP 376 million is for the Office of the Secretary of the Department of National Defense (PhP 352 million of which is for the Quick Response Fund<sup>17</sup>).

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<sup>15</sup> Said fund is meant to encourage LGUs to adopt good governance. In particular, it will augment resources of 516 LGUs which are able to attain a “Seal of Good Housekeeping” in various areas of governance.

<sup>16</sup> As is the case with the DSWD, the OCD’s share in the Quick Response Fund (QRF) was not part of the agency’s budget prior to 2012. Rather, it was part of the allocation for the Calamity Fund and is released to the OCD during budget execution upon the recommendation of the National Disaster Risk Reduction and Management Council (NDRRMC).

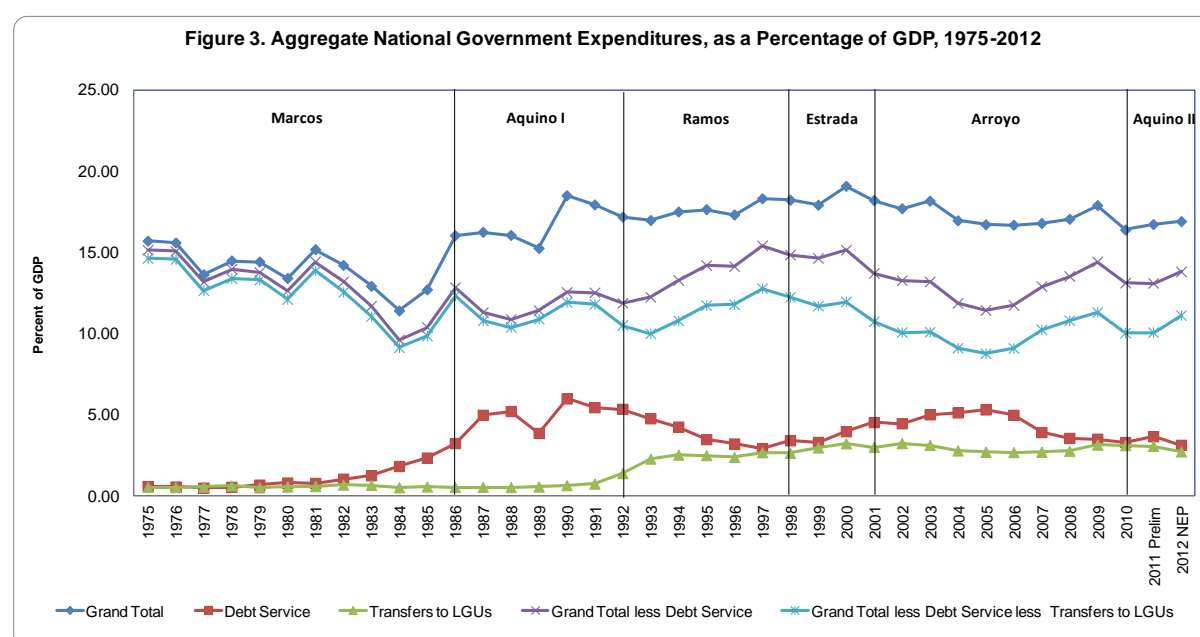
<sup>17</sup> Refer to footnote 12 above. As such, the allocations for the QRF in the DSWD, OCD and DND-OSEC budgets should be added to the allocation for the Calamity Fund to arrive at the total allocation for disaster response including relief, rehabilitation, reconstruction and pre-disaster activities.

*Other sectors, not elsewhere classified.* Included in the allocation for other sectors, not elsewhere classified, is the allocation for the calamity fund which is programmed to increase by PhP 2.5 billion in 2012 relative to its 2011 level.<sup>18</sup> In contrast, the allocation for the Internal Revenue Allotment (IRA) is programmed to go down by PhP 13.6 billion in 2012 compared to its level in 2011 because of the decline in BIR collections in 2009 vis-à-vis 2008. Compensating somewhat for the reduction in the IRA is the programmed increase of PhP 4.8 billion in the special share of LGUs in the proceeds of national taxes in 2012.

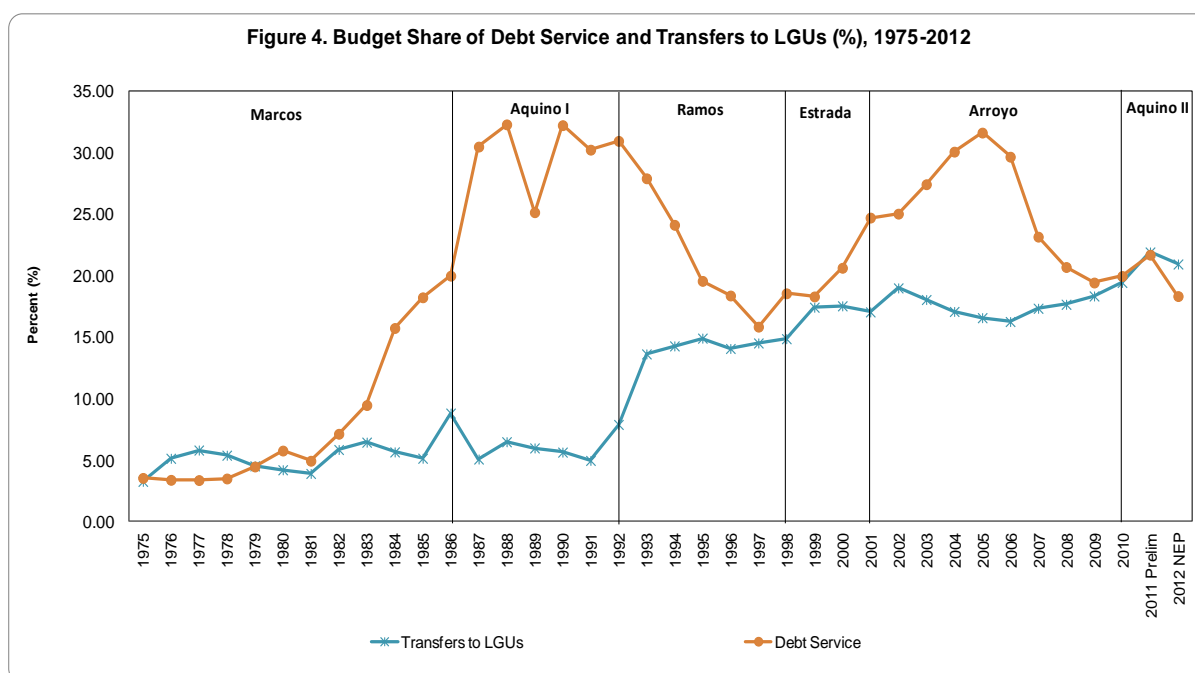
### 3.2. The 2012 National Expenditure Program in Longer Term Perspective

*Aggregate national government spending.* The aggregate national government expenditure program of PhP 1.8 trillion in 2012 is equal to 16.9% of the projected gross domestic product (GDP) for the year. When measured relative to GDP, total national government spending in 2012 is marginally larger than the 2011 level of 16.7% of GDP but smaller than average spending during the past four administrations, namely: Aquino I (16.9%), Ramos (17.7%), Estrada (18.5%) and Arroyo (17.1%) [Figure 3 and Appendix Table 2]. This is not surprising considering that 2012 national expenditure program aims to narrow the country's fiscal deficit from PhP 300 billion (or 3% of the GDP) in 2011 to only PhP 286 billion (or 2.6% of GDP) in 2012.

As indicated earlier, debt service in 2012 is considerably lower compared to earlier periods largely because the outstanding debt stock of the national government has been going down since 2004. In addition, debt service is also projected to decline because of the continuing appreciation of the peso and lower interest rates. In particular, debt service accounts for 18.3% of the national expenditure program in 2012, lower than its 21.7% budget share in 2011 and the average posted during the past four administrations - Aquino I (29.5%), Ramos (20.0%), Estrada (19.6%) and Arroyo (24.5%) [Figure 4 and Appendix Table 3].



<sup>18</sup> This brings the total increase in the allocation for disaster relief, rehabilitation and reconstruction activities to PhP 4.6 billion in 2012.



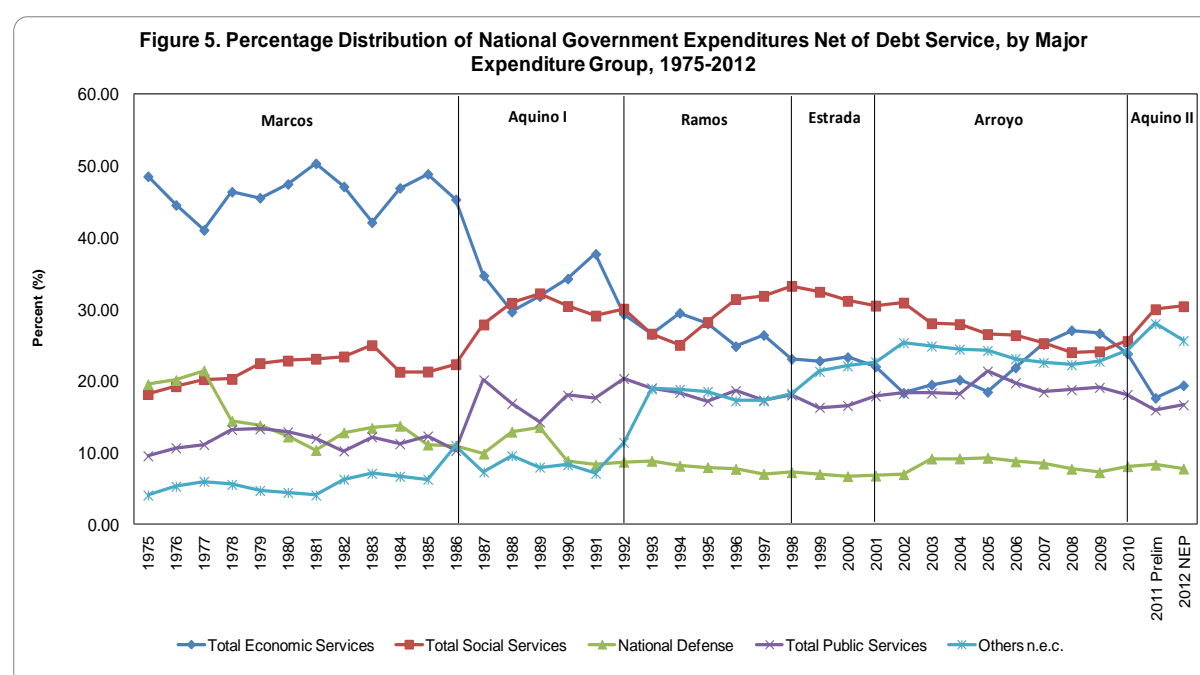
As a result, debt service is projected to be equal to 3.1% of GDP in 2012. This is lower not only relative to its 2011 level (3.6%) but also relative to the average during the Aquino I administration (5.0%), the Ramos administration (3.5%), the Estrada administration (3.6%) and the Arroyo administration (4.2%) [Figure 3 and Appendix Table 2]. Thus, the expenditure program (when measured in terms of total national government expenditure net of debt service) appears to be slightly more expansionary in 2012 compared to the situation during the Arroyo administration even if the total national government spending pie during the year is smaller than the Arroyo administration average. To wit, total national government expenditure net of debt service is programmed to be equal to 13.6% of GDP in 2012, higher than the 2011 level (13.0%) and the average registered during the Arroyo administration (12.9%) but lower than the average during the Ramos administration (14.2%) and the Estrada administration (14.9%) [Figure 3 and Appendix Table 2].

