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Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Development Finance and Aid in the Philippines: Policy, Institutional Arrangements and Flows

*Gilberto M. Llanto, Adoracion M. Navarro
and Ma. Kristina P. Ortiz*

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February 2015

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Gilberto M. Llanto, Adoracion M. Navarro, and Ma. Kristina Ortiz

November 2014

Abstract

The Philippines' recent economic performance has been remarkable amidst the lingering slowdown in the global economy and the devastation brought about by recent natural disasters. The economy grew by 7.2 percent in 2013, substantially higher than its 6.8 percent growth in 2012. With GDP growth averaging at 5.9 percent in the last three years the Philippines is one of the better performers among developing economies. However, the economy faces problems of high poverty incidence and income inequality. The main challenge is how to sustain rapid and inclusive growth.

It is important for the government's inclusive growth strategy and development agenda to be supported by responsive development finance. This Development Finance and Aid Assessment prepared for the National Economic and Development Authority [NEDA] takes stock of current development finance in the Philippines. It provides a comprehensive survey of development finance and aid scenario in the Philippines in the next five to 10 years. It offers policy recommendations and proposals for enhancements on development financing in the country.

Key words: *development finance, ODA, public-private partnership, tax effort, remittances, inclusive finance, inclusive growth*

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The authors would like to thank Deputy Director General Rolando G. Tungpalan [NEDA] and Programme Officer Ma. Luisa Jolongbayan [UNDP] for permission to issue this Country Report as a PIDS Discussion Paper.

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Executive Summary

The Philippines' recent economic performance has been remarkable amidst the lingering slowdown in the global economy and the devastation brought about by recent natural disasters. The economy grew by 7.2 percent in 2013, substantially higher than its 6.8 percent growth in 2012. With GDP growth averaging at 5.9 percent in the last three years the Philippines is one of the better performers among developing economies. However, the economy faces problems of high poverty incidence and income inequality. The main challenge is how to sustain rapid and inclusive growth.

It is important for the government's inclusive growth strategy and development agenda to be supported by responsive development finance. This Development Finance and Aid Assessment was commissioned by GPH through the National Economic and Development Authority [NEDA] to take stock of current development finance, by providing a broad comprehensive survey of development finance and aid scenario and potentialities in the Philippines in the next five to 10 years. It offers policy recommendations and proposals for enhancements on development financing in the country.

Policy and institutional framework

The continuing reforms undertaken by the Philippines have resulted in a stronger link between the Philippine Development Plan [PDP] and the development budget, and an appropriate policy and institutional framework to mobilize and have a more effective use of development finance. The development budget translates the goals and priorities established in the PDP into programs, activities, and projects [PAPs] that have to be supported by responsive development finance. Under this framework, domestic resources [tax and non-tax revenues, domestic borrowing] and foreign resources (borrowing from foreign capital markets, official development assistance) finance PAPs that produce major final outputs to achieve development outcomes.

A mapping of development finance flows

A broad sweep of the Philippine development finance landscape reveals the following developments:

- Domestic sources of finance have the largest share of development finance for the Philippines. Domestic credit averaged at around 51.5% of GDP during the period 2000-2012, and 50.7% of GDP in 2010-2012. The Philippine financial system is currently experiencing financial stability and high liquidity. Domestic banks have been an important provider of loans to the national government and have also started lending to certain sectors previously dominated by ODA or government grants (e.g., water supply projects).
- Tax and non-tax revenues collected by the government averaged at around 14.5% of GDP in 2000-2013, and also at 14.5% in 2011-2013. Recent reforms in tax collection and administration, budget policy and expenditure management have created a relatively wider fiscal space to accommodate development expenditures.

- Official development assistance [ODA] sources composed of program and project loans was on the average around 9.8% of GDP in 2000-2013, and 4.6% of GDP in 2011-2013. ODA shows a declining trend since 2001, consistent with the experience of other countries of a gradual decline of ODA assistance as they approach middle-income status.
- Net domestic borrowing by the government was on the average 2.5% of GDP in 2000-2013, and 2.9% in 2011-2013. Although there was an increase in domestic borrowing, the government has been less reliant on it in recent years because of the improvement in fiscal space. The percentage share of domestic borrowing to total borrowing has been increasing since 2009. The share of foreign borrowing is on a downward trend. In 2000-2013, foreign borrowing was on the average at 0.5% of GDP; down to -0.4% of GDP in 2011-2013.
- Remittances from overseas Filipinos at an average 9.2% of GDP in 2000-2013, and 8.9% of GDP in 2011-2013 have emerged as a new important source of funds for household consumption and investments in housing, education and health. In line with this, the Commission of Filipino Overseas created in 1989 a program called, “Lingkod sa Kapwa Pilipino (LINKAPIL),” which serves as the main channel for donations of overseas Filipinos who wish to help finance development projects identified by the LGUs and local NGOs.
- Foreign direct investments at an average of 1.3% of GDP in 2000-2013, and 1.2% of GDP in 2011-2013 continue to provide opportunities to reinvigorate industry and manufacturing and generate productive jobs for the country’s abundant labor resources.
- Other types of development finance have emerged in the Philippine development finance landscape. Public-Private Partnerships [PPPs] for infrastructure development was announced as a key flagship program during the first year of the Aquino presidency.
- Public-private-donor efforts to improve governance in certain sectors such as mining have also emerged. The government with donor support established in the country in July 2012 the Extractive Industry Transparency Initiative (EITI) process where the government and companies in the extractive industries agreed to systematically record and voluntarily disclose the revenues received by government and paid by private companies.
- Private sector Corporate Social Responsibility activities or programs, which are still mostly community-based programs could be in the future a significant complement to the national government’s development activities. New funding schemes address climate change adaptation and mitigation efforts of the Government of the Philippines.

Future trends of development finance flows

Overall, the 2000-2013 patterns of development finance flows indicate that the country’s development agenda could be supported by a responsive development finance. This study drew three scenarios for development flows for the next five years [2015-2019]: [a] business-as-usual scenario, [b] an optimistic scenario, and [c] a highly optimistic scenario. At the

minimum, even under a conservative scenario, that is, under a business-as-usual scenario, the government can raise resources to finance the development agenda.

Based on simple projections made in the study, the major change in development finance flows is the increasing reliance on domestic resource mobilization and more efficient domestic financial markets as main sources of development finance flows in the future. Future trends show that the government will be able to meet and even surpass its fiscal deficit targets if it continues with the pace of fiscal reforms. This has positive implications for the management of net external borrowings. There will be decreasing reliance on external borrowings and ODA, which, in particular, has been declining in the past decade. Remittances will continue to be a significant source of financing for domestic consumption and investment activities. Public-Private Partnerships (PPPs) and FDIs could become significant sources of development finance if the economy can firmly resolve regulatory and political risks.

Conclusions and recommendations

From the perspective of development finance, the Philippines is currently in a 'sweet' spot, so to speak, because of the accessibility of bigger volumes of development finance that was not the situation many years ago. This phenomenon is explained by (a) an improving fiscal position brought about by fiscal reforms and good governance, (b) credit rating upgrades that have lowered the cost of foreign borrowing and have given a seal of good housekeeping for the economy, (c) strong commitment made by the international donor community to keep ODA flowing, (d) an improving private financial markets in a regime of low inflation, financial stability and liquidity, (e) continuing stream of substantial amounts of remittances from overseas Filipino workers, and (f) strong economic performance, which has started to attract more foreign direct investments.

Future trends indicate that the country could raise the necessary financing to support the development agenda. While there has been some headway in making development finance effective for the country, the following recommendations may further improve the utilization and management of development finance:

To maximize the effectiveness of development finance

- Improve the quality of the Philippine Development Plan [PDP] by using more evidence-based recommendations in framing strategies, policies and interventions. Evaluate the results of the PAPs to determine what strategies and interventions work.
- Ensure ownership of the PDP by whole-of-government, more specifically, implementing agencies that are responsible for designing and implementing sectorial public investments by making those agencies more accountable for their PAPs.
- Use the PDP as platform for better coordination of various country assistance strategies [CAS] of donors.

To strengthen the complementarity and value added of development finance flows

- Engage donors in a dialogue to determine how their respective CAS contributes to the attainment of desired development outcomes [inclusive growth]. Develop a Philippine Development Cooperation Strategy as a blueprint for the convergence of government and donor development initiatives.
- Work closely with donors in exploiting an important emerging role for bilateral and multilateral donors in the provision of key public goods: (i) disaster prevention, post-disaster rehabilitation and post-conflict transition (such as the Bangsamoro transition), (ii) social safety nets similar to conditional cash transfer programs, and (iii) productivity-enhancing research and development and technical assistance for capacity building, e.g., financing SME innovations.
- Use ODA to have a more strategic and catalytic role in attracting private capital to finance certain public goods by focusing on credit enhancements, e.g., loan guarantees for projects to entice private capital, building institutional capacities in evaluating and monitoring PPP projects, and investing in social public goods such as disaster risk management, climate change measures, etc.
- Explore the usefulness of a “viability gap fund” as an instrument to enhance the commercial viability of a public sector project, and thus, encourage more private sector investments.
- Continue with institutional reforms, e.g., ensuring competition, cost recovery tariffs, to make PPPs an attractive vehicle for infrastructure development.
- For inclusive growth purposes, consider providing labor-intensive, job-creating FDIs in manufacturing and agriculture with appropriate incentives¹.
- Review the effectiveness of the country’s tax system at the national and local level to increase revenue effort. Broaden the tax base and make the tax system more efficient and more equitable.
- Continue with reforms in tax administration, budgetary policy and expenditure management at the national and local government levels.

To strengthen institutional arrangements for ODA

- Ensure that ODA-funded projects are matched with the required assistance in focus areas identified under the PDP and Budget Priorities Framework to improve the channeling and the distribution of loans and grants to priority areas identified by the government.

¹ This is to encourage use of the country’s abundant labor resources in manufacturing and agriculture. All manufacturing and agriculture related foreign direct investments may also be asked to include an agreed CSR focus, say financial functional literacy training for its employees and their households as part of the conditions for their investment. They may also be requested to adopt a particular community for their CSR activities, or in the case of inclusive finance, partner with a MFI of their choice in promoting financial literacy and numeracy.

- Strengthen the technical capacity of the different working groups of the Philippine Development Forum to ensure convergence of donor efforts with priorities established by the PDP and the Budget Priorities Framework.
- Strengthen institutional arrangement for oversight of development finance and aid through better coordination and a convergent policy among government agencies.
- Collaborate with the private sector in making CSRs more strategic and better targeted.

To effectively monitor development finance

- Provide NEDA-MES with technical assistance (training, exposure visits to other countries on development effectiveness and advisory services) to build in-house monitoring and evaluation capacity.

List of Acronyms

| | | |
|--------|---|--|
| 4Ps | - | Pantawid Pamilyang Pilipino Program |
| ARIMA | - | Autoregressive Integrated Moving Average |
| ASEAN | - | Association of Southeast Asian Nations |
| AusAID | - | Australian Agency for International Development |
| BIR | - | Bureau of Internal Revenue |
| BLGF | - | Bureau of Local Government Finance |
| BOC | - | Bureau of Customs |
| BPF | - | Budget Priorities Framework |
| BSP | - | Bangko Sentral ng Pilipinas |
| BTr | - | Bureau of Treasury |
| CCT | - | conditional cash transfer |
| CFO | - | Commission on Filipino Overseas |
| COA | - | Commission on Audit |
| CSO | - | civil society organizations |
| CSR | - | corporate social responsibility |
| DBCC | - | Development Budget Coordinating Committee |
| DBM | - | Department of Budget and Management |
| DCS | - | development cooperation strategy |
| DOF | - | Department of Finance |
| FDI | - | foreign direct investment |
| GAA | - | General Appropriations Act |
| GPH | - | Government of the Philippines |
| ICC | - | Investment Coordination Committee |
| IRA | - | internal revenue allotment |
| IRR | - | Implementing Rules and Regulations |
| JICA | - | Japan International Cooperation Agency |
| LGU | - | local government unit |
| LGUGC | - | Local Government Unit Guarantee Corporation |
| MFO | - | major final outputs |
| MTEF | - | Medium Term Expenditure Framework |
| MYOA | - | Multi-Year Obligation Authority |
| NEDA | - | National Economic and Development Authority |
| NHIP | - | National Health Program |
| NSO | - | National Statistical Office |
| ODA | - | official development assistance |
| OECD | - | Organization for Economic Co-operation and Development |
| OFW | - | overseas Filipino workers |
| OP | - | Office of the President |
| OPIF | - | Organizational Performance Indicator Framework |
| PAP | - | programs, activities, and projects |
| PDF | - | Philippine Development Forum |
| PDMF | - | Project Development and Monitoring Fund |

| | | |
|-------|---|--|
| PDP | - | Philippine Development Plan |
| PHC | - | Philippine Harmonization Committee |
| PINAI | - | Philippine Investment Alliance for Infrastructure Fund |
| PPP | - | public-private partnership |
| PSR | - | private sector representatives |
| PWRF | - | Philippine Water Revolving Fund |
| S&P | - | Standard & Poor's |
| SME | - | small and medium-sized enterprises |
| VAT | - | value-added tax |

Development Finance and Aid Assessment: the Philippines²

1. INTRODUCTION

The global community has made laudable progress in achieving the Millennium Development Goals but still tough challenges of poverty, inequality and uneven growth compounded by food and resource insecurities, conflict, natural disasters and health pandemics remain. Policymakers, donors and stakeholders have called for more effective global development cooperation with ODA providing a “catalyzing effect³.” The call is for more development effectiveness, which includes improving the quality of aid to target beneficiaries.

The Government of the Philippines [GPH] has actively engaged the donor community in making development finance more effective in the country. The country participated in formulating the Monterrey Consensus in Mexico in 2002 and in articulating the 2005 Paris Declaration on Aid Effectiveness⁴. The GPH endorsed the Accra Agenda for Action in 2008. The Philippine Harmonization Committee oversees the agenda to strengthen country systems bearing on government procurement and public financial management, gender, land acquisition and resettlement; ensures results-orientation at various levels and addresses gaps in the implementation of the Paris Declaration⁵.

This Development Finance and Aid Assessment was commissioned by GPH through the National Economic and Development Authority [NEDA] to take stock of current development finance, by providing a broad comprehensive survey of development finance and aid scenario and potentialities in the Philippines in the next five to 10 years. It offers policy recommendations and proposals for enhancements on development financing in the country.

This Report tries to provide a comprehensive understanding of the emerging development finance and aid landscape in the country. Such an understanding is important in formulating strategies on making development finance more effective and developing stronger complementarities among various sources of development finance. A well-understood development finance and aid landscape can add value in further shaping the Philippines development policy framework, future reforms and a coherent development financing strategy for sustainable development⁶. The Report is organized as follows: after a brief Introduction,

² Gilberto M. Llanto, Adoracion M. Navarro and Ma. Kristina P. Ortiz. The authors thank Mereseini Bower, Rolando Tungpalan, Manju Senapaty, Romeo Bernardo, Maria Luisa Jolongbayan, Erick Planta, Grachel Manguni, Violeta Corpus, Maria Lourdes Lopez, the members of the Reference Group and Multi-Stakeholder Group, and participants in four workshops organized by NEDA and UNDP for their comments and suggestions. The views expressed in this Report are those of the authors and do not in any way reflect the position of the institution that they are affiliated with.

³ First High-Level Meeting of the Global Partnership for Effective Development Co-operation: Building Towards an Inclusive Post-2015 Development Agenda Mexico High Level Meeting Communiqué, 16 April 2014

⁴ Consisting of the following: (a) ownership, (b) alignment, (c) harmonization, (d) management for results, and (e) mutual accountability. The Accra Agenda for Action in 2008 re-enforced commitment to aid effectiveness through (a) predictability of aid, (b) use of country systems, (c) aid conditionality, and (d) untying of aid.

⁵ **Annex B.1** shows the Philippines commitment to development aid effectiveness.

⁶ I owe the last sentence to Mereseini Bower.

Section 2 summarizes recent macroeconomic developments in the Philippines. Section 3 discusses the policy and institutional framework for development budget and finance and maps development finance flows in the country. Section 4 highlights trends in development finance and future flows. Section 5 concludes and provides some policy recommendations.

There is no consensus on the definition of development finance. Development finance has traditionally been understood in the context of a North-South aid paradigm as cross border flows of money with the promotion of development as a specific objective [Mustapha and Glennie 2013], as long-term financial flows to middle and low-income countries with the destination of the flows rather than their projected purpose serving to categorize them [Van Waeyenberge and Powell 2010], or as official development finance comprised of (i) bilateral official development assistance [ODA], (ii) grants and concessional and non- concessional development lending by multilateral financial institutions, and (iii) other official flows for development purposes [OECD 2013]. Greenhills and Prizzon [2012] define it as all financial flows that are spent in developing countries categorized as (i) domestic revenues in developing countries, (ii) private cross-border flows that either have a clear profit motive, including FDI and portfolio flows, or are largely outside government control, such as remittances, and (iii) ODA and 'aid-like' flows that is provided not purely in the interests of securing returns for the provider but also fully or partially with some developmental or environmental purpose in mind, although profits and other interests of the provider [e.g. commercial or geopolitical] may also exist.

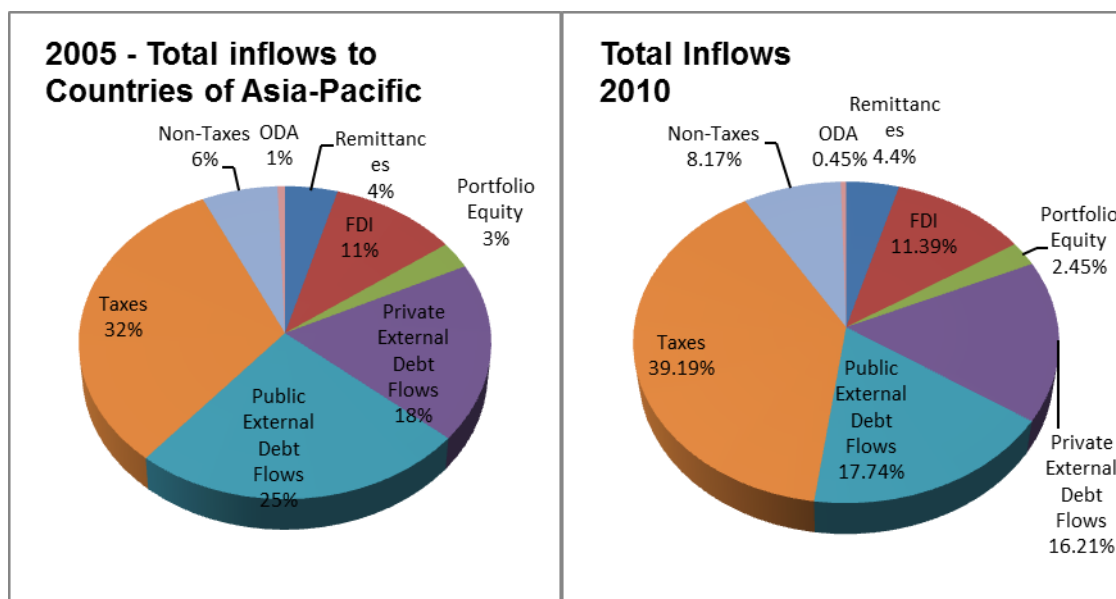
A complex development finance landscape is currently emerging in recent years with considerable changes in source, volume, and modality of delivery. New actors and new partnerships, e.g., public-private partnerships and South-South cooperation have brought new and additional resources to address diverse development challenges [OECD website]. Middle income countries are finding it increasingly easy to rely more on cross-border private financial flows than on traditional aid [Greenhill and Prizzon, 2012].

Governments and the international donor community have started to rethink aid objectives, allocations and instruments to adjust quickly to changing development contexts [Sumner and Mallett, 2012; Fischer, 2010; Birdsall and Savedoff, 2010]. There has been talk of a 'triple revolution' in official development assistance [ODA] in terms of goals, players and instruments and the shifting contours of aid: (i) the emergence and rise of new non-Development Assistance Committee donors and other actors (private foundations, social impact investors, philanthropists), (ii) new financing and delivery modalities [Public-Private Partnerships] and (iii) new funds (climate finance, global funds) (Greenhill and others, 2013; Sumner and Mallett, 2012). Current discussions focus on financing development after the post-2015 development agenda [Greenhill and Prizzon, 2012], and how the international donor community should respond to the new geography of global poverty where a major shift in the distribution of global poverty towards non-aid dependent middle-income countries from traditional low income countries has occurred [Kanbur and Sumner, 2011a; Sumner, 2010; 2011a; 2011b]⁷.

⁷ A new phenomenon has been uncovered [Sumner and Mallet, 2012] that in the 1990 over 90% of the world's extreme poor (\$1.25/day) lived in countries classified as 'low income countries' by the World Bank. In 2007 less than

Because the new development finance landscape continues to evolve and eludes precise definition, a convenient approach to a comprehensive understanding is to start with a simple taxonomy of development finance. **Figure 1** illustrates a development finance landscape for Asia Pacific.

Figure 1. Asia-Pacific: Development Finance Landscape, 2005 & 2010



Source: Bower [2013]

The Asia-Pacific development finance landscape documented by Bower mirrors what Greenhill and others [2013] found to be a similar trend globally: the substantial growth of development finance between 2000 and 2009 and the shift to non-traditional development finance from traditional development finance in the same period⁸. Taxes and non-tax revenues have become significant sources of development finance as economies grow and become more successful in domestic revenue mobilization. There has been a reduction of public external debt flows with domestic resources [tax and non-tax revenues] increasingly being used to finance development expenditures. This signifies a significant drop in dependence on foreign loans. The decline in private external debt flows and portfolio equity investments and the constancy of foreign direct investments in their respective share in development finance is

30% of the world's extreme poor lived in low income countries and more than 70% of the world's income poor lived in middle-income countries [MICs]. The usual mindset among donors is to reduce aid to MICs that can mobilize domestic resources for various development expenditures, and focus it to low income countries.

⁸ Greenhill and others [2013] define 'traditional development assistance' to mean assistance provided by traditional bilateral and multilateral donors that are members of the DAC and that conform to DAC norms and rules to varying degrees, and which meets standard official development assistance [ODA] definitions. Non-traditional development finance is defined as cross-border sources of finance provided with some public or philanthropic interest purpose, which have some associated level of concessionality but also have funding or delivery mechanisms that differ from those of traditional donors and may not meet ODA definitions – although some do. Included within this category are development assistance from non-DAC donors; philanthropic and institutional giving; social impact investment; global vertical funds; and climate finance.

noticeable. Official development assistance has slightly declined although it continues to be a strategic financing source for public goods and services that are not produced by the market. Remittances are a promising source of development finance for a few developing countries.

1.1 Objectives

The objectives of the Report are as follows:

(a) Take stock of current development finance by providing a broad comprehensive survey of development finance and aid scenario and potentialities in the Philippines in the next five to 10 years; and

(b) Provide policy recommendations and proposals for enhancements on development financing in the country.

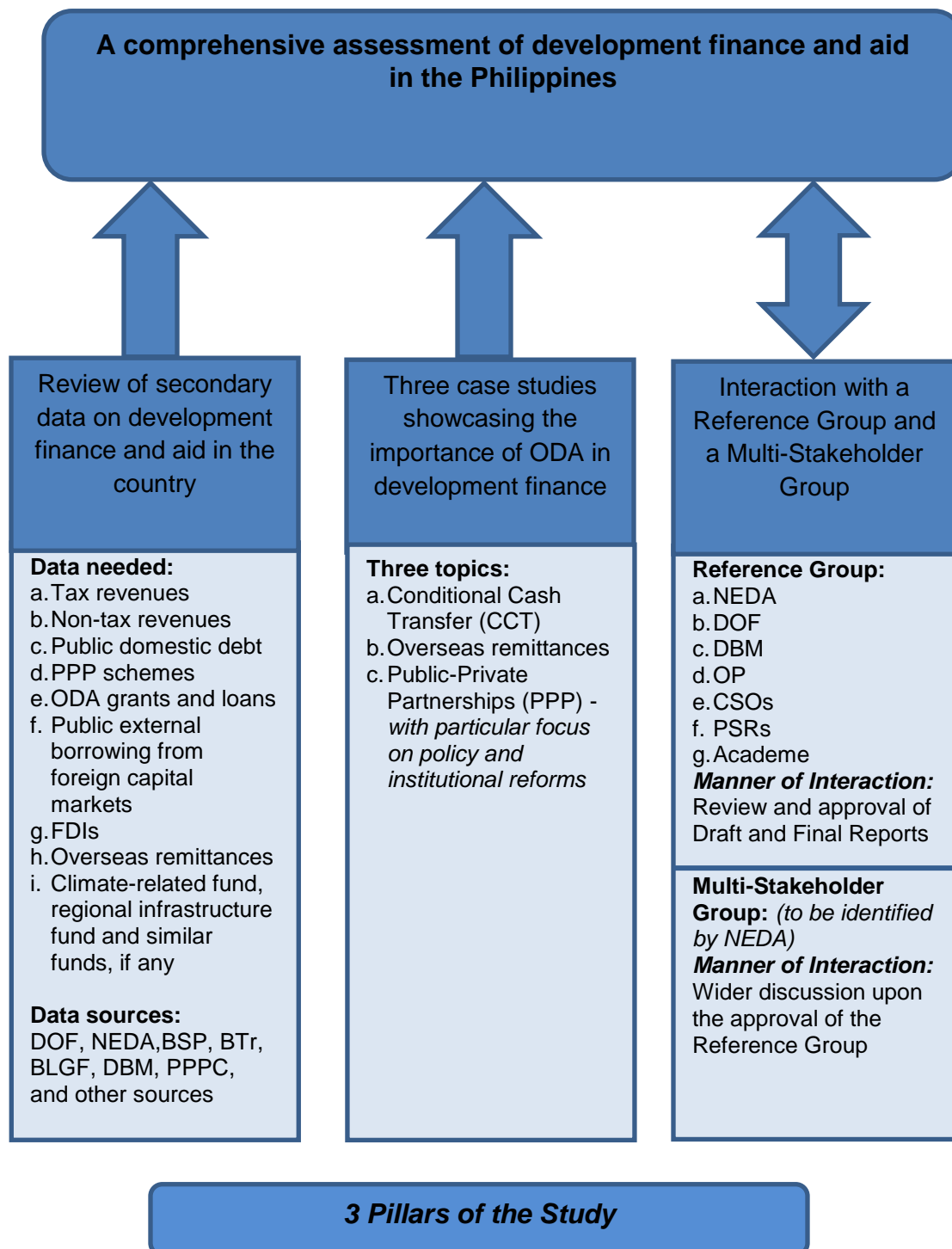
1.2 Scope, data and methodology

The study is a comprehensive assessment of development finance and aid in the Philippines supported by three pillars [**Figure 2**]: (a) a review of secondary data on development finance and aid in the country in the last ten years, (b) three case studies, and (c) workshops with a Reference Group⁹ and a Multi-Stakeholder Group (to be identified by NEDA) for suggestions and comments. The two case studies on the importance of ODA in development finance focus on the Conditional Cash Transfer [CCT] Program of the government and public-private partnership [PPP] for infrastructure development while the third case study is on remittances of overseas Filipino workers.

The Draft and Final Reports were presented to four workshops with the Reference Group and Multi-Stakeholder Group. Stakeholder consultations were an important pillar for this study because they provided a venue for building awareness on the issues discussed in the study, generating comments and suggestions to improve the study, providing access to data, especially unpublished data that had a bearing on development finance, and supporting the policy recommendations submitted by the study.