Also, because intergovernmental transfers to LGUs will decline to 2.7% of GDP in 2012 from 3.0% of GDP in 2011 due to the deterioration in BIR collections in 2009, non-mandatory expenditures (i.e., total expenditures less interest payments and transfers to LGUs) is even more expansionary than total expenditures net of debt service. Thus, non-mandatory expenditures is programmed to be equal to 11.1% of GDP in 2012, higher than the 10.0% of GDP level set in 2011 and the 10.1% of GDP average registered during the Arroyo administration but lower than the average during the Marcos administration (11.6%), during the Aquino I administration (11.2%), during the Ramos administration (11.7%) and the average during the Estrada administration (11.8%) [Figure 3 and Appendix Table 2].

*Allocation across major expenditure groups.* The 2012 National Expenditure Program is avowedly biased in favor of the poor and vulnerable even while it gives priority to programs that support rapid, inclusive and sustained economic growth. As such, it appears that the very strong bias towards the social service sectors that characterized the 2011 expenditure program

has been replaced by a more balanced distribution between the social services sectors and the economic services sectors. Nonetheless, the social services sectors continue to have the biggest budget share among the major expenditure groups in 2012 as was the case in the past three administrations – Ramos, Estrada and Arroyo.

More specifically, the share of all the social services sectors combined in total national government expenditure net of debt service in 2012 (30.4%) is not only higher than that in 2011 but is also higher than the average set during the Aquino I administration (29.4%), the Ramos administration (30.1%), and the Arroyo administration (29.3%) [Figure 5 and Appendix Table 4]. In contrast, while the share of all the economic services sectors as group in total national government expenditure net of debt service in 2012 (19.4%) is higher than its 2011 level, it is lower than the average set during the Aquino I administration (34.3%), Ramos administration (26.1%), Estrada administration (23.1%), and Arroyo administration (23.1%).



As in previous administrations since Ramos, the “others, n.e.c.” group ranks third among the major expenditure groups in terms of share in total expenditure net of debt service. To wit, the “others, n.e.c.” group will receive 25.7% of the national government budget net of debt service in 2012, lower than its 28.0% share in 2011 but higher than the share of this expenditure group in past administrations (Figure 5 and Appendix Table 4). The “others, n.e.c.” group includes transfers to LGUs (which accounts for 95%-97% of the groups budget share in the years after the passage of the Local Government Code of 1991<sup>19</sup>), the pork-barrel funds of legislators or Priority Development Assistance Fund (PDAF), unallocated budgetary support to government corporations, and tax expenditures fund. After budget execution,

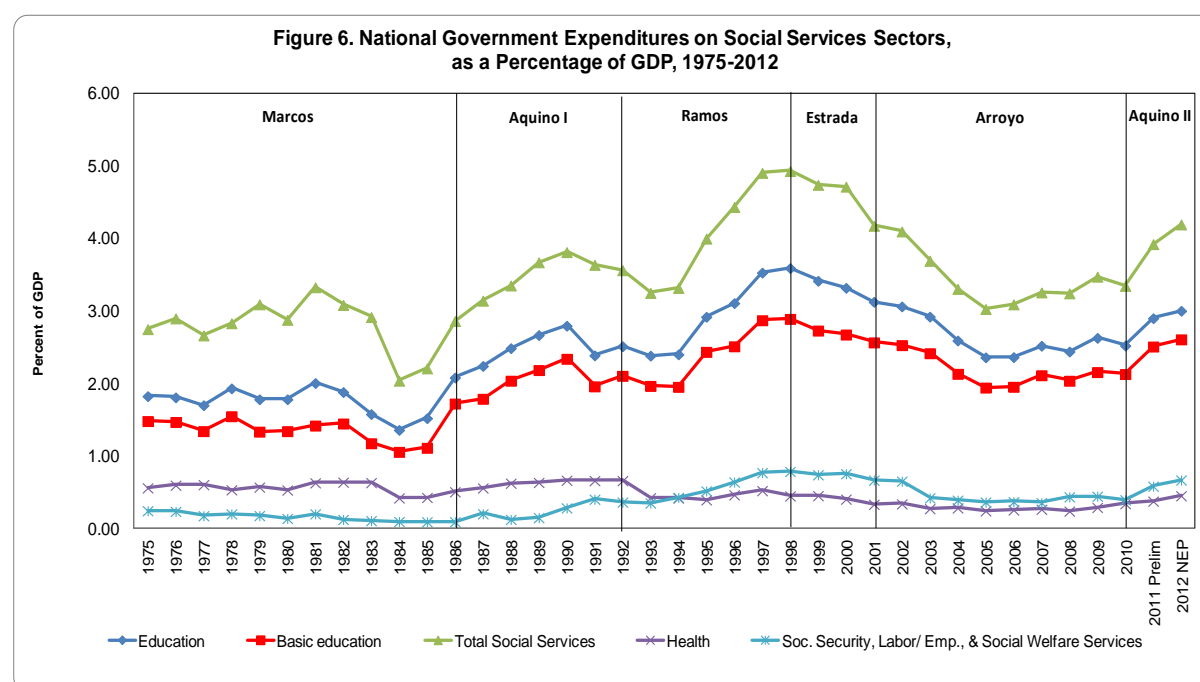
<sup>19</sup> Prior to the implementation of the Local Government Code, the share of the transfers to LGUs was fairly small. Thus, the budget share of the “others, n.e.c.” group was likewise small.

however, the allocation for the last three aforementioned items is distributed to the other expenditure groups/ sectors once the actual utilization of the said funds is known. Consequently, the programmed allocation for the “others, n.e.c” group tends to be larger than the actual expenditure obligations after budget execution.

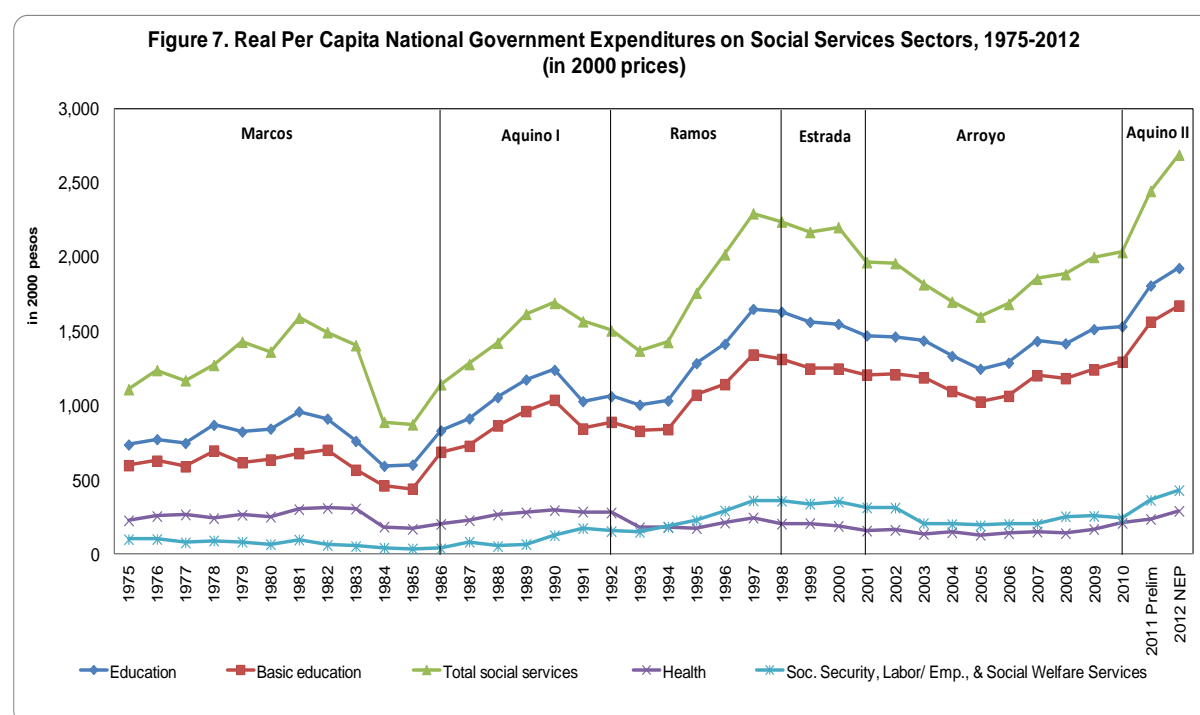
Starting with the Ramos administration, total public services ranks fourth among the major expenditure groups in terms of share in total expenditures net of debt service. All the public services sectors as a group is programmed to account for 16.7% of total government expenditure net of debt service in 2012. This figure is higher than its 2011 level (16.0%) but lower than the average during Aquino I (17.3%), Ramos (18.0%), and Arroyo (18.2%) administrations (**Figure 5** and **Appendix Table 4**).