⁹ Composed of representatives from NEDA, DOF, DBM, OP, CSOs, PSRs, and Academe

Figure 2. Study Implementation Framework



2. GROWTH, POVERTY, GOVERNANCE

2.1 Recent growth performance¹⁰

The Philippines' recent economic performance has been remarkable amidst the lingering slowdown in the global economy and the devastation brought about by recent natural disaster¹¹. International credit rating agencies have maintained the rating upgrades given to the Philippines in view of distinctive improvements in the country's ranking in various global competitiveness reports¹². This could lead to a reduction in borrowing costs and making the Philippines a more attractive investment destination. The Philippine economy grew by 7.2 percent in 2013, a substantially higher performance than its 6.8 percent growth in 2012 [Table 1]. Philippine GDP growth averaged at 5.9 percent in the last three years [2011-2013], making it one of the better performing economies among developing countries. Strong macro-economic fundamentals (low and stable inflation, moderate interest rates and stable banking system, sustainable fiscal and external positions, political stability, good governance) underpin this performance. The economy is expected to continue with its record performance in 2014.

Table 1. GDP growth rates in the ASEAN, 2010-2015

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------|------|------|------|------|-------------|-------------|
| Brunei Darussalam | 2.6 | 2.2 | 1.3 | 1.2 | <i>n.a.</i> | <i>n.a.</i> |
| Cambodia | 6 | 7.1 | 7.3 | 7 | 7 | 7 |
| Indonesia | 6.1 | 6.5 | 6.2 | 5.8 | 5.3 | 5.5 |
| Lao PDR | 8.5 | 8 | 8.2 | 8 | 7.7 | 8.1 |
| Malaysia | 7.2 | 5.1 | 5.6 | 5.1 | 4.8 | 4.9 |
| Myanmar | 5.3 | 5.9 | 6.5 | 6.8 | 6.9 | 6.9 |
| Philippines | 7.6 | 3.6 | 6.8 | 7.2 | 6.5 | 7.1 |
| Singapore | 14.8 | 5.2 | 1.3 | 3.7 | <i>n.a.</i> | <i>n.a.</i> |
| Thailand | 7.8 | 3.1 | 4.8 | 5.9 | 4.5 | 5 |
| Viet Nam | 6.8 | 5.9 | 6.3 | 5.2 | 5.4 | 5.4 |

"n.a." means "not available."

Sources: World Bank, International Monetary Fund, Central Bureau of Statistics of Indonesia, Malaysian Institute of Economic Research, Philippine Statistics Authority, Department of Statistics-Singapore, Ministry of Trade and Industry-Singapore, Ministry of Finance-Thailand, General Statistics Office of Viet Nam. The 2012 and 2013 GDP growth

¹⁰ The reader is referred to a more detailed analysis in Navarro, A. and G. M. Llanto (2014) "Chapter 1" of the 2013 PIDS Economic Policy Monitor

¹¹ The devastation brought about by Typhoon Yolanda (Haiyan) and other calamities in 2013 failed to dampen the Philippine economy's strong growth momentum.

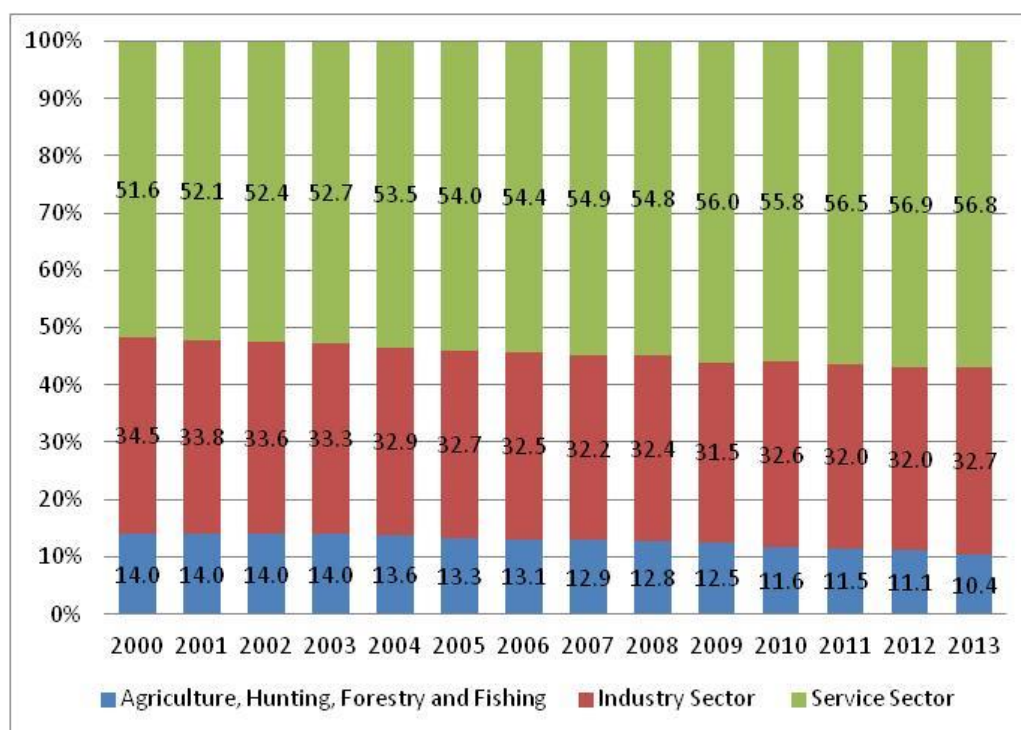
¹² The latest long-term sovereign credit rating was recently increased to BBB from BBB-, with a stable outlook by Standard and Poor's. Moody's Investors Service and Fitch Ratings upgraded the Philippines to investment grade in 2013. Moody's has a positive outlook on the sovereign credit. S&P rates the Philippines higher than Spain, Russia, Brazil and India. Overall, there is a growing optimistic outlook for the economy in the coming years in view of its expected major role in the forthcoming ASEAN Economic Community (AEC).

<http://www.bloomberg.com/news/2014-05-08/philippines-wins-s-p-upgrade-as-aquino-s-changes-seen-enduring.html> (accessed May 24, 2014)

rates of Brunei Darussalam and the 2013 GDP growth rate of Malaysia are IMF estimates. The 2013 GDP growth rates of Brunei Darussalam, Cambodia, Lao PDR, and Myanmar are World Bank estimates. The projected 2014 and 2015 GDP growth rates for all countries are based on World Bank forecasts.

The Philippines' growth in 2013 was mostly due to the strong growth of the industry and services sector on the supply side and more vigorous investment spending on the demand side. Philippine growth has relied on the services sector in recent years but the industry sector, comprised of mining and quarrying, manufacturing, construction, electricity, gas and water sub-sectors are registering, albeit slowly, good performance as well [Figure 3]. This trend continues as the manufacturing and service sectors continue to improve. The manufacturing subsector has been the major contributor to the industry sector's growth. Manufacturing rose from 5.4% in 2012 to 10.5% in 2013. The growth of services and manufacturing are critical because they are expected to absorb surplus labor in the agriculture sector and thus, promote more inclusive growth. **Annex Table 1** provides more details on the National Income Account.

Figure 3. Gross Domestic Product by Industrial Origin (percentage share), 2000 to 2013



Source of raw data: Philippine Statistical Yearbook

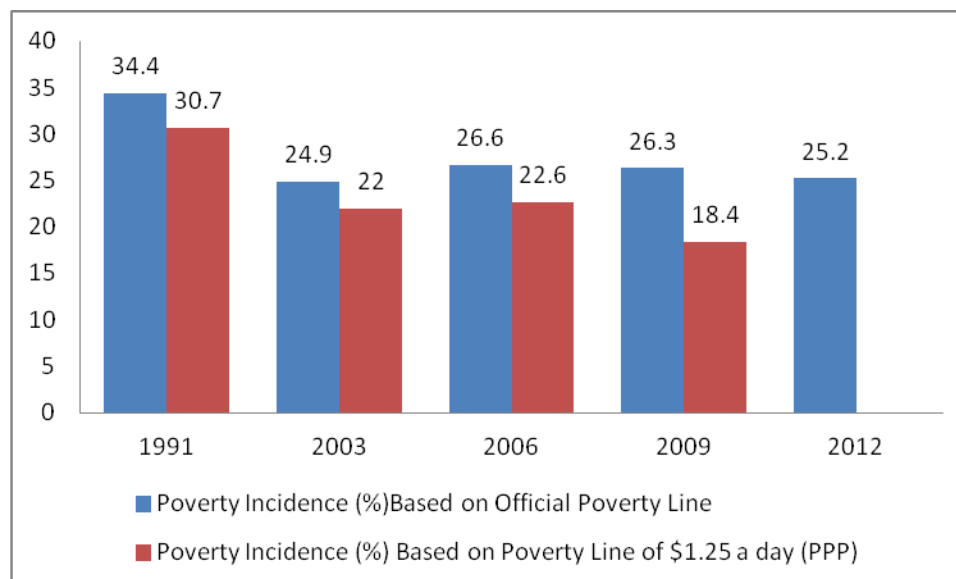
In terms of trade, both total values of imports and exports grew by 2.7% and 7.9%, respectively. From 2011 to 2012, imports went up from US\$ 60.5 billion [F.O.B. value¹³] to US\$ 62.1 billion; while exports increased from US\$ 48.3 billion to US\$ 52.1 billion in 2012 [20.8% of GDP]. The Philippines has exploited opportunities in intra-ASEAN trade, which has flourished and has shown complementarities among ASEAN economies, and also on East Asian trade, which has become an important driver of growth in the trade sector. **Annex Tables 2 and 3** provide information on the status of international trade and the country's major trading partners.

Relative to the growth goal stated in the *Philippine Development Plan 2011-2016* [Government of the Philippines 2011], the economy's performance in the past years and the outlook for the short and medium term seem to suggest that the Philippines is making a significant headway in sustaining growth. However, amidst the positive prognosis of economic growth, relatively high poverty incidence and income inequality continue to be critical challenges to overcome.

2.2 Poverty and inequality

Despite recent rapid growth, the economy continues to face high poverty incidence and income inequality [estimated Gini coefficient of 0.4484 in 2009]. **Figure 4** shows that poverty incidence has declined but still around 20 percent of Filipinos are income-poor based on the internationally comparable poverty line of \$1.25 dollars a day in purchasing power parity [PPP] terms. The poverty incidence decreased from 26.3 percent in 2009 to 25.2 percent in 2012. However, the decrease is very slow and has not been significant.

Figure 4. Poverty Incidence (%) Based on Official Poverty Line and Poverty Line of \$1.25 a day



Source: Philippine Statistics Authority, World Bank [2012]

¹³ The succeeding values mentioned in relation to exports and imports pertain to their F.O.B. value.

Overall, poverty incidence among families in the country declined to 19.7 percent in 2012. However, there are significant differences in poverty incidence by geographic locations [Table 2]. The National Capital Region [NCR], the main location for major economic activities, with the largest presence of manufacturing and services where most formal jobs are created, has lowest poverty incidence in the country at 2.6 percent. Almost every region experienced some improvement in poverty reduction except for Regions VIII, XII, NCR, and the Autonomous Region Muslim in Mindanao [ARMM].

Table 2. Poverty Incidence by Region, Philippines

| Region | Poverty Incidence among Families (Estimates %) | | | | Change in % (2006 to 2009) | Change in % (2009 to 2012) |
|--------------------|---|-----------|-------------|-------------|-------------------------------|-------------------------------|
| | 1991 | 2006 | 2009 | 2012 | | |
| Philippines | 29.7 | 21 | 20.5 | 19.7 | (0.5) | (0.8) |
| NCR | 5.3 | 2.9 | 2.4 | 2.6 | (0.5) | 0.2 |
| CAR | 36.7 | 21.1 | 19.2 | 17.5 | (1.9) | (1.7) |
| Region I | 30.6 | 19.9 | 16.8 | 14 | (3.1) | (2.8) |
| Region II | 37.3 | 21.7 | 20.2 | 17 | (1.5) | (3.2) |
| Region III | 18.1 | 10.3 | 10.7 | 10.1 | 0.4 | (0.6) |
| Region IV-A | 19.1 | 7.8 | 8.8 | 8.3 | 1.0 | (0.5) |
| Region IV-B | 36.6 | 32.4 | 27.2 | 23.6 | (5.2) | (3.6) |
| Region V | 48 | 35.4 | 35.3 | 32.3 | (0.1) | (3.0) |
| Region VI | 32.3 | 22.7 | 23.6 | 22.8 | 0.9 | (0.8) |
| Region VII | 38.2 | 30.7 | 26 | 25.7 | (4.7) | (0.3) |
| Region VIII | 42.3 | 33.7 | 34.5 | 37.4 | 0.8 | 2.9 |
| Region IX | 36.4 | 40 | 39.5 | 33.7 | (0.5) | (5.8) |
| Region X | 42.6 | 32.1 | 33.3 | 32.8 | 1.2 | (0.5) |
| Region XI | 34.1 | 25.4 | 25.5 | 25 | 0.1 | (0.5) |
| Region XII | 47.4 | 31.2 | 30.8 | 37.1 | (0.4) | 6.3 |
| Caraga | 48.5 | 41.7 | 46 | 31.9 | 4.3 | (14.1) |
| ARMM | 26.9 | 40.5 | 39.9 | 48.7 | (0.6) | 8.8 |

Source: PSA-NSCB, Bureau of Labor and Employment Statistics [BLES]

In terms of poverty incidence by basic sector, the most recent data show that poverty incidence remains high in the agriculture and fisheries sectors, i.e. 36.7 percent and 41.4 percent, respectively. The decline in magnitude of poor farmers and fishermen may be due to movement to other more remunerative sectors. Those who remained in these sectors have

remained poor [Table 3]. The obduracy of poverty and income inequality to economic growth is largely due to the economy's slow structural transformation that has affected its ability to create jobs and absorb increases in a relatively young and growing labor force. Significant areas of future reform are structural factors as well as policy barriers that constrain inclusive growth.

Table 3. Poverty Incidence and Magnitude of Poor by Basic Sector, Philippines

| Basic Sectors | 2003 | | 2006 | | 2009 | | Change (06 to 09) | |
|---|-------------|-----------|-------------|-----------|-------------|-----------|----------------------|-----------|
| | MP (000) | PI (%) | MP (000) | PI (%) | MP (000) | PI (%) | MP (000) | PI (%) |
| Women | 9,605 | 24 | 10,691 | 25.1 | 11,170 | 25.1 | 4.5% | 0 |
| Youth | 4,280 | 19 | 4,851 | 20.8 | 5,367 | 21.8 | 10.6% | 1.0 |
| Children | 11,364 | 32.7 | 12,273 | 34.8 | 12,415 | 35.1 | 1.2% | 0.3 |
| Senior Citizens | 793 | 15.1 | 1,035 | 16.2 | 1,181 | 15.8 | 14.1% | (0.4) |
| Individuals Residing in Urban Areas | 4,429 | 11.1 | 5,311 | 12.5 | 5,709 | 12.8 | 7.5% | 0.3 |
| Migrant and Formal Sector Workers | 2,284 | 14.6 | 2,599 | 15.7 | 3,119 | 16.7 | 20.0% | 1.0 |
| Farmers | 1,768 | 37 | 1,773 | 37.2 | 1,685 | 36.7 | -5.0% | (0.5) |
| Fishermen | 356 | 35 | 400 | 41.4 | 346 | 41.4 | -13.5% | 0 |
| Self-employed and Unpaid Family Workers | 3,941 | 28 | 4,116 | 29.4 | 4,186 | 29 | 1.7% | (0.4) |
| Employed Population (Working Poor) | 6,704 | 21.6 | 7,255 | 22.1 | 7,881 | 22.4 | 8.6% | 0.3 |
| Unemployed | - | - | 372 | 15.8 | 465 | 17.3 | 25.0% | 1.5 |

Source: PSA-NSCB, 2009 Official Poverty Statistics for the Basic Sectors¹⁴

Development finance and aid have a great role to play in financing anti-poverty programs and economically productive opportunities that will create jobs and improve the income status of poor households. The establishment of funds that will address the impact on households and firms of climate change, environmental issues, health pandemics and natural

¹⁴ Notes:

PI – Poverty Incidence; MP – Magnitude of the Poor

Definitions:

Women - an individual whose declared sex is female.

Youth - individuals 15 to 30 years old.

Senior Citizens- individuals 60 years old and above.

Individuals Residing in Urban Areas- an individual residing in an urban area whose income falls below the official poverty threshold.

Migrant and Formal Sector Workers - individuals who are overseas contract workers (OCWs) or workers other than OCWs or employed persons working for private establishments and government organizations and corporations.

Farmers - employed individuals 15 years old and over whose primary occupation is farming and plant growing or animal production.

Fishermen - employed individuals 15 years old and over whose primary occupation is fishing.

Self-employed and Unpaid Family Workers - employed individuals 15 years old and over who are either self employed or worked without pay on family owned business.

Employed Population - individuals who are 15 years and over, who during the reference period are reported either at work or with a job but not at work.

Unemployed - individuals who are 15 years and over who during the reference period are reported without work and currently available for work and seeking work.

disasters could be very important interventions as poor households and micro-enterprises [characterized as “bottom of the pyramid” enterprises] tend to be more negatively impacted by such natural and man-made disasters and environmental degradation. Including a spatial dimension in development interventions directed at poverty reduction will also improve targeting and monitoring of the impact of those interventions. As discussed below the inclusion of a spatial dimension in the Philippine Development Plan 2011-2016, the government’s new budgeting framework, and the deployment of development finance and aid will all improve resource allocation and targeting of development interventions.

2.3 Governance

The Philippines is recognized as an emerging major player in the ASEAN region because of its strong economic performance, improvement in governance and institutions, and a generally educated young population. It has continued with efforts to improve governance and maintain an open attitude to policy and institutional reforms. The drive for governance is supported by various constituencies of reforms such as netizens in social media, civil society and others who use the country’s democratic space to keep vigil over government performance. Strong public consciousness of the importance of governance has a lasting and positive influence on the behavior of policy makers and the bureaucracy.

The government has pursued reforms in the fiscal sector (widening the tax base, raising taxes on sin products, amending value-added taxation) and in governance (rooting out corruption in the Bureau of Internal Revenue and Bureau of Customs, the main revenue-collecting agencies of the government, running after tax evaders, filing cases against erring legislators involved in pork barrel scams). Other critical reforms are the following: building a stronger link between the Philippine Development Plan and the development budget, providing a development budget that is predictable and sufficiently supported by resources, and ensuring greater accountability among government agencies through suasion, more effective reporting and use of measurable performance indicators. The governance and reform efforts have resulted in a strong macroeconomic framework that has provided stability and investor confidence, priming the economy for sustained growth. The reforms have allowed a substantial expansion of investments in human capital- health and education expenditure- under the Conditional Cash Transfer (CCT) Program, and in social protection (universal health insurance coverage), and infrastructure¹⁵.

The economic outlook is positive in the short and medium term. There is wide room for growth and productivity improvements in agriculture, industry and the service sectors to propel

¹⁵ The two major anti-poverty and social protection programs of the government are (i) the Conditional Cash Transfer [CCT] program, and (ii) the National Health Insurance Program [NHIP]. The CCT aims to reduce poverty by encouraging the poor households to seek health care (i.e. maternal and child health care) and increasing the school participation rate of poor children (i.e. from pre-school to high school). The targeted beneficiaries are eligible to receive the cash grants so long as they comply with the conditions set by the government. The NHIP, implemented by the Philippine Health Insurance Corporation aims to provide universal health insurance coverage to all Filipinos.

growth. In the medium term, despite some risks¹⁶ GDP growth is likely to be sustained by increasing investments and consumption as drivers of growth¹⁷. Assuming recovery among OECD countries, further growth in intra-Asian and intra-ASEAN trade and investments, and strengthening of the domestic market, the Philippine economy is well positioned for higher growth in the medium term.

The growth levers will continue to be higher level of investments in infrastructure and human capital, productivity growth in agriculture and manufacturing, especially small and medium enterprises, and greater regional integration and openness of the economy¹⁸. The service sector has been a major source of growth but the economy needs more investments, including infrastructure investments and greater productivity in manufacturing and agriculture to sustain growth and absorb a rapidly expanding labor force into quality and productive jobs. The service sector alone cannot create the jobs required by an expanding labor force. Moreover, reducing poverty and inequality will require huge investments in human capital and direct interventions such as social protection schemes especially for the marginalized sector and the vulnerable. As stated above, the government's inclusive growth strategy and agenda have to be complemented by a supportive development finance framework.

3. POLICY, INSTITUTIONAL FRAMEWORK AND FLOWS

3.1 Policy and institutional framework

Everything starts from the Philippine Development Plan [PDP]. The current Philippine Development Plan [2011-2016] identifies the country's development challenges: how to sustain rapid growth and make it more inclusive. The economy performed well in the past decade but the growth experience has not translated to a significant reduction of poverty and inequality. To make growth more inclusive, the Plan indicates various development policies, projects and programs that will address the binding constraints to growth and poverty reduction.

A development budget enacted each fiscal year translates the goals and priorities established in the PDP into programs, activities, and projects [PAPs] that have to be supported by responsive development finance. Two Cabinet level committees, namely, the Development Budget Coordinating Committee [DBCC] and the Investment Coordination Committee [ICC]

¹⁶ Some of downside risks are the following (i) continued economic malaise in OECD countries due to weak fiscal positions and the lingering effects of the global financial crisis, (ii) economic and political shocks such as those coming from the unstable Middle East region that could disrupt oil supply and price, and (iii) volatile capital flows affecting developing countries.

¹⁷ A regional economic update by the ADB [2014] indicates an improvement in the external environment through 2015 with the US, Japan and Eurozone showing signs of economic recovery with increased demand sparking a rise in global trade reversing the slowdown in manufacturing production. Asian Development Bank [2014], Asian Economic Integration Monitor [April].

¹⁸ In the past, low productivity in the agricultural sector and the failure of the manufacturing sector to adjust and exploit relative comparative advantage in a globalized market place have resulted in very slow structural transformation, trapping millions in unproductive activities and constraining job creation.

ensure that there is a clear correspondence or link between desired development outcomes and outputs delivered by PAPs¹⁹.

The government uses a national budgeting framework [Figure 5] to ensure the delivery of desired development outcomes²⁰. Under this framework, domestic resources [tax and non-tax revenues, domestic borrowing] and foreign resources [borrowing from foreign capital markets, official development assistance] finance PAPs that produce major final outputs to achieve sectorial outcomes. The Presidency establishes priority areas to achieve societal goals [desired development outcomes]. At the core of the budgeting process, therefore, is the link between resources, PAPs, outputs, and outcomes. The government currently favors more domestic than foreign borrowing to finance the fiscal deficit. It envisions a balanced budget in the near future.

Under this national budgeting framework, each government agency defines its target major final outputs, that is, goods or services that an agency delivers to its clients, based on the mandate set for it by law or executive fiat. The agency's target organizational outcomes that are envisioned to deliver long-term benefits to a sector, e.g., agriculture, must be aligned with the priority areas that are established by the Presidency and are communicated to the people at the beginning of an administration and are articulated in the Philippine Development Plan²¹. **Annex B.2** shows the priority programs and geographical areas identified by National Budget Memorandums for FY 2014 and FY 2015, respectively.

Figure 5. Framework for National Budgeting



Source: Department of Budget and Management 2014 *People's Budget*.

¹⁹ The DBCC and ICC are two cabinet level committees under the National Economic and Development Authority Board. The NEDA Board is chaired by the President of the Philippines with key department secretaries [ministers] as members. The DBCC consists of the DBM Secretary [chair], the Secretary of Socio-economic Planning (also the Director-General of the National Economic and Development Authority [NEDA]), as co-chair, and the Executive Secretary, Secretary of Department of Finance [DOF] and the Governor of the Bangko Sentral ng Pilipinas [BSP], as members. The ICC is composed of the following: DOF Secretary [chair], NEDA Director-General [co-chair], and as members, the Executive Secretary, the Governor of the BSP, and the Secretaries of the DA, DTI, and DBM.

²⁰ The government utilizes this national budgeting framework to achieve three objectives (i) aggregate fiscal discipline or spending within government's means; (ii) allocative efficiency, or spending on the right priorities; and (iii) operational efficiency, or spending with maximum impact [DBM 2013].

²¹ The current plan is the Philippine Development Plan 2011-2016. Development plans in previous administrations were called the Medium-Term Philippine Development Plan.

The DBM uses a Medium Term Expenditure Framework [MTEF], a three-year rolling expenditure framework to establish greater certainty in funding multi-year projects. Based on macroeconomic estimates, e.g., GDP growth rate, inflation, produced by government planners, the DBCC comes up with forward estimates of fiscal resources and expenditures on three year horizon and defines sectorial budget ceilings. The DBCC then assesses the requirements for domestic and/or foreign borrowing to support the budget. The MTEF has been useful in assessing risks to the fiscal outlook and the sustainability of public sector debts. It has also been useful to government implementing agencies as it motivates a forward looking attitude given the discipline required in preparing forward estimates and linking their own investment programming process with the MTEF.

A key part of the budgeting process is the requirement to an implementing agency to secure an Investment Coordination Committee [ICC] clearance prior to approval and commitment of funding of major developmental projects or programs which could have fiscal, monetary and balance of payment implications, whether those project or programs are to be financed by domestic or external resources.

For projects that are to be funded for more than a year, the implementing agency seeks a Multi-Year Obligational Authority [MYOA] from the DBM, a commitment that the funding requirement has been included in the long-term capital program of the national government. The MYOA enables an agency to enter into a multi-year contract for implementing a project or program [DBM, 2010].

The updated Philippine Development Plan 2011-2016 introduces the spatial dimension in planning and budgeting. Recognizing that provinces have different constraints to growth partly due to differences in their location and initial endowments, the updated Philippine Development Plan (PDP) adopts a spatial focus for matching provinces to development strategies and interventions. The government's novel approach takes provinces as the spatial platform for various interventions designed to address deep poverty and inequality in the country. The updated PDP established a new poverty reduction roadmap that groups provinces into three categories, identifies the priority provinces for each category and maps out distinct development strategies (**Annex B.3**).²² This spatial dimension is supported by DBM's Budget Priorities Framework (BPF) where programs and projects to be funded are matched to the focus or convergence areas enumerated in the BPF. The same principles of using spatial dimension and matching programs, activities, and projects can applied to ODA funded projects. **Annex B.4** lists the budget preparation guidelines under the BPF.

The ODA programming, review and clearance procedures have been institutionalized and the oversight agencies have developed the organizational adeptness to review, approve, and monitor projects or programs funded by ODA. Proponent agencies have also institutionalized project preparation procedures to comply with the review and clearance requirements, although project quality-at-entry is still a recurring problem. The government has in place a monitoring and evaluation system for development finance under the NEDA Monitoring and Evaluation Staff (NEDA-MES). The NEDA-MES has developed an excellent

²² See Chapter 2, Policy Updates and Developments, PIDS 2013 Economic Policy Monitor .

track record in monitoring loan disbursement and project implementation. An effective monitoring and evaluation system will provide critical information at each stage of the project cycle that can be used to improve project implementation. This points to the need to build the NEDA-MES capacity in conducting evaluation or assessment studies as a tool for monitoring multi-year, programs that are funded by ODA and non-ODA (e.g., budgetary resources) sources. The information from an effective monitoring and evaluation system will be useful in planning, programming, and budgeting for projects.