On the other hand, national defense receives the lowest budget share among the major expenditure groups since the Ramos administration. The share of national defense in total government expenditures net of debt service is programmed to be equal to 7.8%, lower than its 2011 level (8.3%) and the average during the Arroyo administration (8.1%) but higher than the average during the average during the Ramos (7.7%) and Estrada (6.9%) administration (**Figure 5** and **Appendix Table 4**).

*Social services sectors.* National government spending on all the social services sectors combined is programmed to increase to 4.2% of GDP in 2012 from 3.9% of GDP in 2011. Because of the sustained high priority accorded to the social services sectors under the Aquino administration, national government spending on these sectors in 2012 as a percentage of GDP is markedly higher than the average set during the Arroyo administration (3.4% of GDP). However, national government spending on the social services sectors when expressed as a percentage of GDP in 2012 pales in comparison with the average posted during the Ramos administration (4.3%) and Estrada administration (4.7%) [**Figure 6** and **Appendix Table 2**]. This occurred not only because of the higher budget share of these sectors but also because of the larger expenditure pie during these administrations.



Although the programmed level of national government spending on the education sector as a whole in 2012 (3.0% of GDP) represents an improvement from the 2011 level (2.9% of GDP) and the 2.6% of GDP average posted during the Arroyo administration, it is lower than the average registered during the Ramos (3.1%) and Estrada (3.4%) administrations (**Figure 6** and **Appendix Table 2**). On the other hand, national government spending on basic education will rise from 2.5% of GDP in 2011 to 2.6% of GDP in 2012. In comparison, the national government spending on basic education in 2012 is higher than the average during the Arroyo (2.1% of GDP) and Ramos (2.5% of GDP) administrations but slightly lower than the average during the Estrada administration (2.7% of GDP). Consequently, real per capita spending on basic education (in 2000 prices) will peak at PhP 1,564 in 2011 and PhP 1,673 in 2012 while real per capita spending on the entire education sector will reach a new high of PhP 1,808 in 2011 and PhP 1,926 in 2012 (**Figure 7** and **Appendix Table 5**). However, these increases in national government spending on the entire education sector and on the basic education subsector in 2012 notwithstanding, the Philippines will continue to compare unfavorably with other Southeast Asian countries like Indonesia, Malaysia, Thailand and Vietnam in terms of government support to the education sector (**Table 6**).



**Table 6. Public Expenditures on Education**  
Sector as % of GDP. Average of 2004-2008

	Entire Sector	Basic education
Indonesia	3.1	2.8
Malaysia	5.3	3.3
Lao PDR	2.6	n.a.
Philippines	2.6	2.1
Thailand	4.1	2.4
Vietnam	5.3	3.5

Source: UNESCO



Meanwhile, national government spending on health is projected to be equal to 0.4% of GDP in 2011 and 0.5% of GDP in 2012. This figure is higher than the 0.3% of GDP average during the Arroyo administration but is lower than the average during the Aquino I administration and just about equal to the average during the Ramos administration. As a result, real per capita spending on health will reach new highs in the post-devolution era of PhP 291 in 2012, up from PhP 26 in 2011 (**Figure 7 and Appendix Table 5**). However, despite the higher general government allocation to the health sector<sup>20</sup> during the Aquino II administration compared to the Arroyo administration, Philippine budgetary support to the health sector will continue to be significantly below the levels obtaining in other Southeast countries (**Table 7**).

**Table 7. General Government Spending on Health, % of GDP, 2006-2009**

	2006	2007	2008	2009	Ave.
Indonesia	1.1	1.4	1.3	1.2	1.2
Malaysia	1.9	2.0	1.9	2.2	2.0
Philippines	0.6	0.6	0.6	0.6	0.6
Thailand	2.5	2.7	3.0	3.3	2.9
Vietnam	2.1	2.8	2.8	2.8	2.6

Source: World Bank

On the other hand, national government spending on social security, labor/ employment and social welfare services is projected to rise from 0.6% of GDP in 2011 to 0.7% of GDP in 2012. Perhaps as a result of the greater importance given to social protection during the present administration, the level of national government spending on social security, labor/ employment and social welfare services in 2012 is markedly higher than the average during the Aquino I (0.3% of GDP), Ramos (0.6% of GDP), and Arroyo (0.4% of GDP) administrations (**Figure 6 and Appendix Table 2**). At the same time, real per capita spending on social security, labor/ employment and social welfare services will reach a peak of PhP 364 in 2011 and PhP 430 in 2012. Despite this, the allocation will still be considerably less than central government spending on social security and welfare in Malaysia and Thailand (**Table 8**).

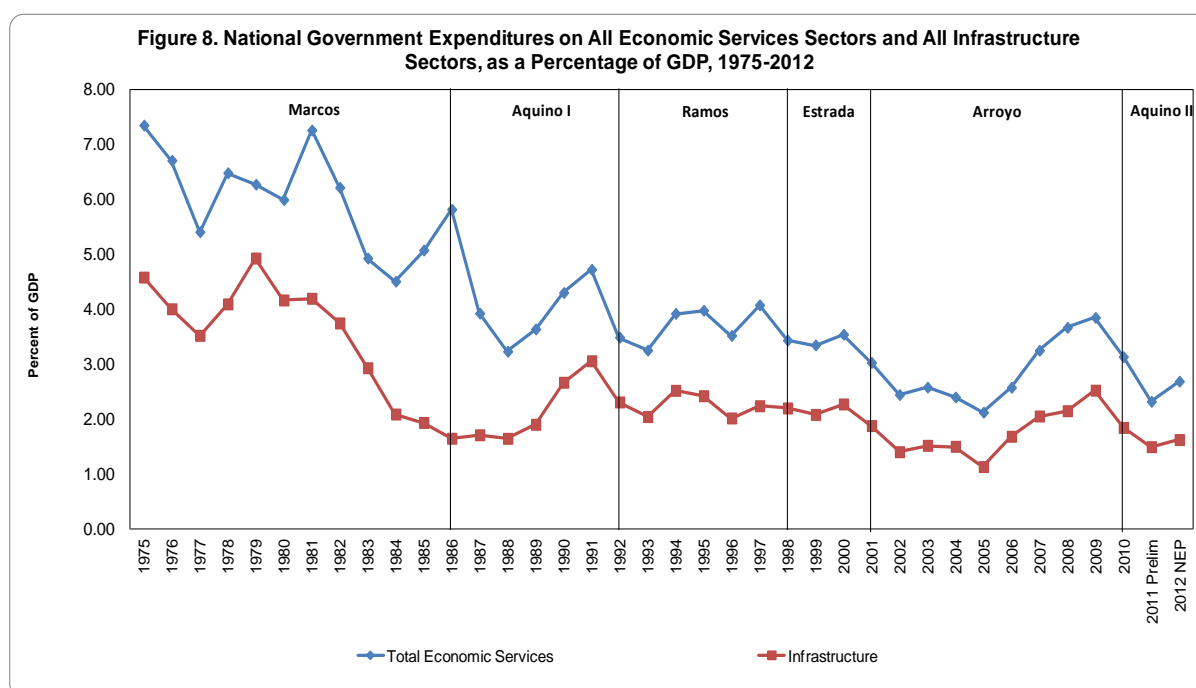
**Table 8. Central Government Spending on Social Security and Welfare, % of GDP, 2006-2009**

	2006	2007	2008	2009	Ave.
Malaysia	1.0	1.1	1.1	1.2	1.1
Philippines	0.4	0.4	0.4	0.4	0.4
Thailand	1.4	1.5	1.4	1.9	1.6

Source: ADB

<sup>20</sup> Based on historical average, LGU spending on health is estimated to be equal to 0.4% of GDP per year. Thus, general government spending on health in 2012 is estimated to be equal to 0.8% of GDP.

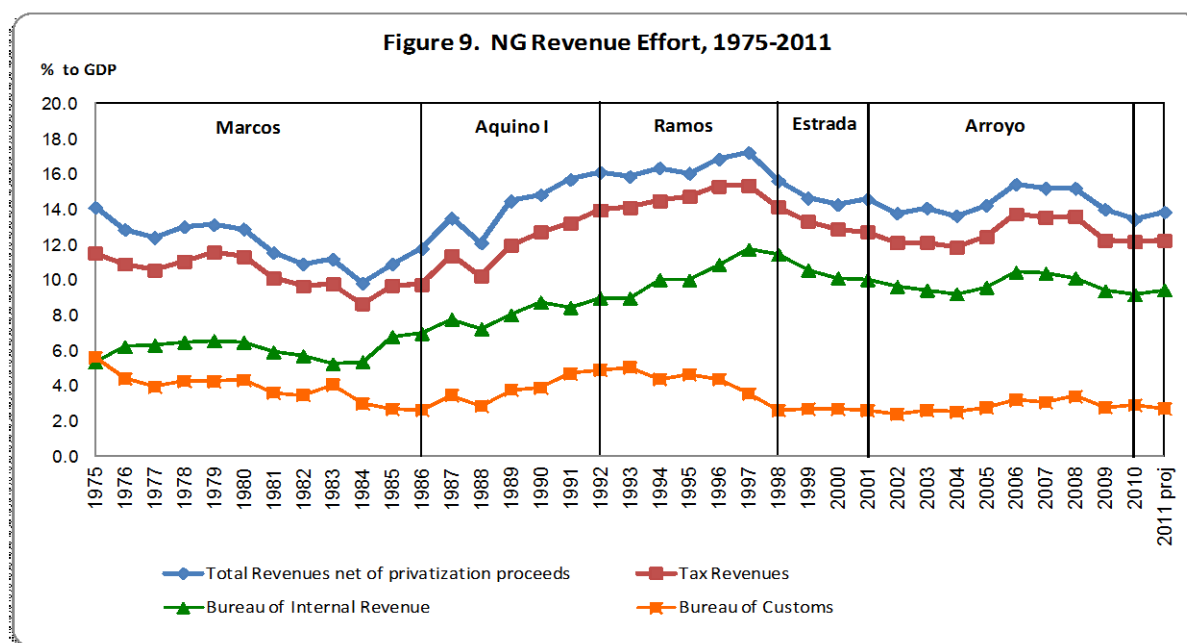
*Economic services sectors.* National government spending on all the economic services sectors combined is programmed to increase to 2.7% of GDP in 2012 from 2.3% of GDP in 2011 (**Figure 8** and **Appendix Table 2**). However, the average allocation given to the economic services sectors during the first two years of the Aquino administration is lower than the average set in all the past administrations – Marcos (5.7% of GDP), Aquino I (4.1%), Ramos (3.7%), Estrada (3.4%), and Arroyo (3.0%).



In like manner, national government spending on infrastructure is projected to go up from 1.5% of GDP in 2011 to 1.6% of GDP in 2012. The 2012 level is about 27% lower than the 2.2% of GDP average attained during the Aquino I, Ramos and Estrada administration and is also lower than the average during the Arroyo administration (1.8%). The programmed level of spending on public infrastructure in 2012 is, thus, less than a third of the 5.0% of GDP benchmark that the World Bank (2005) estimates middle income countries in East Asia need to spend on public infrastructure in order to meet their needs.

#### 4. REVENUE PROGRAM

Total national government revenues net of privatization proceeds reached a peak of 17.2% of GDP in 1997 (**Figure 9**). Subsequently, overall revenue effort of the national government deteriorated persistently although a partial but brief recovery was evident in 2005-2006. This decline largely mirrors the collapse in overall tax effort during the period.



a/ 2010 is estimated based on Jan-Nov data  
Source of basic data: Bureau of Treasury

Manasan (2010) reports that about 70% of the reduction in tax effort in 1997-2004 may be attributed to the contraction in BIR tax effort while the remaining 30% is due to the decline in BOC revenues. Most of the decrease in BOC tax effort during this period may be explained by the programmed reduction in tariff rates under the trade liberalization program of the government while changes in the composition of imports (i.e., the shift away from dutiable imports) also adversely affected the BOC's tax take in 1998-1999.

Manasan (2002) concludes that the tax policy changes introduced as part of the 1996/1997 Comprehensive Tax Reform Package (notably the shift from *ad valorem* to specific rates sans indexation in the excise taxation of cigarettes and alcoholic beverages, the phased reduction in the corporate income tax rate and the top marginal rate of the individual income tax and the increase in the level of personal exemptions from the individual income tax) contributed persistently and substantially to the deterioration in BIR's tax effort in 1997-2004. At the same time, the weakening of tax administration also explains a significant part of the said decline in BIR's tax effort. In particular, she estimates that 46% of the 2.3 percentage point decline in BIR tax effort between 1997 and 2001 is attributable to changes in tax policy, another 46% to increased evasion and only 7% to changes in economic structure.

Faced with the threat of a fiscal crisis in 2004, Congress enacted three laws that are meant to increase the revenue take of the central government - Republic Act 9334 (amending the excise tax on so-called sin products) and Republic Act 9335 (otherwise known as the Lateral Attrition Law) in 2004, and Republic Act 9337 (Reformed VAT Law) in 2005. These pieces of legislation are responsible for the partial reversal of the decline in overall tax effort in 2005-2006. Thus, total tax revenue increased from 12.4% of GDP in 2004 to 14.3% in 2006 as the tax effort of the BIR and BOC improved. To wit, BIR tax effort increased from 9.6% of GDP in 2004 to 10.8% in 2006 while BOC tax effort rose from 2.5% to 3.3% (**Figure 9** and **Appendix Table 6**).

In line with these changes in tax policy, a significant rise in the tax-to-GDP ratio is exhibited by the corporate income tax and the VAT in 2005-2006. In contrast, the decline in the excise tax effort persisted during this period despite the increases in rates mandated under RA 9334 (Manasan 2010).

Thus, the gains in tax effort have not been sustained and the overall tax effort slipped downwards once again from 13.7% of GDP in 2006 to 12.1% of GDP in 2011. Manasan (2010) notes that this development is not unexpected altogether as the positive revenue impact of the excise tax amendment and the reformed VAT law have built-in sunset provisions. The reformed VAT law temporarily raised the corporate tax rate to 35% but this rate is scheduled to be reduced to 30% in 2009. On the other hand, the mandated adjustment in excise tax rates on sin products were not enough to keep pace with inflation and, thus, excise tax revenues were eroded in real terms. At the same time, revenue eroding measures have been legislated over the years, including Republic Act 9504 which was passed in early 2008 in order to give some (tax) relief to minimum wage earners. Moreover, evidence of further deterioration in tax administration is evident with respect to the collection of the VAT and excise taxes while the inherent difficulties in collecting taxes from non-wage earners have not been addressed (Manasan 2010).

*Assessment of revenue performance under the Aquino II administration.* Some gains in the overall tax effort are evident since the start of the Aquino II administration. However, these gains are not enough to fully reverse the decline in national government revenue effort since 1997.

Total tax-to-GDP ratio went up from 11.7% of GDP in the second semester of 2009 to 11.8% of GDP in the second semester of 2010 (**Table 9**). In like manner, the total tax to GDP ratio rose from 12.6% of GDP in the first semester of 2010 to 12.7% in the first semester of 2011. However, the 2011 first semester tax-to-GDP ratio remains significantly lower than the corresponding figures for 2007, 2008, and 2009.

The improvement in the total tax-to-GDP ratio in the second semester of 2010 and first semester of 2011 is largely due to the BIR tax effort. BIR collections increased from 8.8% of GDP in the second semester of 2009 to 8.9% of GDP in the second semester of 2010 (**Table 9**). Similarly, BIR collections went up from 9.4% of GDP in the first semester of 2010 to 9.8% of GDP in the first semester of 2011. Despite these improvements, BIR tax effort in the first semester of 2011 is still lower than that in 2007, 2008, and 2009.

On the other hand, the performance of the BOC remains tepid. While BOC tax effort in the second semester of 2010 is marginally higher than that in the second semester of 2009, BOC collections in the first semester of 2011 dipped to 2.8% of GDP from 3.0% of GDP in the first semester of 2010. In fact, BOC collections in the first semester of 2011 is lower than that in the first semester of 2010 by 1.7% in nominal peso terms despite an 8.8% growth in nominal GDP.

**Table 9. Recent revenue performance, by Semester, 2007-2011**

	Tax-to-GDP ratio					Growth rate					GDP g.r.
	Total Rev	Total Tax	BIR	BOC	Non-tax	Total Rev	Total Tax	BIR	BOC	Non-tax	
<b>2007</b>	<b>16.5</b>	<b>13.5</b>	<b>10.4</b>	<b>3.0</b>	<b>3.0</b>						
S1	15.7	13.3	10.3	2.8	2.4						
S2	17.2	13.8	10.4	3.2	3.5						
<b>2008</b>	<b>15.6</b>	<b>13.6</b>	<b>10.1</b>	<b>3.4</b>	<b>2.0</b>	<b>5.8</b>	<b>12.5</b>	<b>9.1</b>	<b>24.3</b>	<b>-24.5</b>	<b>12.0</b>
S1	15.7	14.1	10.7	3.2	1.6	11.7	18.5	16.4	27.0	-26.0	11.5
S2	15.5	13.1	9.5	3.5	2.3	1.1	7.2	2.6	22.1	-23.6	12.4
<b>2009</b>	<b>14.0</b>	<b>12.2</b>	<b>9.3</b>	<b>2.7</b>	<b>1.8</b>	<b>-6.6</b>	<b>-6.4</b>	<b>-3.6</b>	<b>-15.3</b>	<b>-8.0</b>	<b>4.0</b>
S1	14.4	12.9	9.9	2.7747	1.6	-4.3	-5.1	-3.6	-10.4	3.0	4.1
S2	13.6	11.7	8.8	2.7184	1.9	-8.8	-7.7	-3.6	-19.4	-14.5	3.9
<b>2010</b>	<b>13.4</b>	<b>12.1</b>	<b>9.1</b>	<b>2.9</b>	<b>1.3</b>	<b>7.5</b>	<b>11.4</b>	<b>9.6</b>	<b>17.7</b>	<b>-19.6</b>	<b>12.2</b>
S1	13.8	12.6	9.4	3.0	1.2	8.4	11.1	7.4	24.7	-13.5	13.7
S2	13.1	11.8	8.9	2.7303	1.3	6.7	11.7	11.9	11.3	-24.0	10.8
<b>2011 S1</b>	<b>14.6</b>	<b>12.7</b>	<b>9.8</b>	<b>2.7512</b>	<b>1.9</b>	<b>15.2</b>	<b>9.8</b>	<b>13.5</b>	<b>-1.7</b>	<b>72.2</b>	<b>8.8</b>

Despite the improvement in the overall tax effort in the first semester of 2011, projected tax collections for the entire year fall short of the revenue targets set in the 2012 Budget of Expenditures and Sources of Financing by PhP 46.2 billion.<sup>21</sup> Of this amount, PhP 13.5 billion is due to BIR and PhP 56.7 billion is due to BOC (**Table 10**). **Table 10** also shows that the shortfalls of BIR and BOC collections relative to the revenue target have worsened further in the third quarter of 2011. These reversals, notwithstanding, BIR revenues is projected to rise from 9.1% of GDP in 2010 to 9.4% of GDP for the entire year of 2011. In contrast, BOC revenues is projected to go down from 2.9% of GDP in 2011 to 2.7% of GDP for the entire year of 2012. Overall, total national government revenue effort is projected to rise from 13.4% of GDP in 2010 to 13.8% of GDP in 2011. This improvement, however, is clearly not enough to bring the revenue effort to the level that is needed if the expenditure requirements of high, sustained and inclusive growth is to be achieved.<sup>22</sup>