An important dimension of effective development finance is the coordination and harmonization of donor and government policies, strategies and development interventions. An important venue for communicating and discussing development priorities and interventions that has proven effective in the past years is the Philippines Development Forum (PDF),²³ an interactive discussion platform where the government regularly meets with the donor community, civil society and other stakeholders (**Annex B.5**)²⁴.

3.2 A mapping of development finance flows

Figure 6 shows a mapping of the development finance landscape in the Philippines. A broad sweep of the Philippine development finance landscape suggests a wide array of sources of finance, broadly classified as domestic and external or cross-border flows. Domestic development finance can either be public or private. Under public development finance are tax revenues, non-tax revenues, public domestic borrowing, and public-private partnerships. Under private development finance are the following: private domestic borrowing, corporate social responsibility programs or projects linked to development activities, e.g., environmental protection in mining areas, and inclusive business like mobile financial services by rural banks.

External development finance is similarly divided into public and private. Under external public development finance are the following: ODA, borrowing from capital markets, climate related finance, regional infrastructure fund. Under external private development finance are foreign direct investments, overseas Filipino workers' remittances, and borrowing from the capital markets.

²³ For example, in the past, budgeting strategies, principles, and implementation tools (such as the Medium-Term Expenditure Framework, Agency Major Final Outputs, and Organizational Performance Indicator Framework) were discussed and given support through formal meetings and workshops under the Philippine Development Forum (PDF).

²⁴ The Forum evolved from Consultative Group meetings, which were held every 18 months or so among the government and members of the international development partners' community, which together comprised the Philippine Consultative Group (CG). The CG was co-chaired by the Philippine government (represented by the Department of Finance) and the World Bank. In 2004, while planning for the March 2005 CG meeting, it was agreed by the government and the World Bank that there was benefit in widening the participation in the meetings and bringing other stakeholders (such as civil society, academe, private sector, and legislative representatives) into the dialogue. It was also agreed that the CG Meeting should be more a part of an ongoing dialogue rather than just an annual event. Thus, the format of the CG Meeting was restructured, and the Philippine Development Forum process was launched. Majority of partners indicated the desire to hold the main PDF event every 12 months or so. Source: <http://www.pdf.ph/> (date accessed May 24, 2014)

The emergence of new sources of development finance such as PPPs, regional infrastructure fund and climate-related funds has added new financing instruments to address problems of infrastructure and impacts of climate change, respectively.

From the perspective of development finance, the Philippines is currently in a ‘sweet’ spot, so to speak, because of the availability of bigger volumes of development finance that was not the situation many years ago. This phenomenon is explained, among others, by (a) an improving fiscal position brought about by fiscal reforms and good governance, (b) credit rating upgrades that have lowered the cost of foreign borrowing and have constituted a seal of good housekeeping, (c) strong commitments made by the international donor community to keep development finance flowing, (d) an improving private financial markets in a regime of low inflation, financial stability and liquidity, (e) continuing stream of substantial amounts of remittances from overseas Filipino workers, and (f) strong economic performance, which has started to attract more foreign direct investments.

Figure 6. Development and Finance Aid Flows in the Philippines

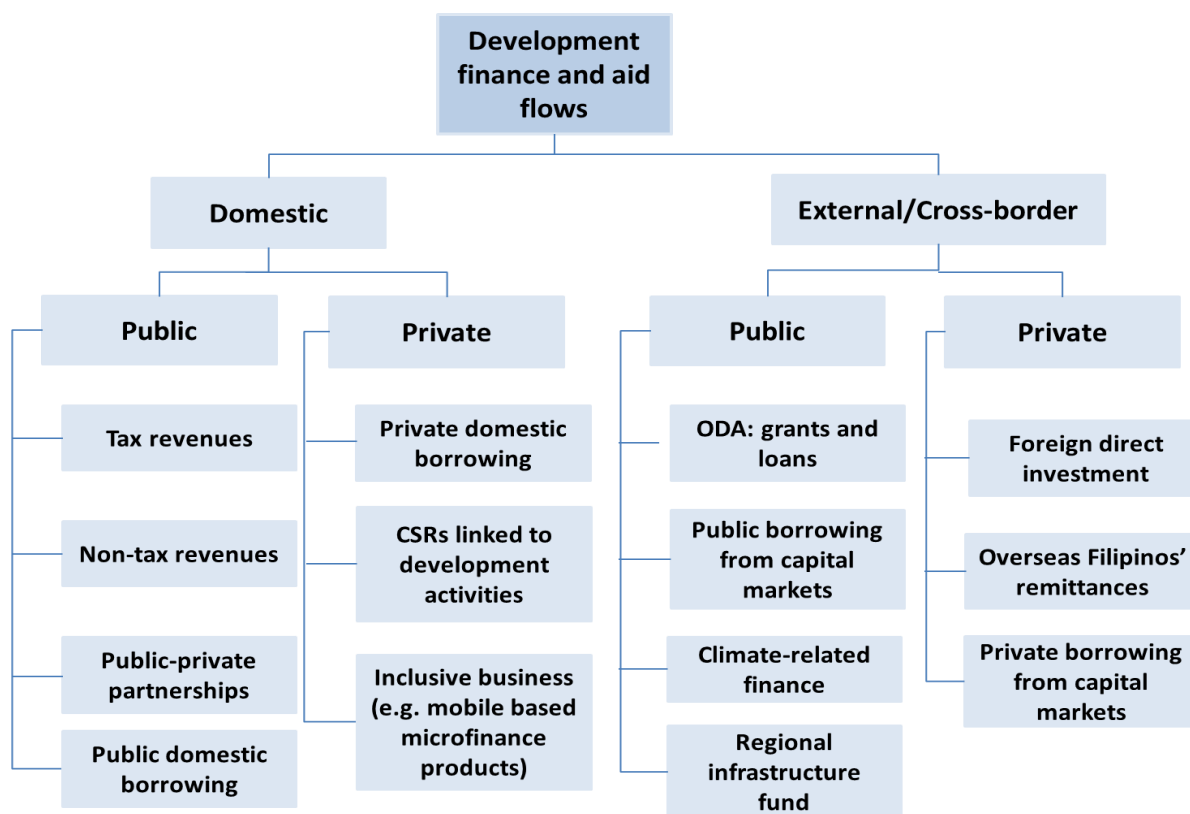


Figure 7 shows an overall picture of development finance flows in the Philippines relative to GDP. Meanwhile, **Figure 8** illustrates development finance in relative sizes [magnitude in billion pesos]. As can be seen, domestic credit provided by financial institutions has been the major source of development finance of the country. From 2000 to 2013, it rose by

157.3 percent [based on nominal figures]. These are loans provided to the private sector by the financial market. A recent report by Standard and Poor's [2014] predicts that the Philippine banking system will remain stable in 2014 as loans would grow by 10 to 15 percent this year. Such positive outlook can be largely attributed to the strong performance of the local economy and a regime of low inflation and low interest rates. Moreover, various policy and regulatory reforms including the recent passage of Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines," have provided the framework for competitive financial services required by a growing economy.

National government revenue effort [ratio of tax and non-tax revenues to GDP] shows some improvement and is expected to further improve because of government's continuing drive for more effective taxation²⁵.

A major source of development finance is the tax and non-tax revenues, which had increased substantially from PHP 513.4 billion [USD 12.1 billion] in 2000 to PHP 1,715.8 billion [USD 40.4 billion] in 2013 [Figure 8 A]. Other sources of development finance²⁶ as shown in Figure 8 [A] include the following: (i) project and program loans, which have remained substantially the same from 2000 to 2013; (ii) grants²⁷; (iii) other national government (i.e. domestic and external) borrowings, that is net borrowings,²⁸ (iv) remittances,²⁹ a consistently strong and reliable inflow of resources from overseas Filipinos, and (v) FDIs, which have also significantly increased.

Figure 8 [B] provide information on (i) local government (LGU) revenues, less internal revenue allotment (IRA) and inter-local transfers in 2001 and 2012 and (ii) net flows on external debt in 2000 and 2012³⁰. LGU revenues rose in 2013 but they are negligible relative to other sources of development finance. Meanwhile, net flows on external debt experienced a slight increase³¹ in 2012 as compared with those in 2000. Both public and private external debt as a percentage of GDP has been declining since 2004 [Please Annex Figure 1].

²⁵ It is noted that local government revenues from local taxes and other local impositions were included in Figures 7 and 8 to stress the importance of revenue mobilization by the national government.

²⁶ These resources, including the tax and non-tax revenues, will be further discussed in Section 5.1.

²⁷ According to the Bureau of Treasury, majority of these grants were received from multi-lateral and bilateral institutions (donor community).

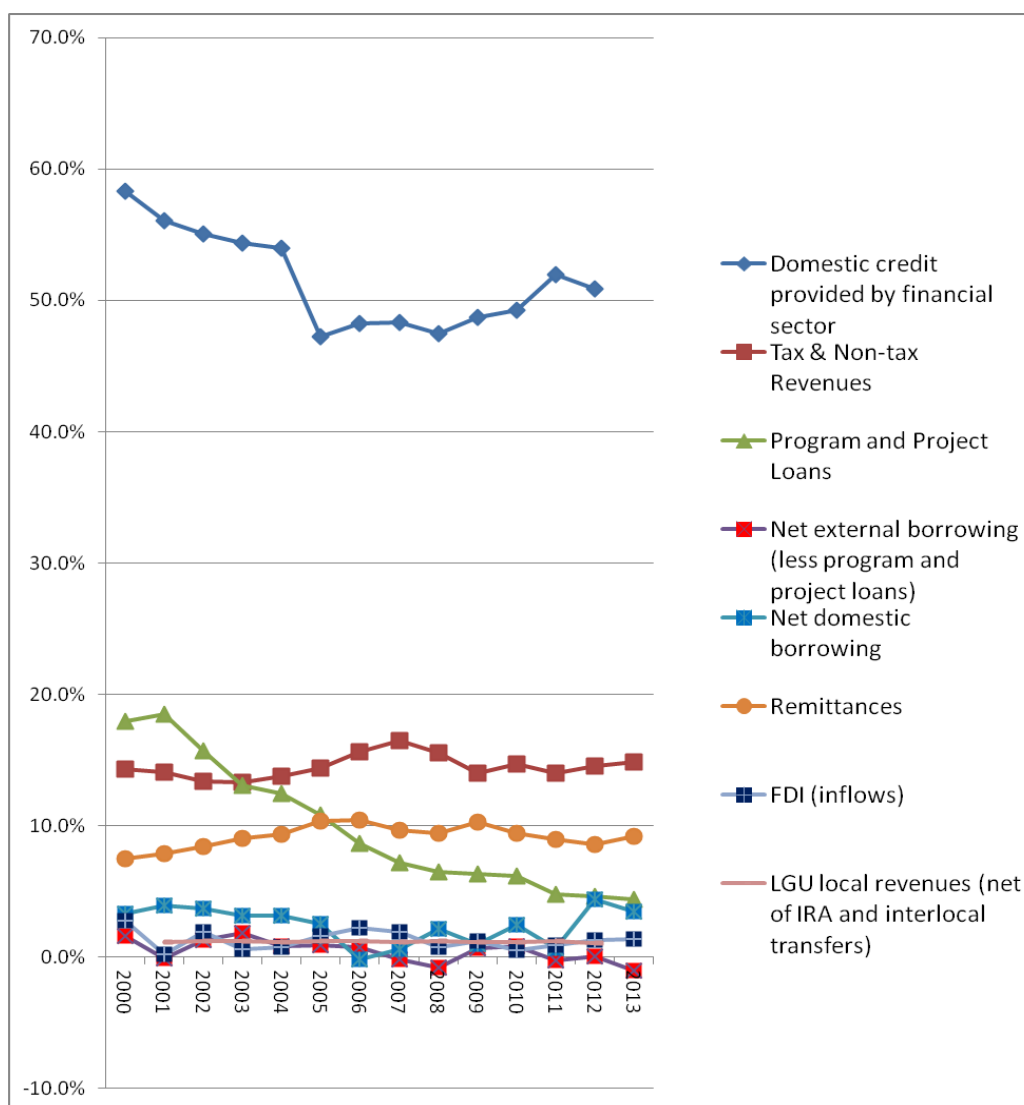
²⁸ Net borrowings mean is defined as the gross amount of borrowings less amortization. As for net external borrowing, the amount of project and program loans has been also deducted to avoid double counting.

²⁹ Overseas remittances coursed through banks.

³⁰ These figures were separated in the overall chart because they pertain to different timeline.

³¹ Net flows on external debt are disbursements on long-term external debt and IMF purchases minus principal repayments on long-term external debt and IMF repurchases up to 1984. Beginning in 1985 this line includes the change in stock of short-term debt (including interest arrears for long-term debt). Thus, if the change in stock is positive, a disbursement is assumed to have taken place; if negative, a repayment is assumed to have taken place. Long-term external debt is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents by residents of an economy and repayable in currency, goods, or services. Data are in current U.S. dollars.

Figure 7. Philippine Development Finance Flows, as % of GDP, 2000-2013



Sources:

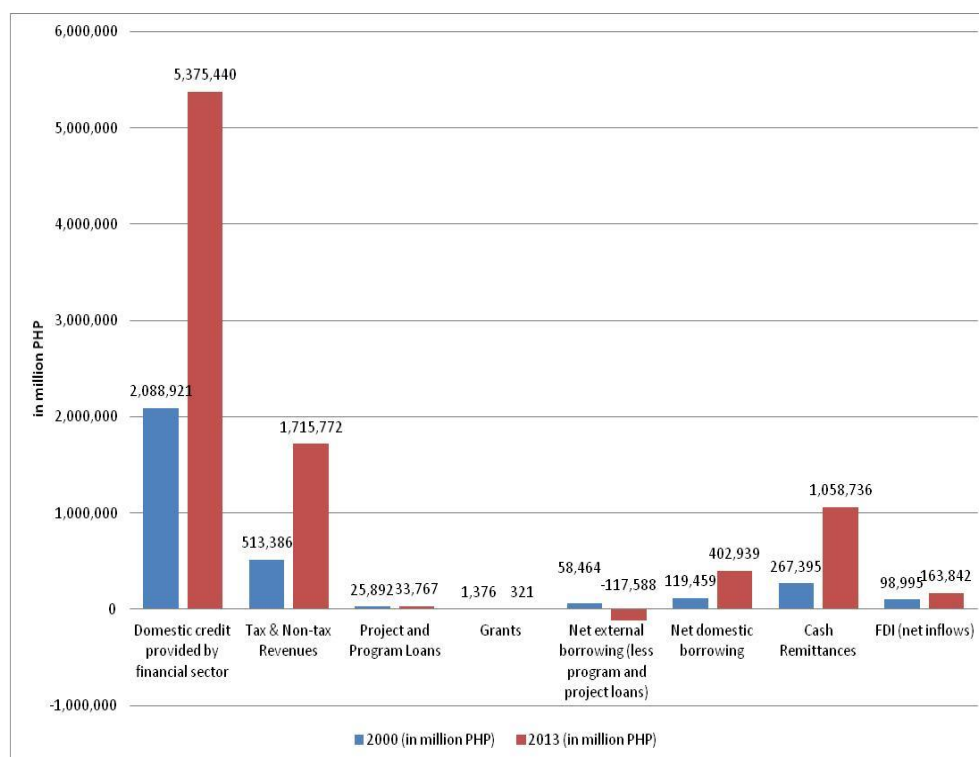
World Bank: Domestic credit provided by financial sector; FDI (inflows); Net flows on external debt

Bureau of Treasury (BTr): Tax and non-tax revenues, Other NG borrowings: Net borrowings (less program and project loans)

Bureau of Local Government Finance: Local government unit (LGU) revenues (net of internal revenue allotment and interlocal transfers)

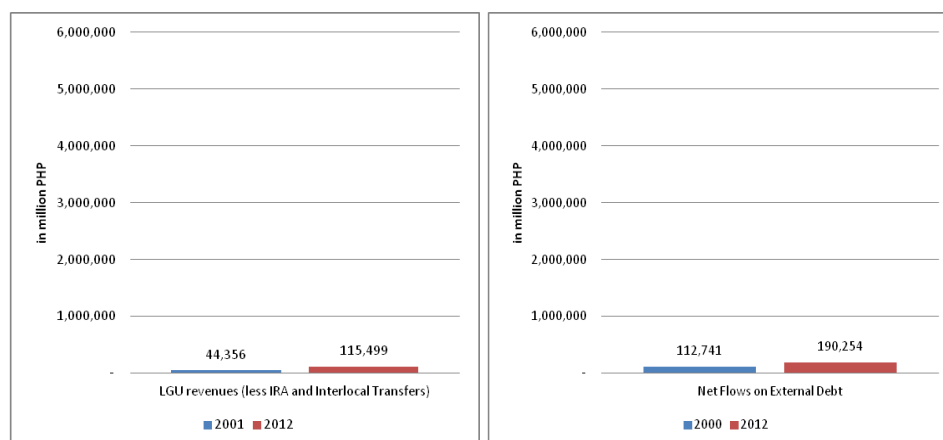
Figure 8. Relative Sizes of Development Finance (nominal figures)

- A. Domestic credit provided by financial sector, tax and non-tax revenues, project and program loans, grants, other national government (NG) borrowings, cash remittances, FDI net inflows (2000 vis-à-vis 2013)**



Source of raw data: World Bank, BTr, NEDA, BSP, BLGF

- B. LGU revenues, less IRA and Inter-local transfers (2001 vis-à-vis 2012) and Net flows on External Debt (2000 vis-à-vis 2012)**



Sources: BLGF, World Bank

3.3 Public revenues

Recent reforms in tax collection and administration, budget policy and expenditure management have created a relatively wider fiscal space to accommodate development expenditures³². The substantial reduction in the government's fiscal deficit from 3.7 percent of GDP in 2009 to 1.4 percent of GDP in 2013 has resulted in a major improvement in the government's fiscal position. Details are given in **Annex Table 4**]. During the same period many countries, developed and developing, were struggling to contain runaway government spending. In the last three years, substantial improvements in revenue collection, particularly through amendments to value added taxation and sin taxes have provided fiscal space to sustain increases in public spending and have enabled the fiscal deficit to remain within the target range.

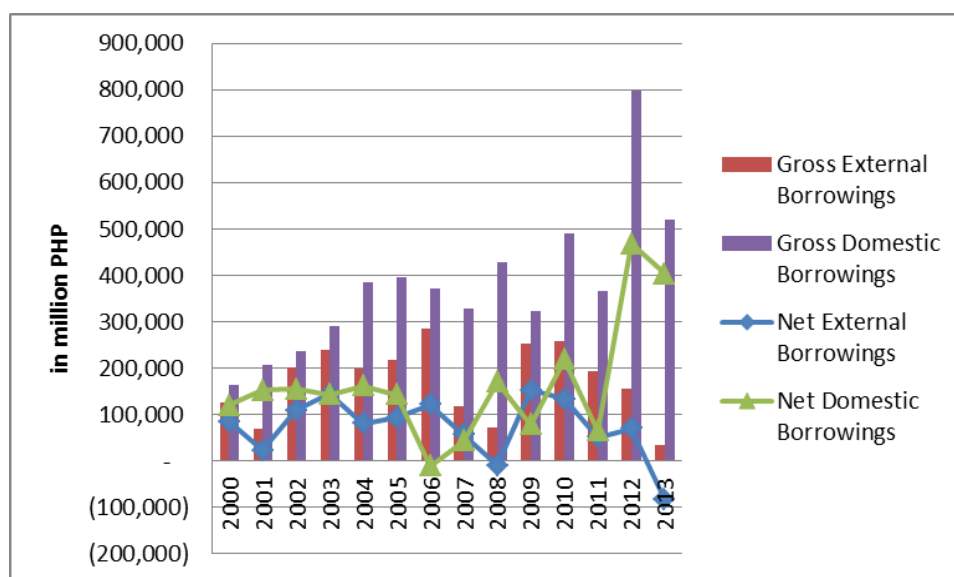
3.4 Government borrowing

The government has been less reliant on external borrowings in recent years [**Figure 9**]. From PHP 156,620 million [USD 3,689.9 million] in 2012, gross external borrowing went down to PHP 33,767 million [USD 795.5 million] in 2013. Meanwhile, domestic borrowing also declined from PHP 798,527 million [USD 18,812.7 million] in 2012 to PHP 529,934 million [USD 12,272.8 million] in 2013; nonetheless, it is evident that the percentage share of the domestic borrowing to total borrowing has been increasing since 2009.

For several years, global bonds had been one of the major sources of external borrowing of the Philippines [**Figure 10**]. However, in 2012, it has been replaced by RP bonds which comprised 61.8 percent of the gross external borrowing. In 2013, the remaining sources were the ODA [program and project loans] which amount to PHP 20,611 million [USD 485.6 million] and PHP 13,156 million [USD 311 million], respectively [Bureau of Treasury, 2014].

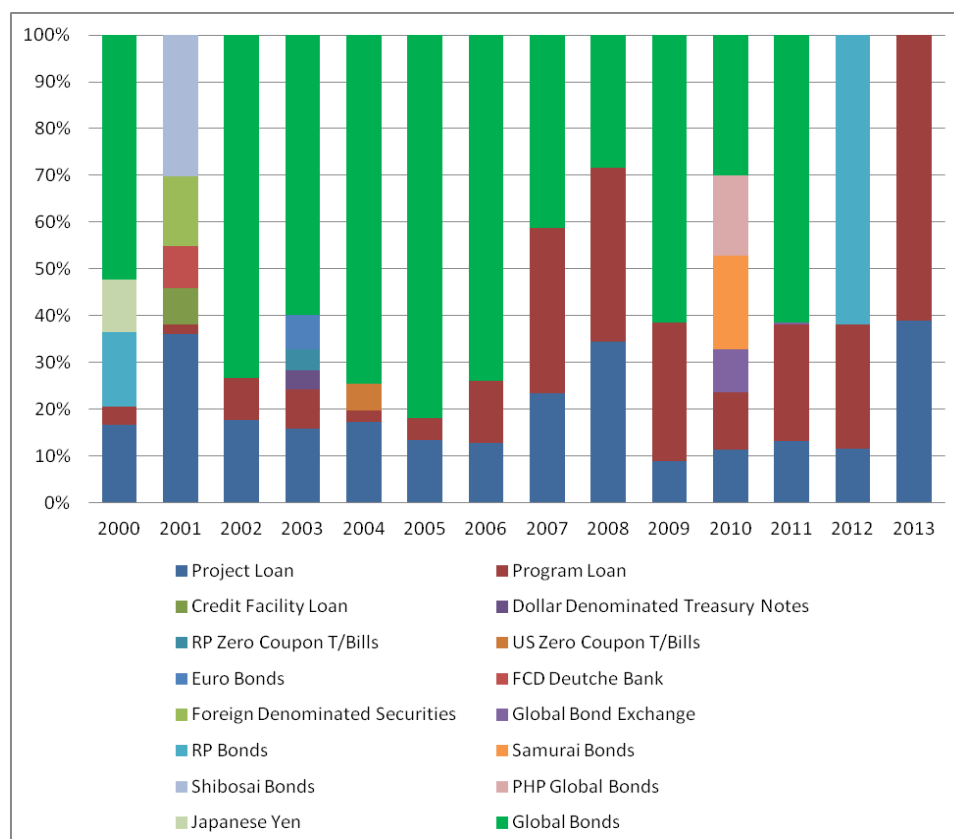
³² Greater administrative efforts by the Bureau of Internal Revenue over tax collection and compliance by specific taxpayer groups, e.g., professionals previously reported as underpaying their taxes, and recent reforms in the Bureau of Customs have contributed to an improvement in tax effort.

Figure 9. External and Domestic Borrowing (in million PHP), 2000 to 2013



Source of raw data: Bureau of Treasury

Figure 10. Composition of Gross External Borrowing, 2000 to 2013



Source of raw data: Bureau of Treasury

Figure 11 shows that fixed rate T-Bonds and promissory notes have been the major sources of domestic borrowings in recent years. In 2013, 8.8 percent came from the Treasury bonds [PHP 46,050 million or USD 1,084.9 million]; 28.8 percent from Retail Treasury bonds [PHP 150,000 million or USD 3,533.9 million]; and, 62.4 percent from fixed rate T-Bonds [PHP 324,884 million or USD 7,654 million].

Figure 11. Composition of Gross Domestic Borrowing, 2000 to 2013



Source of raw data: Bureau of Treasury

The widening of fiscal space has led to a consistent decline in debt-to-GDP ratio [see **Annex Table 5**]. The debt-to-GDP ratio declined to 39.7 percent of GDP as of third quarter 2013, lower than the 40.3 percent debt-to-GDP ratio in third quarter 2012. The general government debt level stood at PHP 4.468 trillion [USD 0.105 trillion] as of third quarter 2013. Sourcing the government's credit requirements more from the domestic markets than from abroad helped in debt management as the former offered lower interest rates and longer maturities. Currency risk was also obviated by tapping more domestic debt to finance public sector requirements. The borrowing mix as of third quarter 2013 was 66:34 in favor of domestic debt, whereas the mix in third quarter 2012 was 61:39.

The latest sovereign credit ratings upgrade from Standard & Poor's [S&P] provided a more favorable assessment of the Philippine economy. S&P increased the credit rating two notches above investment grade. The Philippines' foreign long-term debt was increased to BBB from BBB-, and foreign short-term debt to A-2 from A-3, with a stable outlook. This was due to the country's strong external liquidity and investment position and an effective monetary policy framework. In 2013, the Philippines first achieved investment grade status with the credit rating agencies (Fitch Ratings, S&P and Moody's Investors Service)³³. The credit ratings upgrade results in lower borrowing costs and a more positive view of the economy as an investment destination.

³³ "Credit upgrade means more social projects, infra, jobs in PH," Philippine Daily Inquirer, May 10, 2014

3.5 Official development assistance

Official development assistance [ODA] has been an important source of financing for social development and infrastructure expenditures and in the past it was also used to provide budgetary support to a financially-constrained Philippine government. However, ODA has been on a downward trend, consistent with the experience of other countries of a gradual decline of ODA assistance as they approach and attain middle-income status³⁴. The Philippines is a low-middle income country with a great potential to become a high-middle income country if it can sustain its rate of growth averaging 7% in the next decade.

ODA net loans commitment on a cumulative basis averaged at close to USD 9.4 billion in 2008-2013, much lower than the average amount in 2003-2007 [Table 4]. Cumulative ODA loans and grants averaged at around US\$ 11.4 billion in the last five years, 2008-2012. The disbursement rate of ODA loans has to be significantly improved.