**Table 10. Projected Revenue Performance Relative to Target (in million pesos)**

	2011 Projected a/	2011 Projected b/	2011 target c/	Difference a/	Difference a/
Total revenues	1,390,535	1,365,134	1,411,304	(20,769)	(46,170)
Total tax revenues	1,228,423	1,202,613	1,273,241	(44,818)	(70,628)
BIR revenues	937,609	926,456	940,000	(2,391)	(13,544)
BOC revenues	277,925	263,272	320,000	(42,075)	(56,728)
Non-tax revenues	162,112	162,521	138,063	24,049	24,458

a/ based on January to July collections

b/ based on January to September collections

b/ from 2012 BESF

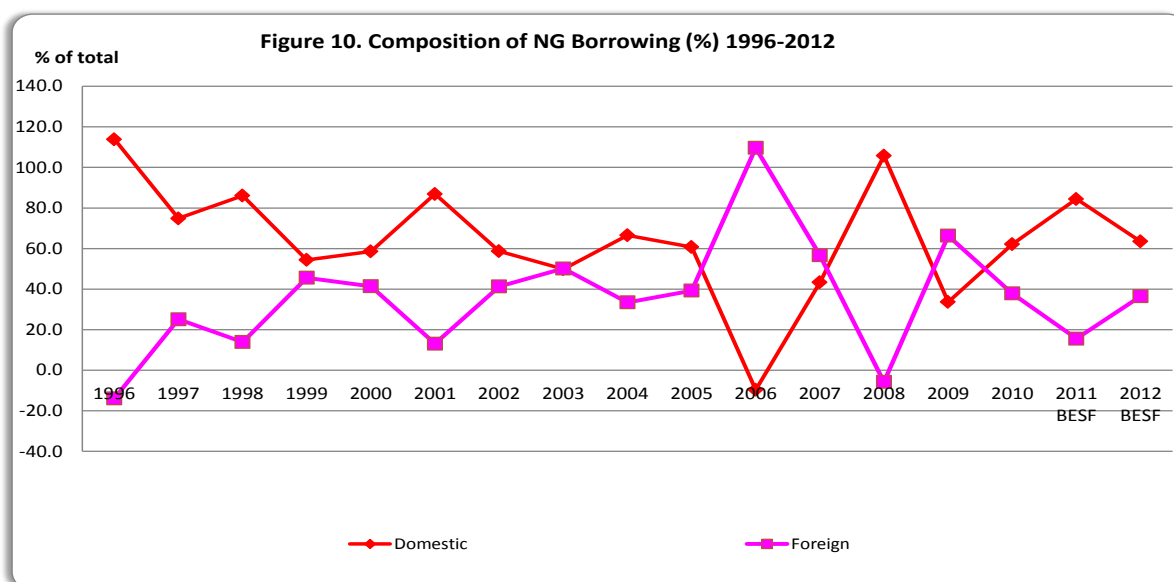
<sup>21</sup> The revenue projections are based on actual collections in January to July of 2011.

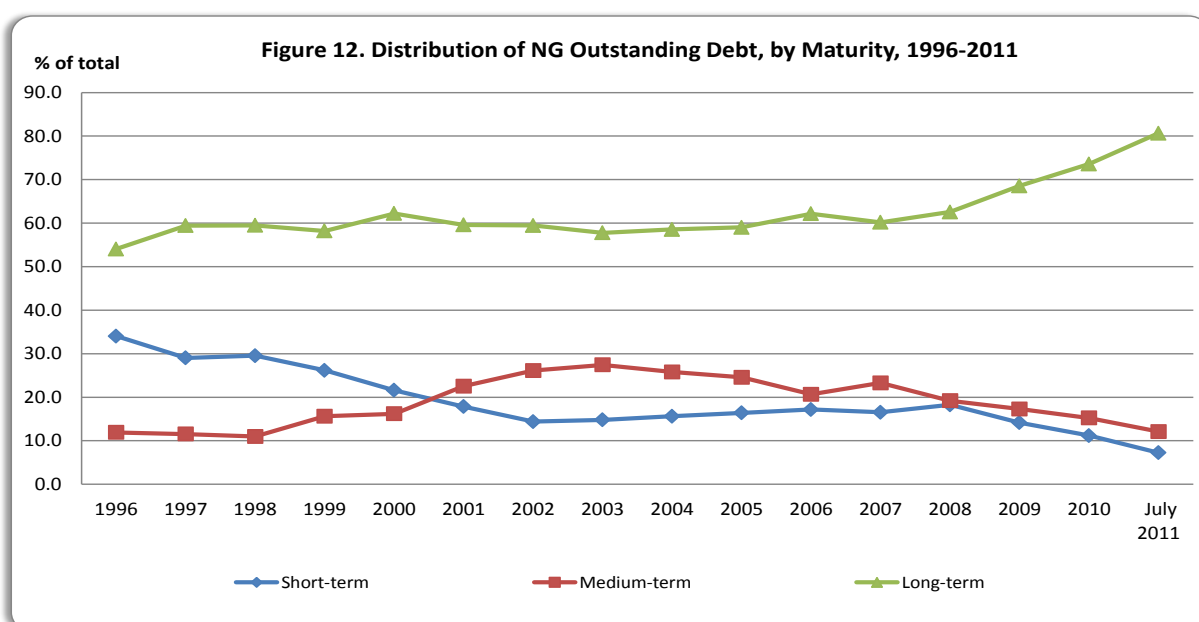
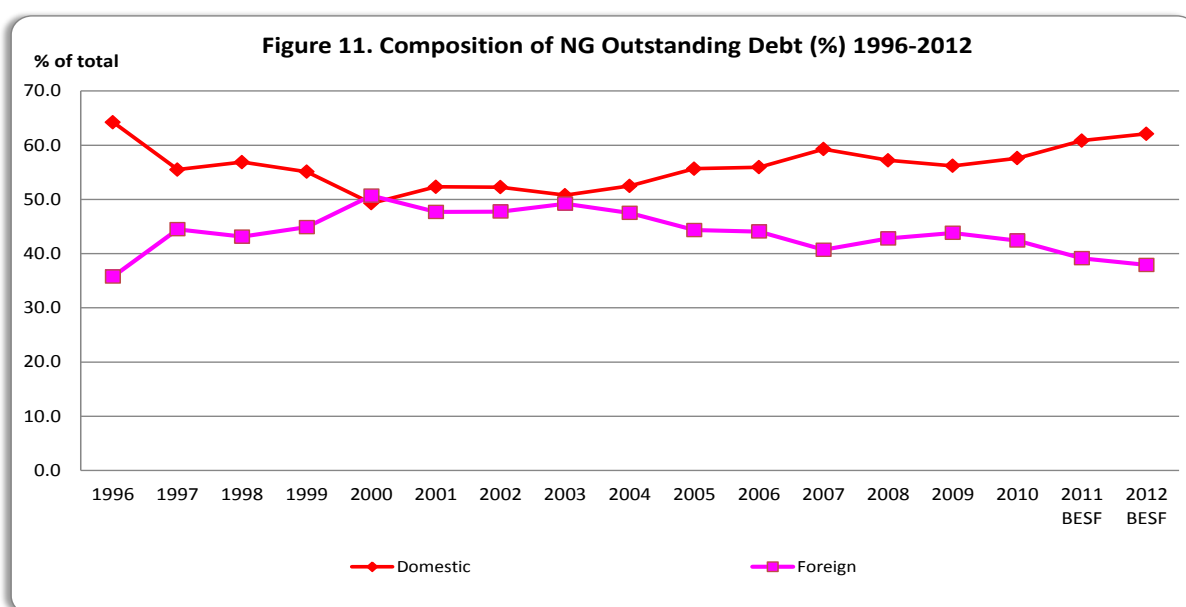
<sup>22</sup> Manasan (2010) estimates that if national government expenditures were to be enough to support the MDGs for education and health and if national government infrastructure spending were to increase to 2.0% -2.5% of GDP in 2012-2016 while the fiscal deficit is gradually reduced 3.6% of GDP in 2010 to 2.5% in 2012, 2.0% of GDP in 2013 and 0.5% of GDP in 2016, then national government revenue-to-GDP ratio will have to increase to 17.5% of GDP in 2012-2016.

## 5. FINANCING PROGRAM

Given the emerging fiscal picture for 2011, the debt sustainability analysis that was undertaken in **Section 2** indicates that the fiscal deficit targets embodied in the 2012 President's Budget will result in a consistent reduction of the outstanding debt stock of the national government. Thus, the national government debt stock is projected to decline persistently from 54.8% of GDP in 2009 to 52.4% in 2010, 49.5% in 2011 and 47.5% in 2012 (**Table 2**).

Given the instability in the international financial market, the financing of the national government's fiscal deficit seeks to (i) shift the national government borrowing mix toward a 25:75 ratio in favor of domestic borrowing, and (ii) extend the maturities of existing debt. These changes are evident in the programmed borrowing mix in 2011-2012. Specifically, net domestic borrowing will expand from 62.2% of total national government borrowings in 2010 to 84.4% in 2011 and 63.5% in 2012 (**Figure 10**). Consequently, the share of domestic debt to total national government outstanding debt is programmed to rise from 57.6% in 2010 to 60.9% in 2011 and 62.1% in 2012 (**Figure 11**). At the same time, the country's debt profile is projected to improve with the extension of the average maturity of the government's debt stock. Thus, the share of debt with long-term maturities in the total debt stock of the national government has risen from 73.6% in 2011 to 80.6% in 2012 (**Figure 12**).