Table 4. ODA Loans and Grants Portfolio, 2003 to 2013 (Cumulative amount per year)

| | Loans Net Commitment (in Million US\$) | | | | | Grants | Total |
|---------------------|--|-----------------|----------|----------|-----------|----------|------------|
| | Newly Signed | Newly Effective | Closed | Ongoing | Subtotal | | |
| 2003 | 194.33 | 574.01 | 1,466.90 | 8,711.43 | 10,946.67 | 769.2 | 11,715.87 |
| 2004 | 35 | 698.45 | 1,298.91 | 8,503.00 | 10,535.37 | 753.26 | 11,288.63 |
| 2005 | 171.41 | 383.58 | 914.32 | 8,448.74 | 9,918.05 | 1,039.11 | 10,957.16 |
| 2006 | 410 | 256.26 | 1,671.49 | 7,162.38 | 9,500.13 | 1,116.36 | 10,616.49 |
| 2007 | 688.55 | 57.69 | 1,955.07 | 7,068.33 | 9,769.64 | 1,031.21 | 10,800.85 |
| 2008 | 1,756.14 | 226.6 | 2,335.90 | 5,914.33 | 10,232.97 | 1,288.66 | 11,521.63 |
| 2009 | 1,038.96 | 697.33 | 1,914.93 | 6,188.81 | 9,840.03 | 1,057.24 | 10,897.27 |
| 2010 | 1,574.63 | 39.72 | 2,493.96 | 5,826.35 | 9,934.66 | 2,247.53 | 12,182.19 |
| 2011 | 513.29 | 500 | 1,155.51 | 6,430.76 | 8,599.56 | 2,085.52 | 10,685.08 |
| 2012 | - | 638.17 | 1,499.35 | 6,683.48 | 8,821.00 | 2,851.46 | 11,672.46 |
| 2013 | 1,287.81 | 831.08 | 521.42 | 6,448.71 | 9,089.02 | 2,544.29 | 11,633.31 |
| | | | | | | | |
| Average (2003-2007) | 299.86 | 394 | 1,461.34 | 7,978.78 | 10,133.97 | 941.83 | 11,075.80 |
| Average (2008-2013) | 1,028.47 | 488.82 | 1,653.51 | 6,248.74 | 9,419.54 | 2,012.45 | 11,391.73* |
| Average | 1,562.00 | 736 | 1,576.00 | 6,607.00 | 9,772.00 | 1,526.00 | 11,209.00 |

Note: P – Preliminary data on grants as of June 2013; *from 2008 to 2012

Source: NEDA-Monitoring and Evaluation Staff

The declining trend is expected to continue in the medium term but meanwhile ODA can have a more strategic and catalytic role in the country's development agenda. A mapping of ODA assistance by international donors, amounts provided, and type of development projects

³⁴ ODA then shifts to the more impoverished and development-challenged countries.

financed indicates the range of public goods and services funded by this type of development finance. **Table 5** shows the development partners which served as the largest sources of new ODA loans [i.e. newly-signed loans per year] for the period 2003 to 2013: China [USD 2.59 billion] and ADB [USD 1.37 billion]. **Annex Table 6** shows ODA grants by development partner.

Table 5. Newly-Effective Loans (USD Million)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | TOTAL |
|--------------|---------------|---------------|---------------|-----------------|-----------------|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| CHINA | 24.99 | 400 | - | 50 | 100 | - | - | 205.76 | - | - | - | 780.74 |
| ADB | 150 | 74.28 | 363 | 673.85 | 283.8 | 250 | 926.28 | - | 600 | 712 | 500 | 4,533.21 |
| OTHERS | 40.09 | 34.27 | 233.59 | 333.73 | 300 | 282.82 | 759.56 | 256.89 | 14.3 | 349.35 | 54.21 | 2,658.80 |
| WB | 105.5 | 75 | 35 | 64 | 804.75 | 12.94 | 552.36 | 685 | 819.12 | 942.87 | 400 | 4,496.54 |
| GOJ-JICA | 301.86 | 114.91 | - | - | 75.6 | 213.84 | 703.26 | 551.33 | 523.62 | 325 | 538.54 | 3,347.96 |
| | | | | | | | | | | | | |
| TOTAL | 622.44 | 698.45 | 631.58 | 1,121.59 | 1,564.15 | 759.6 | 2,941.46 | 1,698.98 | 1,957.04 | 2,329.22 | 1,492.75 | 15,817.26 |

Source: NEDA-Monitoring and Evaluation Staff

On the distribution of the ODA loans, the sector which received the highest amount of net commitments [i.e. USD 5,173.41 million] in 2013 is the infrastructure [INFRA] sector. The second highest grantee was the agriculture, natural resources and agrarian sector [AARNR] which had a total loans net commitment of USD 1,392.77 million [see **Annex Table 7**]. **Annex Table 8** shows the specific activities or components under each sector mentioned above, the results as well as each sector's corresponding implementing agencies. There are few climate change adaptation and mitigation projects. As per CY 2013 NEDA ODA Portfolio Review [2014], there are a total of 18 programs amounting to PHP95.97 billion [USD 2.26 billion] that have climate change adaptation and mitigation components.

In terms of loans distribution by region, 55.8 percent of the loans net commitment (USD 5,071.32) was distributed nationwide. Luzon received the largest chunk of the loans, i.e., 16 loans or USD 1,073.18 million as of December 2013 [**Table 6**]. In particular, Region 3 (Central Luzon) had the highest loan net commitment [i.e. 6 loans or USD 574.17 million].

Table 6. Loans Net Commitment (CY 2012 and 2013), by Region

| Region | 2012 | | | 2013 | | |
|-----------------------|-----------------|-------------------------|--------------|-----------------|-------------------------|--------------|
| | Number of Loans | Amount (in USD Million) | % Share | Number of Loans | Amount (in USD Million) | % Share |
| Nationwide | 31 | 5,170.08 | 58.61 | 28 | 5,071.32 | 55.8 |
| Luzon | 19 | 1,616.31 | 18.32 | 16 | 1,703.18 | 18.74 |
| CAR | 2 | 36.6 | 0.41 | 2 | 36.6 | 0.4 |
| NCR | 6 | 743.31 | 8.43 | 4 | 909.05 | 10 |
| I | 1 | 89.15 | 1.01 | 1 | 89.15 | 0.98 |
| III | 7 | 652.64 | 7.4 | 6 | 574.17 | 6.32 |
| IV-A | 1 | 10 | 0.11 | 1 | 10 | 0.11 |
| IV-B | 1 | 71.61 | 0.81 | 1 | 71.61 | 0.79 |
| Luzon-wide | 1 | 13 | 0.15 | 1 | 12.6 | 0.14 |
| Visayas | 3 | 285.54 | 3.24 | 5 | 392.01 | 4.31 |
| VI | 2 | 220.94 | 2.5 | 2 | 220.94 | 2.43 |
| VII | | | | 1 | 107.46 | 1.18 |
| VIII | 1 | 64.6 | 0.73 | 2 | 63.61 | 0.7 |
| Mindanao | 8 | 308.58 | 3.5 | 7 | 300.71 | 3.31 |
| X | 2 | 102.75 | 1.16 | 2 | 102.75 | 1.13 |
| ARMM | 3 | 93.01 | 1.05 | 2 | 60 | 0.66 |
| Mindanao-wide | 3 | 112.82 | 1.28 | 3 | 137.96 | 1.52 |
| Multi-regional | 18 | 1,440.49 | 16.33 | 21 | 1,621.81 | 17.84 |
| TOTAL | 80 | 8,821.00 | 100 | 77 | 9,089.03 | 100 |

Source: NEDA (2014).

Meanwhile, most of the grants (274 grants or USD 1,659.19 million) were multi-regional [Annex Table 9]. It is noted that the grants going to the NCR were almost as big as the grants that were channeled to the whole of ARMM (i.e. almost three-fourths of the total amount of grants given to ARMM), and were four times bigger than those going to Visayas, which received only 45 grants. There is a need to review the policy governing the distribution of grants across regions because seemingly the most needy ones based on poverty incidence do not necessarily get substantial assistance³⁵.

3.6 Public expenditure

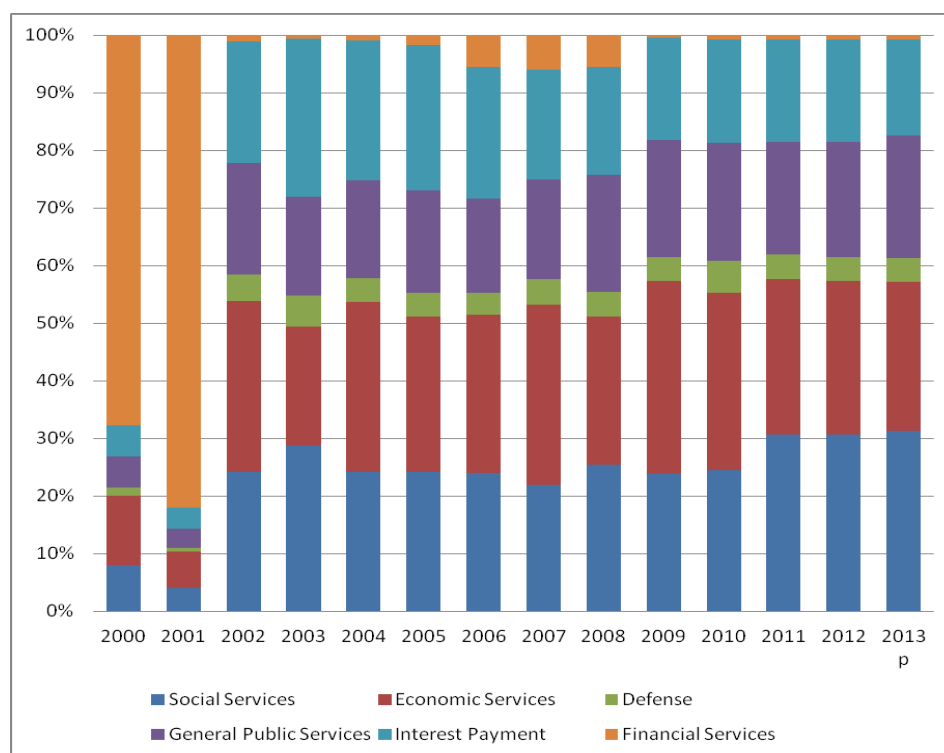
Figure 12 shows public expenditure by sector. In recent years, the government has prioritized human development by investing in the following programs: Conditional Cash Transfer, Basic Education, and Universal Health Care. For instance, in 2013, spending for health services posted a higher growth rate of 47.7 percent in 2013 as compared to 12.2 percent growth rate in 2012.

A more efficient budget policy and good governance have resulted in better allocation of resources and more substantial funding made available to key government programs. There was an expansion of the coverage of CCT, implementation of an inclusive NHIP, better delivery of health services, among others. In 2014, the NHIP subsidy was increased by PHP 22.7 billion [USD 0.535 billion], i.e., from PHP 12.6 billion [USD 0.297 billion] in 2013 to PHP 35.3 billion [USD 0.832 billion] in 2014. Similarly, the CCT program received a budgetary allocation amounting to PHP 62.6 billion [USD 1.47 billion] in 2014 from PHP P44.3 billion [USD 1.04 billion] in 2013 [DBM, 2013-2014].

The percentage share of economic services has been declining since 2010, coming down from 30.9 percent percentage share in 2010 to 25.9 percent in 2013. Despite this decrease, some economic services experienced major increases in 2013, particularly: (i) communications, roads and other transport services from 9.6 percent in 2012 to 34.9 percent; (ii) agriculture, agrarian reform and natural resources from 33.2 percent in 2012 to 42.1 percent; and (iii) tourism from 33.2 percent in 2012 to 37.4 percent [see Annex Table 10 for details].

³⁵ However, according to the NEDA, it must be noted that the figures for multiregional and nationwide grants may cover the regions in the Visayas or ARMM but could not be disaggregated to the specific regions. Hence, it is possible that the ARMM or the Visayas region may have actually received more than what was indicated in the Annex Table 6.

Figure 12. Government Expenditure by Sector, 2000 to 2013 (based on nominal figures)



Note: P – Preliminary

Source of raw data: Bureau of Treasury

3.7 Non-public sector development finance

Non-public sector entities have also been large contributors to development finance in the Philippines. Domestic banks have been an important provider of loans to the national government and have also started lending to certain sectors previously dominated by ODA or government grants [e.g., water supply projects]. Foreign direct investments are an important source of capital, technology and link to global markets. An institutionalized public-private partnerships program has also mobilized private sector expertise and money to finance infrastructure projects. Remittances from overseas Filipinos and other private sector initiatives like inclusive business, such as inclusive finance and corporate social responsibility programs complement government efforts to achieve inclusive growth.

3.7.1 Domestic financial system

The Philippine financial system is currently experiencing financial stability and high liquidity. Its total resources stood at PHP 11.47 trillion in 2013, which is almost a triple of its level in 2000 [Table 7]. The banking sector dominates the financial system as its share ranged between 79% and 81% of total resources during the period 2000 to 2013. The non-banking sector's share ranged between 19 percent and 21 percent, respectively in the same period. From 2000 to 2013, the resources of banks grew at an average annual rate of 8.17 percent in

nominal terms and 3.63 percent in real terms [with 2006 as base year]. The resources of non-banks, on the other hand, grew slightly higher at an average annual rate of 8.74 percent in nominal terms and 4.17 percent in real terms during the period.

Reports on bank loans by economic activity show that outstanding loans more than tripled in size from 2000 to 2013 [**Annex Table 8**]³⁶. Based on data for the 2003-2013 period, it can be seen that bank loans have grown substantially—the 2013 level is 2.47 times the 2003 level.

Table 7. Total Resources of the Philippine Financial System, 2000 to 2013
(in PHP billion)

| | Banks | Non-banks | Total Resources |
|------|--------------|-----------------------|------------------------|
| 2000 | 3,326.72 | 751.14 | 4,077.86 |
| 2001 | 3,403.23 | 756.46 | 4,159.69 |
| 2002 | 3,608.48 | 807.70 | 4,416.18 |
| 2003 | 3,810.70 | 903.88 | 4,714.58 |
| 2004 | 4,182.99 | 992.86 | 5,175.85 |
| 2005 | 4,464.09 | 1,155.38 | 5,619.47 |
| 2006 | 4,985.61 | 1,271.51 | 6,257.12 |
| 2007 | 5,244.70 | 1,369.09 | 6,613.79 |
| 2008 | 5,946.32 | 1,438.03 | 7,384.35 |
| 2009 | 6,511.82 | 1,689.75 | 8,201.57 |
| 2010 | 7,230.23 | 1,816.08 | 9,046.31 |
| 2011 | 7,643.37 | 2,002.19 ^r | 9,645.56 |
| 2012 | 8,358.30 | 2,157.80 | 10,516.10 |
| 2013 | 9,238.40 | 2,231.20 | 11,469.60 |

Notes: Excludes the Bangko Sentral ng Pilipinas. Amounts include allowance for probable losses. Non-banks include Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non-Stock Savings and Loan Assns., Venture Capital Corps., and Credit Card Companies which are under BSP supervision; also includes Private and Government Insurance Companies (i.e., SSS and GSIS). 'r' means revised.