## 6. CONCLUSION AND RECOMMENDATIONS

In summary, the 2011 and 2012 fiscal program appears to score high in terms of contributing to the speed of fiscal consolidation despite limited gains in revenue generation. This came about largely because of fairly serious underspending during the first nine months of 2011. The slow utilization of spending authority has been attributed to the diligence that many government agencies have directed on the contracting/ procurement process given the new administration's focus on anti-corruption and good governance. However, it cannot be denied that such "underspending" necessarily contributed to the lower-than-target rate of economic growth.

The proposed expenditure program for 2012 is PhP 171 billion (or 10.4%) higher than the PhP 1.6 trillion expenditure program for 2011. Close to two-thirds of the increment in the proposed expenditure program net of debt service is captured by the social service sectors and the economic service sectors combined. In particular, 33.2% of the increment in the expenditure program net of debt service in 2012 relative to the 2011 program is allocated for all the social service sectors combined while 31.0% of the increment is allotted for all the economic service sectors as a group. In a sense, the bias towards the social service sectors that was very much evident in the national government expenditure program in 2011 has been replaced by a more balanced distribution between the social services sectors and the economic services sectors.

Despite the higher allocation that is provided the economic services sectors (particularly, infrastructure) under the 2012 National Expenditure program, the level of national government spending on the infrastructure sector compares unfavorably with the amount of resources needed to achieve high, sustained and inclusive growth. On the other hand, 2012 spending levels on education, health and social welfare services will continue to lag behind those of other countries in the region. Moreover, programmed national government spending on basic education is estimated to fall short of the amount required to achieve the MDG target for education.

Given the evidence that significant levels of unmet needs are not being addressed, this study echoes previous calls for government to recognize that national government revenues has to expand at a faster rate than has been demonstrated by the collection agencies so far. Although there is evidence that some gains have been made in BIR tax effort since the Aquino II administration came into power, the improvement in tax effort to date pales in comparison with the amount needed to achieve sustained and inclusive growth with fiscal consolidation. Furthermore a comparison of actual revenue collection in January – September 2011 with that in January – June 2011 also suggests that the pace of improvements (or lack of it) in tax administration may have faltered in the third quarter of the year. It is, thus, critical that efforts towards improving collection efficiency be renewed and re-invigorated in the fourth quarter.

Related to this, Manasan (2010) argues that there is a need for government to consider the imposition of new tax measures if fiscal consolidation is to be achieved without sacrificing the rapid, sustained and inclusive growth. The least distortionary options in this regard include:

- (i) the restructuring of excise tax on sin products,
- (ii) the rationalization of fiscal incentives, and
- (iii) reforming the road user charge.

Manasan (2010) also recommends the simplification of tax structure by reducing the number of rates at which various taxes are levied or by reducing the number of taxpayers/ transactions/ or types of income which are exempt from any given tax. Tax simplification makes tax administration easier by minimizing the opportunities for evasion. It also improves equity.



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## **APPENDIX TABLES**

Appendix Table 1. National Government Fiscal Position, 2010-2012

Particulars	Actual 2010 (PhP B)	Actual 2010 (% GDP)	BESF Program 2011 (PhP B)	BESF Program 2011 (% GDP)	Author's Projections 2011 a/ (PhP B)	Author's Projections 2011 a/ (% GDP)	Difference <sup>b/</sup> 2011	BESF Program 2012 (PhP B)	BESF Program 2012 (% GDP)	Author's Projections 2012 (PhP B)	Author's Projections 2012 (% GDP)	Difference <sup>b/</sup> 2012
<b>Revenues</b>	<b>1,207.9</b>	<b>13.4</b>	<b>1,411.3</b>	<b>14.2</b>	<b>1,390.5</b>	<b>14.0</b>	<b>20.8</b>	<b>1,568.5</b>	<b>14.4</b>	<b>1,570.9</b>	<b>14.4</b>	<b>(2.4)</b>
<i>Tax Revenues</i>	<i>1,093.6</i>	<i>12.1</i>	<i>1,273.2</i>	<i>12.8</i>	<i>1,228.4</i>	<i>12.4</i>	<i>44.8</i>	<i>1,445.5</i>	<i>13.3</i>	<i>1,418.3</i>	<i>13.0</i>	<i>27.2</i>
BIR	822.6	9.1	940.0	9.5	937.6	9.5	2.4	1,066.1	9.8	1,066.1	9.8	0.0
BOC	259.2	2.9	320.0	3.2	277.9	2.8	42.1	365.1	3.3	338.0	3.1	27.2
Other Offices	11.8	0.1	13.2	0.1	12.9	0.1	0.4	14.2	0.1	14.2	0.1	0.1
<i>Non-Tax Revenues</i>	<i>113.9</i>	<i>1.3</i>	<i>138.1</i>	<i>1.4</i>	<i>162.1</i>	<i>1.6</i>	<i>(24.0)</i>	<i>123.0</i>	<i>1.1</i>	<i>152.6</i>	<i>1.4</i>	<i>(29.6)</i>
of which:												
BTr Income	54.3	0.6	69.0	0.7	81.0	0.8	(12.1)	51.6	0.5	76.3	0.7	(24.8)
Privatization	0.9	0.0	6.0	0.1	3.3	0.0	2.7	2.0	0.0	2.0	0.0	0.0
<b>Disbursements</b>	<b>1,522.4</b>	<b>16.9</b>	<b>1,711.3</b>	<b>17.3</b>	<b>1,433.5</b>	<b>c/</b>	<b>277.8</b>	<b>1,854.5</b>	<b>17.0</b>	<b>1,813.6</b>	<b>16.6</b>	<b>40.9</b>
of which:												
Allotments to LGUs	279.6	3.1	301.7	3.0	314.3	3.2	(12.5)	290.0	2.7	290.0	2.7	0.0
Interest Payments	294.2	3.3	321.6	3.2	258.1	2.6	63.5	333.1	3.1	292.2	2.7	40.9
Net Lending	9.3	0.1	23.0	0.2	23.0	0.2	(0.0)	23.0	0.2	23.0	0.2	0.0
Total Disbursements												
less interest	1,228.1	13.6	1,389.7	14.0	1,175.4	d/	214.3	1,521.4	14.0	1,521.4	14.0	0.0
<b>Overall Surplus/ (Deficit)</b>	<b>(314.5)</b>	<b>(3.5)</b>	<b>(300.0)</b>	<b>(3.0)</b>	<b>(43.0)</b>	<b>e/</b>	<b>(257.0)</b>	<b>(286.0)</b>	<b>(2.6)</b>	<b>(242.7)</b>	<b>(2.2)</b>	<b>(43.3)</b>
<b>Primary Surplus/ (Deficit)</b>	<b>(20.2)</b>	<b>(0.2)</b>	<b>21.6</b>	<b>0.2</b>	<b>215.1</b>	<b>f/</b>	<b>(193.5)</b>	<b>47.1</b>	<b>0.4</b>	<b>49.5</b>	<b>0.5</b>	<b>(2.4)</b>

a/ based on Jan-June 2010 data

b/ Difference = BESF target less author's projections.

c/ equal to 1,540.7 if half of projected underspending during the year were to be spent in fact

d/ equal to PhP 1,282.6 billion (or 12.9% of GDP) if half of projected underspending during the year were to be spent in fact

e/ equal to negative PhP 150.1 billion (or negative 1.5% of GDP) if half of projected underspending during the year were to be spent in fact

f/ equal to positive PhP 108.0 billion (or 1.1% of GDP) if half of projected underspending during the year were to be spent in fact

Appendix Table 2. National Government Expenditures, Obligation Basis, as a Percentage of GDP, 1975-2012

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Prelim	2012 NEP
<b>GRAND TOTAL</b>	13.4	16.9	17.7	18.5	17.1	16.8	18.3	18.2	17.9	19.1	18.2	17.7	18.1	16.9	16.7	16.7	16.8	17.0	17.9	16.4	16.7	16.9
<b>Total Economic Services</b>	5.7	4.1	3.7	3.4	3.0	2.5	4.1	3.4	3.3	3.5	3.0	2.4	2.6	2.4	2.1	2.6	3.2	3.7	3.8	3.1	2.3	2.7
Agriculture	0.8	0.7	0.7	0.6	0.7	0.5	0.9	0.6	0.7	0.6	0.6	0.4	0.5	0.4	0.5	0.4	0.6	1.0	0.8	0.8	0.4	0.6
Agrarian Reform	0.1	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Natural Resources	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2
Industry	0.2	0.1	0.2	0.1	0.1	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Trade	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power & Energy	0.7	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.2	0.0	0.0	0.1
Water Resources Devt.	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transp. & Comm.	2.4	1.9	2.0	2.0	1.8	1.5	2.1	2.1	1.9	2.1	1.7	1.4	1.5	1.4	1.1	1.6	2.0	2.1	2.3	1.8	1.5	1.5
Other Econ. Services	1.0	0.4	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Social Services</b>	2.7	3.5	4.3	4.7	3.4	4.1	4.9	4.9	4.7	4.7	4.2	4.1	3.7	3.3	3.0	3.1	3.3	3.2	3.5	3.3	3.9	4.2
Education	1.7	2.5	3.1	3.4	2.6	3.0	3.5	3.6	3.4	3.3	3.1	3.1	2.9	2.6	2.4	2.4	2.5	2.4	2.6	2.5	2.9	3.0
o/w: Basic education	1.3	2.1	2.5	2.7	2.2	2.6	2.9	2.9	2.7	2.7	2.6	2.5	2.4	2.1	1.9	2.0	2.1	2.0	2.2	2.1	2.5	2.6
Tertiary education	0.3	0.4	0.5	0.5	0.3	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Health	0.5	0.6	0.5	0.4	0.3	0.4	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.4	0.5
Soc. Security, Labor/ Emp., & Social Welfare Services	0.1	0.3	0.6	0.8	0.4	0.6	0.8	0.8	0.7	0.8	0.7	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.7
Housing & Com. Devt.	0.3	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>National Defense</b>	1.7	1.2	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.0	0.9	0.9	1.2	1.1	1.1	1.0	1.1	1.0	1.0	1.1	1.1	1.1
<b>Total Public Services</b>	1.4	2.1	2.6	2.5	2.4	2.2	2.7	2.7	2.4	2.5	2.5	2.4	2.4	2.2	2.4	2.3	2.4	2.5	2.8	2.4	2.1	2.3
Public Administration	1.1	1.2	1.4	1.2	1.2	0.9	1.4	1.4	1.1	1.2	1.2	1.1	1.1	0.9	1.2	1.1	1.2	1.3	1.4	1.1	0.8	1.0
Peace and Order	0.4	0.9	1.1	1.3	1.3	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.4	1.3	1.3	1.3
<b>Others n.e.c.</b>	0.7	1.1	2.6	3.2	3.0	3.6	2.7	2.7	3.1	3.3	3.1	3.4	3.3	2.9	2.8	2.7	2.9	3.0	3.3	3.2	3.7	3.5
<b>Debt Service</b>	1.3	5.0	3.5	3.6	4.2	3.3	2.9	3.4	3.3	3.9	4.5	4.4	5.0	5.1	5.3	4.9	3.9	3.5	3.5	3.3	3.6	3.1
MEMO ITEM:																						
Transfers to LGUs	0.5	0.7	2.5	3.1	2.9	2.9	2.6	2.6	2.9	3.2	3.0	3.2	3.1	2.8	2.7	2.7	2.7	2.7	3.1	3.1	3.0	2.7
Grand Total less Debt Service	12.1	11.9	14.2	14.9	12.9	13.4	15.4	14.8	14.6	15.1	13.7	13.2	13.2	11.8	11.4	11.7	12.9	13.5	14.4	13.1	13.1	13.8
Grand Total less Debt Service less Transfers to LGUs	11.6	11.2	11.7	11.8	10.1	10.6	12.7	12.2	11.7	11.9	10.7	10.0	10.1	9.1	8.7	9.1	10.2	10.8	11.3	10.0	10.0	11.1
Infrastructure	3.2	2.2	2.2	2.2	1.8	1.6	2.2	2.2	2.1	2.3	1.9	1.4	1.5	1.5	1.1	1.7	2.0	2.1	2.5	1.8	1.5	1.6

Appendix Table 3. Percentage Distribution of National Government Expenditures, Obligation Basis, by Function or Sectors, 1975-2012

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Prelim	2012 NEP
<b>GRAND TOTAL</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Total Economic Services</b>	42.3	24.2	20.9	18.6	17.4	14.9	22.2	18.8	18.7	18.5	16.6	13.8	14.2	14.1	12.6	15.4	19.3	21.5	21.5	19.1	13.8	15.9
Agriculture	6.0	4.2	3.7	3.4	3.8	3.0	5.0	3.2	3.8	3.0	3.1	2.5	3.0	2.3	3.1	2.3	3.7	6.0	4.7	5.1	2.4	3.5
Agrarian Reform	0.8	1.9	1.6	1.4	1.2	1.1	1.6	1.4	1.2	1.5	1.4	1.3	1.4	1.5	1.3	1.2	1.4	1.1	0.9	1.0	1.1	1.1
Natural Resources	1.6	1.5	1.4	1.0	0.9	0.9	1.9	1.2	1.1	0.9	1.1	1.1	0.8	0.7	0.8	0.9	0.8	0.7	0.9	1.0	0.8	1.1
Industry	1.7	0.8	0.9	0.6	0.5	0.3	0.9	0.5	0.5	0.7	0.4	0.6	0.3	0.4	0.4	0.6	0.9	0.8	0.6	0.4	0.2	0.3
Trade	0.8	0.2	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Tourism	0.3	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Power & Energy	5.1	1.8	1.0	0.8	0.3	0.4	0.5	0.4	1.1	0.5	0.7	-0.1	0.0	0.5	0.2	0.3	0.5	0.2	0.9	0.2	0.1	0.7
Water Resources Devt.	0.9	0.4	0.2	0.1	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Transp. & Comm.	18.0	11.0	11.3	10.8	10.3	8.8	11.4	11.5	10.4	11.2	9.5	7.9	8.3	8.3	6.5	9.8	11.6	12.4	13.0	11.0	8.8	8.9
Other Econ. Services	7.1	2.1	0.4	0.3	0.1	0.3	0.4	0.2	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.2
<b>Total Social Services</b>	20.0	20.7	24.1	25.6	19.9	24.2	26.8	27.1	26.5	24.8	23.0	23.2	20.4	19.5	18.2	18.6	19.4	19.1	19.5	20.5	23.5	24.9
Education	12.5	14.7	17.4	18.2	15.2	17.6	19.3	19.7	19.1	17.4	17.2	17.3	16.1	15.3	14.2	14.2	15.0	14.3	14.7	15.4	17.4	17.8
Health	4.0	3.7	2.6	2.3	1.7	2.5	2.9	2.5	2.5	2.1	1.8	1.9	1.5	1.7	1.5	1.6	1.6	1.4	1.6	2.1	2.3	2.7
Soc. Security, Labor/ Emp., & Social Welfare Services	1.1	1.5	3.5	4.1	2.5	3.8	4.2	4.3	4.2	4.0	3.7	3.7	2.3	2.3	2.2	2.2	2.1	2.6	2.5	2.4	3.5	4.0
Housing & Comm. Devt.	2.4	0.7	0.7	1.0	0.5	0.4	0.4	0.5	0.7	1.2	0.2	0.2	0.4	0.2	0.3	0.6	0.7	0.7	0.6	0.5	0.3	0.4
<b>National Defense</b>	12.5	7.1	6.2	5.5	6.2	6.4	5.9	5.9	5.7	5.4	5.1	5.3	6.7	6.4	6.4	6.2	6.5	6.2	5.9	6.5	6.5	6.4
<b>Total Public Services</b>	10.7	12.2	14.4	13.2	14.2	13.1	14.6	14.7	13.3	13.2	13.5	13.7	13.3	12.7	14.6	13.9	14.2	14.9	15.4	14.5	12.5	13.6
Public Administration	8.0	6.8	8.0	6.3	6.8	5.4	7.8	7.8	6.4	6.3	6.4	6.1	6.0	5.4	7.4	6.5	6.9	7.7	7.7	6.8	4.8	5.9
Peace and Order	2.7	5.3	6.4	6.9	7.4	7.7	6.8	6.9	7.0	6.9	7.1	7.6	7.3	7.3	7.2	7.4	7.3	7.2	7.7	7.7	7.7	7.7
<b>Others n.e.c.</b>	5.2	6.3	14.5	17.5	17.8	21.4	14.5	14.9	17.4	17.6	17.1	19.0	18.1	17.1	16.6	16.3	17.3	17.7	18.4	19.5	21.9	21.0
<b>Debt Service</b>	9.4	29.5	20.0	19.6	24.5	19.9	15.9	18.6	18.3	20.6	24.7	25.0	27.4	30.1	31.6	29.7	23.2	20.7	19.4	20.0	21.7	18.3
MEMO ITEM:																						
Transfers to LGUs	4.1	4.3	14.0	16.6	16.9	17.0	14.4	14.3	16.4	16.7	16.4	18.1	17.1	16.3	16.0	15.9	15.9	16.0	17.4	18.8	18.2	16.0
Grand Total - Debt Service	90.6	70.5	80.0	80.4	75.5	80.1	84.1	81.4	81.7	79.4	75.3	75.0	72.6	69.9	68.4	70.3	76.8	79.3	80.6	80.0	78.3	81.7
Grand Total less Debt Service less Transfers to LGUs	86.5	66.2	66.0	63.8	58.7	63.0	69.7	67.1	65.3	62.6	58.9	56.8	55.5	53.6	52.4	54.4	60.9	63.3	63.1	61.2	60.1	65.7
Infrastructure	24.0	13.2	12.6	11.7	10.6	9.2	12.2	12.0	11.6	11.9	10.3	7.9	8.3	8.8	6.7	10.0	12.2	12.6	14.1	11.2	8.9	9.6

Appendix Table 4. Percentage Distribution of National Government Expenditures Net of Debt Service, by Function or Sectors, 1975-2012

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Prelim	2012 NEP
<b>Total Economic Services</b>	46.6	34.3	26.1	23.1	23.1	18.6	26.4	23.1	22.8	23.3	22.0	18.4	19.5	20.2	18.5	21.9	25.2	27.1	26.7	23.9	17.7	19.4
Agriculture	6.6	6.0	4.6	4.2	3.7	3.7	5.9	3.9	4.7	3.8	4.1	3.3	4.1	3.3	4.6	3.3	4.8	7.6	5.8	6.4	3.1	4.2
Agrarian Reform	0.9	2.6	2.0	1.7	1.9	1.3	1.9	1.7	1.5	1.9	1.8	1.7	1.9	2.2	2.0	1.7	1.8	1.3	1.1	1.2	1.4	1.3
Natural Resources	1.8	2.1	1.7	1.2	1.3	1.2	2.2	1.4	1.3	1.2	1.5	1.5	1.1	1.1	1.1	1.2	1.0	0.9	1.2	1.2	1.0	1.3
Industry	1.8	1.2	1.1	0.7	0.6	0.3	1.1	0.6	0.6	0.8	0.5	0.8	0.4	0.6	0.5	0.9	1.1	1.0	0.7	0.5	0.3	0.4
Trade	0.9	0.3	0.2	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Tourism	0.3	0.2	0.2	0.2	0.2	0.1	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2
Power & Energy	5.6	2.5	1.2	1.0	0.4	0.5	0.6	0.5	1.3	0.7	0.9	-0.1	0.1	0.6	0.3	0.4	0.7	0.2	1.1	0.2	0.1	0.8
Water Resources Devt.	1.0	0.6	0.3	0.1	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Transp. & Comm.	19.8	15.6	14.2	13.5	11.6	11.0	13.6	14.1	12.7	14.2	12.7	10.6	11.4	11.9	9.5	13.9	15.2	15.6	16.2	13.8	11.2	10.9
Other Econ. Services	7.9	3.0	0.5	0.4	0.2	0.3	0.5	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.3	0.3
<b>Total Social Services</b>	22.0	29.4	30.1	31.8	29.3	30.2	31.9	33.3	32.5	31.2	30.5	30.9	28.1	27.9	26.6	26.4	25.3	24.0	24.1	25.6	30.0	30.4
Education	13.8	20.9	21.8	22.6	22.5	22.0	22.9	24.2	23.4	22.0	22.9	23.1	22.2	21.9	20.7	20.2	19.6	18.1	18.3	19.3	22.2	21.8
Health	4.4	5.3	3.2	2.9	2.4	3.1	3.4	3.0	3.1	2.7	2.5	2.6	2.1	2.4	2.2	2.2	2.1	1.8	2.0	2.6	2.9	3.3
Soc. Security, Labor/ Emp., & Social Welfare Services	1.2	2.2	4.4	5.0	4.1	4.7	5.0	5.3	5.1	5.0	4.9	4.9	3.2	3.3	3.2	3.2	2.8	3.2	3.1	3.0	4.5	4.9
Housing & Com. Devt.	2.6	1.0	0.8	1.2	0.4	0.5	0.5	0.7	0.9	1.5	0.3	0.3	0.5	0.3	0.5	0.8	0.9	0.9	0.7	0.6	0.4	0.5
<b>National Defense</b>	13.7	10.1	7.7	6.9	8.1	8.1	7.1	7.3	7.0	6.7	6.8	7.0	9.2	9.2	9.3	8.8	8.5	7.8	7.3	8.1	8.3	7.8
<b>Total Public Services</b>	11.8	17.3	18.0	16.5	18.2	16.4	17.4	18.1	16.3	16.6	18.0	18.3	18.3	18.2	21.4	19.8	18.5	18.8	19.1	18.1	16.0	16.7
Public Administration	8.8	9.7	10.0	7.9	8.2	6.7	9.3	9.6	7.8	7.9	8.5	8.2	8.3	7.8	10.9	9.3	8.9	9.7	9.5	8.5	6.2	7.2
Peace and Order	3.0	7.6	8.0	8.6	10.0	9.6	8.1	8.5	8.5	8.6	9.4	10.1	10.0	10.4	10.5	10.5	9.5	9.1	9.6	9.6	9.8	9.5
<b>Others n.e.c.</b>	5.7	9.0	18.1	21.8	24.4	26.7	17.3	18.3	21.3	22.1	22.7	25.4	24.9	24.4	24.3	23.1	22.6	22.3	22.8	24.3	28.0	25.7
MEMO ITEM:																						
Transfers to LGUs	4.5	6.2	17.5	20.6	23.2	21.3	17.2	17.6	20.1	21.1	21.8	24.2	23.6	23.3	23.4	22.7	20.7	20.2	21.6	23.5	23.2	19.6
Grand Total - Debt Service	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Infrastructure	26.5	18.8	15.7	14.6	12.0	11.5	14.5	14.8	14.2	15.0	13.6	10.5	11.5	12.6	9.8	14.3	15.9	15.8	17.5	14.0	11.3	11.7

Appendix Table 5. Real Per Capita National Government Expenditures, Obligation Basis, 1975-2012 (in 2000 prices)

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Prelim	2012 NEP
<b>GRAND TOTAL</b>	6,246	7,091	7,845	8,534	9,211	10,608	8,547	8,261	8,177	8,890	8,552	8,444	8,916	8,701	8,806	9,067	9,533	9,883	10,281	9,929	10,399	10,818
<b>Total Economic Services</b>	2,694	1,753	1,640	1,586	1,565	1,576	1,900	1,554	1,525	1,647	1,419	1,162	1,262	1,228	1,114	1,396	1,842	2,123	2,208	1,895	1,437	1,715
Agriculture	392	328	224	291	337	313	426	265	314	269	267	212	268	200	274	209	355	596	483	508	251	375
Agrarian Reform	61	127	188	116	113	114	135	115	97	134	117	110	123	133	119	108	133	105	91	97	113	116
Natural Resources	111	106	108	84	81	98	162	96	86	82	94	93	74	64	69	79	75	72	97	97	83	114
Industry	101	65	70	50	49	30	76	44	39	60	30	52	26	34	33	58	82	79	60	39	25	34
Trade	39	14	12	1	5	3	10	5	1	1	5	5	5	4	6	9	9	4	5	3	3	4
Tourism	20	9	14	16	14	12	17	19	12	20	11	13	13	15	13	15	18	15	16	11	12	13
Power & Energy	363	125	87	68	31	41	46	34	88	48	57	-5	4	39	16	23	48	16	93	16	11	71
Water Resources Devt.	61	32	20	8	2	0	20	9	10	7	5	0	1	0	0	0	3	0	14	0	0	0
Transp. & Comm.	1,217	748	884	924	918	937	975	951	849	1,000	816	670	736	726	574	887	1,110	1,225	1,339	1,096	912	963
Other Econ. Services	329	200	34	27	13	27	34	17	29	26	17	12	11	12	9	9	9	11	11	26	27	26
<b>Total Social Services</b>	1,258	1,461	1,851	2,184	1,849	2,566	2,293	2,239	2,168	2,200	1,965	1,958	1,816	1,700	1,599	1,684	1,853	1,884	2,000	2,033	2,444	2,689
Education	784	1,044	1,337	1,556	1,414	1,867	1,650	1,631	1,562	1,549	1,471	1,464	1,437	1,334	1,247	1,288	1,434	1,418	1,514	1,533	1,808	1,926
o/w: Basic education	602	860	1,091	1,249	1,172	1,619	1,343	1,313	1,249	1,249	1,208	1,209	1,189	1,097	1,027	1,065	1,203	1,184	1,243	1,294	1,564	1,673
Tertiary education	151	158	196	230	186	194	239	249	229	230	206	201	192	187	170	177	174	176	185	191	193	195
Health	253	263	200	199	155	264	246	205	208	190	158	163	136	147	130	141	151	140	169	210	236	291
Soc. Security, Labor/ Emp., & Social Welfare Services	74	100	263	347	239	397	361	358	340	353	315	313	208	202	193	202	204	255	257	242	364	430
Housing & Com. Devt.	147	54	52	83	41	39	36	44	57	108	21	18	34	17	28	53	63	71	60	48	36	42
<b>National Defense</b>	870	524	486	473	564	684	508	490	470	476	439	444	595	561	560	561	622	609	603	646	679	689
<b>Total Public Services</b>	683	845	1,127	1,131	1,301	1,388	1,249	1,215	1,091	1,170	1,156	1,159	1,186	1,108	1,287	1,260	1,353	1,474	1,584	1,440	1,301	1,475
Public Administration	504	476	630	541	621	569	667	645	522	560	550	519	536	474	656	594	655	760	790	676	501	638
Peace and Order	179	369	497	589	680	818	582	570	569	610	605	640	650	634	631	667	698	714	794	764	800	837
<b>Others n.e.c.</b>	317	452	1,130	1,493	1,632	2,273	1,242	1,229	1,426	1,560	1,459	1,605	1,610	1,487	1,461	1,475	1,654	1,747	1,887	1,931	2,280	2,267
<b>Debt Service</b>	425	2,056	1,610	1,666	2,301	2,121	1,355	1,534	1,498	1,835	2,115	2,115	2,447	2,618	2,786	2,691	2,209	2,047	1,999	1,983	2,257	1,984
MEMO ITEM:																						
Transfers to LGUs	245	285	1,098	1,416	1,549	1,809	1,235	1,183	1,343	1,489	1,401	1,530	1,524	1,415	1,409	1,445	1,518	1,584	1,792	1,869	1,889	1,728
Grand Total less Debt Service	5,821	5,035	6,235	6,867	6,910	8,488	7,192	6,727	6,680	7,055	6,437	6,329	6,469	6,083	6,020	6,376	7,324	7,837	8,282	7,946	8,142	8,833
Grand Total less Debt Service less Transfers to LGUs	5,576	4,750	5,137	5,452	5,362	6,679	5,957	5,544	5,337	5,566	5,037	4,799	4,945	4,668	4,611	4,932	5,806	6,252	6,490	6,077	6,252	7,106
Infrastructure	1,641	904	990	1,001	951	979	1,042	993	947	1,055	878	665	741	765	591	910	1,161	1,241	1,446	1,113	924	1,034



Appendix Table 6. National Government Revenue Effort, as % of GDP, 1992-2011

	1975-85	1986-92	1993-98	1999-2000	2001-10	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 a/
TOTAL REVENUE b/	11.5	14.4	16.3	14.4	14.3	16.1	15.8	16.3	16.0	16.8	17.2	15.6	14.6	14.2	14.6	13.8	14.1	13.6	14.2	15.4	15.2	15.2	14.0	13.4	13.8
Total tax	10.0	12.2	14.7	13.1	12.7	13.9	14.1	14.5	14.7	15.3	15.3	14.1	13.3	12.8	12.7	12.1	12.1	11.8	12.4	13.7	13.5	13.6	12.2	12.1	12.2
BIR	6.0	8.2	10.7	10.3	9.7	8.9	8.9	10.0	10.0	10.8	11.7	11.4	10.5	10.1	10.0	9.6	9.4	9.2	9.6	10.4	10.4	10.1	9.3	9.1	9.4
BOC	3.6	3.9	3.9	2.7	2.8	4.9	5.0	4.4	4.6	4.3	3.5	2.6	2.7	2.7	2.6	2.4	2.6	2.5	2.7	3.2	3.0	3.4	2.7	2.9	2.7
Non-tax revenue b/	1.5	2.2	1.6	1.4	1.6	2.1	1.7	1.9	1.3	1.5	1.9	1.5	1.3	1.4	1.9	1.7	2.0	1.8	1.8	1.7	1.6	1.6	1.7	1.3	1.6

a/ projected based on January-September 2011 data

b/ net of privatization proceeds

Source of basic data: BTr