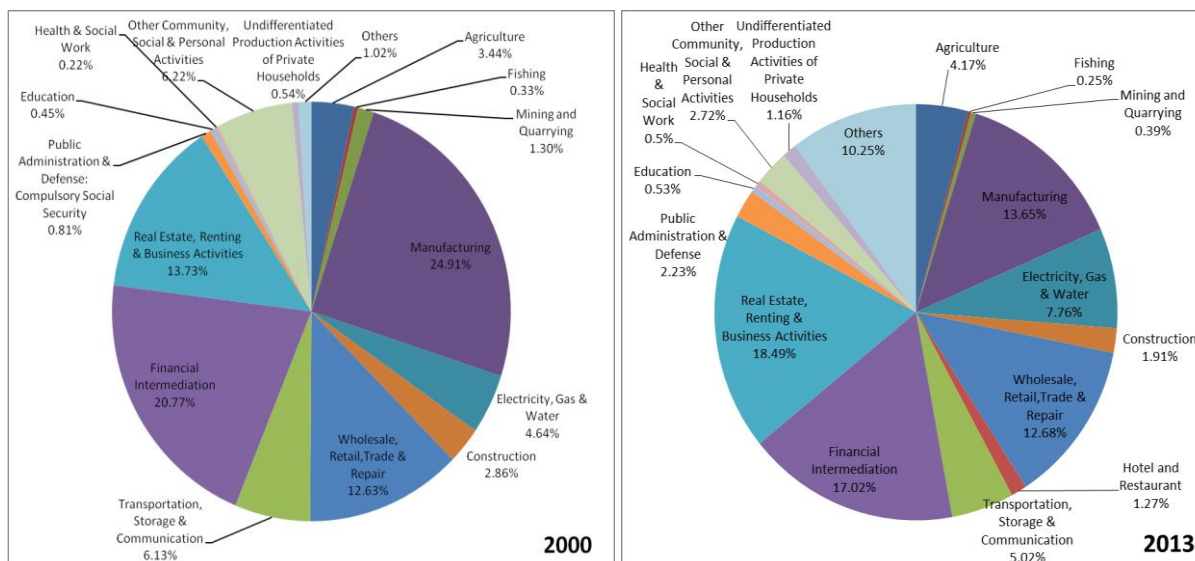
Source: BSP

Figure 13 shows bank lending to different economic sectors in 2000 and 2013. Loans for financial intermediation purposes continue to be a large part of bank lending in the period 2003-2013. Loans to real estate, renting and related business activities have expanded but in contrast, loans to manufacturing have declined. The top four sectors which received the most

³⁶ However, the data from 2000-2002 are not exactly comparable with the data for the rest of the period because the 2000-2002 data are for universal and commercial banks only [i.e., no sectoral lending reports for other types of banks] whereas the 2003-2013 data are for all banks, which include universal, commercial, thrift, rural and cooperative banks. Nevertheless, based on data for the 2003-2013 period, it can be seen that bank loans have grown substantially—the 2013 level is 2.47 times the 2003 level.

loans in 2013 are: real estate, renting and business activities [18.49%]; financial intermediation [17.02%]; overall infrastructure [transportation, storage, communication electricity, gas and water, 14.70%]; and manufacturing [13.65%].

Figure 13. Domestic banks' outstanding loans by economic activity, 2000 and 2013



Source: authors' computations based on BSP data

Domestic banks tend to make short-and-medium term loans rather than long term loans such as loans to infrastructure. Bank deposits are typically short-term liabilities and are not matched to medium-to-long term receivables from loan repayments of long-gestating projects. Such asset-liability mismatch may create an aversion to loans with long-term maturities. The Philippines has some [limited] experience in using ODA to induce private domestic commercial banks to participate in long-term financing of infrastructure project, as follows:

- a. **Stand-by liquidity risk cover** – The Japan International Cooperation Agency [JICA] is a participant in the financing vehicle called the Philippine Water Revolving Fund (PWRF), which includes a stand-by cover for the liquidity risk faced by local commercial banks. See **Annex B.6** for a summary description of the PWRF.
- b. **Guarantee for credit default** – The Local Government Unit Guarantee Corporation [LGUGC], a private corporation provides a guarantee for credit default in infrastructure projects being implemented by LGUs, water districts and electric cooperatives³⁷.

³⁷ The Asian Development Bank [ADB] is a shareholder of the LGUGC. The US Agency for International Development [USAID] is also a partner in the LGUGC's participation in the PWRF scheme as guarantor of the borrowers' credit default. The World Bank-administered Global Environment Facility is also a partner of LGUGC in the latter's system loss reduction projects for electric cooperatives.

- c. **Equity fund for long-term infrastructure investments** – The Philippine Investment Alliance for Infrastructure [PINAI] Fund, a private equity fund that is co-financed by pension funds and the ADB, is another example.

3.7.2 Inclusive finance

The Philippines has recently been ranked globally as a top microfinance market in terms of policy and regulatory framework and microfinance business environment [The Economist Intelligence Unit, 2009-2013]. A number of reforms in credit policy, banking regulations, including the decision to terminate a number of subsidized credit programs through Executive Order No. 138 in the late 90s has led to the present vibrancy of the microfinance market. Private microfinance institutions are now the main institutions providing poor households and microenterprises with financial services. Microfinance has been mainstreamed in the formal financial system.

In 2013, there were 182 banks with microfinance operations serving 1.05 million borrowers with loans outstanding amounting to P8.7 billion. Compared with 2012, the number of microfinance banks and clients slightly decreased in 2013. Despite this, the microfinance loan portfolio managed to expand by 3% from PHP 8.4 billion [USD 0.199 billion] in 2012 to PHP8.7 billion [USD 0.205 billion] in 2013 [BSP 2013].

Access to finance is a major challenge because of the concentration of banking services in favor of high income, urban areas. Current focus by both donors and governments in this area is inclusive finance described as making financial services (credit, savings, remittances, insurance services) available to all regardless of income class.

The Bangko Sentral ng Pilipinas reported 604 unbanked municipalities out of 1,634 in 2013. Other financial service providers [FSPs] remain important access points of financial services especially in areas where banking presence is either lost or not yet established.³⁸ About 398 out of 604 unbanked municipalities have access to other financial services providers. This means that only 206 municipalities [equivalent to 13 percent of 1,634 LGUs and 4 percent of the total Philippine population] are left unserved [BSP 2013]. Other FSPs present a significant opportunity for financial inclusion because of their presence in areas that are not served by banks. However, the range and quality of their financial product and services offerings is naturally limited.

Recent initiatives on inclusive finance consist of efforts to expand client outreach through mobile banking and use of information technology. Private sector initiatives on inclusive finance complements the government's thrust toward inclusive growth as a key objective of the Philippine Development Plan 2011-2016. Both government and private sector efforts in inclusive finance seem to be paying off. Roman [2009] reported 8 million users of e-money with

³⁸ Other FSPs include non-stock savings and loans associations [NSSLAs], credit cooperatives, pawnshops and other nonbank financial institutions [NBFIs], remittance agents, money changers/ foreign exchange dealers and electronic money [e-money] agents.

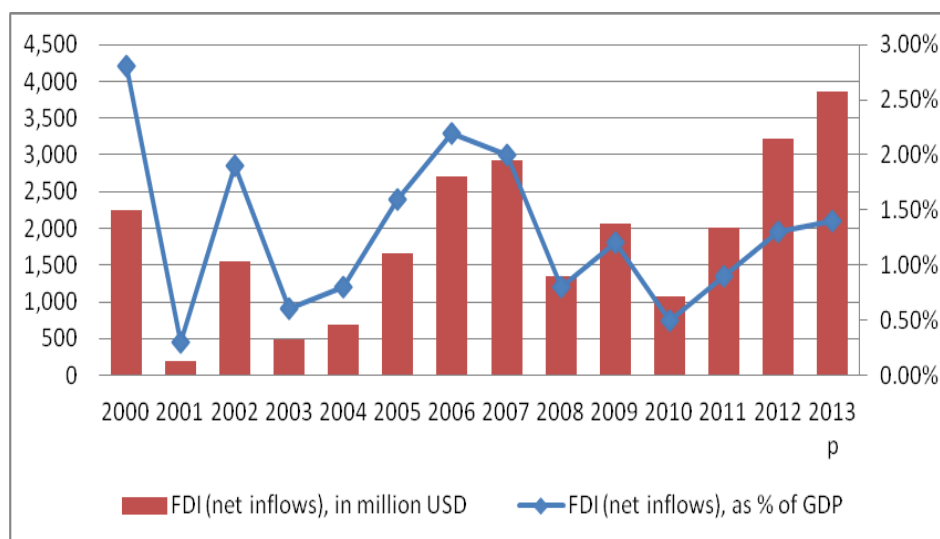
47 rural banks using mobile banking for microfinance operations from none in 2005. Some banks have lowered interest rates on microfinance loans for clients that use text-a-payment platform by 50 basis points on monthly rates. The cost of domestic remittances fell from 6-7 percent of the amount of remittance to 1 percent. Banks are have started to use mobile phone technology to provide those areas without bank branches with access to financial services.

E-money and mobile banking can expand the reach of banks and FSPs in providing financial services to those who are in hard to reach areas. The Bangko Sentral ng Pilipinas quoted a report on mobile phone subscription that indicated a high penetration rate of 49 million unique subscribers and 109 million SIM cards in the country [BSP 2013]. This indicates the vast potential in using such technologies to reach the unbanked.

3.7.3 Foreign direct investments

Foreign investors have taken notice of government's determined efforts to stimulate and hasten the economy's structural transformation. Policy and institutional reforms, especially reforms in governance were rewarded by upgrades in the rating of sovereign debt, which has resulted in lower borrowing cost and has provided a seal of good housekeeping of the Philippine economy. The renewed interest of foreign direct investors in the economy provides opportunities to reinvigorate industry and manufacturing and generate productive jobs for the country's abundant labor resources [Annex Table 9, Figure 14]³⁹.

Figure 14. FDI (net inflows) Levels and as % of GDP, over 2000 to 2013



Definition: Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of

³⁹ The level of direct foreign investments [FDI] of the Philippines still pales in comparison with the huge amount of FDIs flowing into Viet Nam and Indonesia. However, recent trends seem to signal strong foreign investor interest in the domestic economy, which augurs well for future growth in manufacturing and industry.

payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. Data are in current U.S. dollars.

Notes: Data for the period 2000 to 2004 are based on Balance of Payments Manual, 5th edition (BPM5) compilation framework; whereas, data for 2005 onwards are based on BPM6 concept.

Source: World Bank, BSP

3.7.4 Public-private partnerships

Public-Private Partnerships (PPPs) was announced as a key flagship program during the first year of the Aquino presidency [Official Gazette, 2010]. The PDP 2011-2016 envisions PPPs as a key strategy in accelerating infrastructure investments. There is a need to continue with policy and institutional reforms, especially on governance to create a strong platform for public-private partnerships in infrastructure provision.

After the initial rise in PPPs in the energy and water sector in the early 2000s, the PPP program slowed down. One of the major impediments to accelerating the PPP rollout is the weak absorptive capacity of the government agencies using this mode of infrastructure provision. Weaknesses have been seen from project development to contract award. There could also be disputes in different stages of the PPP process. In collaboration with donors and the private sector, the government undertook a series of reforms in rules, regulations, and processes, and capacity building efforts to improve and strengthen the framework for undertaking PPP projects. Major milestones in 2014 are shown in **Table 8**.

Table 8. Major Milestones in 2014

| | |
|--|--|
| <p>A. Policy Enhancements and Streamlined Processes</p> | <ul style="list-style-type: none"> ▪ Amendment of the Build-Operate-and-Transfer (BOT) Law into the Public-Private Partnership (PPP) Act <ul style="list-style-type: none"> ○ Includes pertinent provisions on right-of-way acquisition (ROWA) ▪ Amended guidelines for the appraisal of PPP projects <ul style="list-style-type: none"> ○ PPP Center as ICC-CabCom Secretariat for PPP projects ▪ Implementing Rules and Regulations (IRR) of the Executive Order on Alternative Dispute Resolution (ADR) <ul style="list-style-type: none"> ○ PPP Center to conduct massive information campaign once the IRR has been enacted ▪ Policy guidelines on sector-specific PPPs (education, health, and agriculture) ▪ Contract standardization initiative |
|--|--|

| | |
|--|--|
| B. Improving capacities of PPP Players | <ul style="list-style-type: none"> ▪ Upgrading of the Project Development and Monitoring Facility (PDMF) Panel of Consulting Firms ▪ Launch of the PPP Knowledge Portal— a comprehensive database of all knowledge and information about the PPP Program and projects ▪ Printing and dissemination of the PPP Manual for National Government Agencies (NGAs) ▪ Enhanced LGU PPP strategy <ul style="list-style-type: none"> ○ Includes the PPP Internship Program for select LGUs; and partnerships with other capacity development institutions |
|--|--|

Source: PPP Center

The efforts seem to be paying off. **Table 9** shows 51 major pipeline projects in varying stages of the PPP process. **Annex Table 10** provides a detailed list.

Table 9. 51 Major Pipeline Projects

| Status | No. of Projects | Est. Project Cost |
|--|-----------------|-------------------|
| Awarded | 5 | 43.36 B |
| For Issuance of Notice of Award | 2 | 19.24 B |
| For Bid Submission | 3 | 104.05 B |
| Neda Board-Approved | 1 | 29.83 B |
| For Approval/ Evaluation | 4 | 62.67 B |
| For Finalization Of Project Structure | 3 | 1.84 B |
| Ongoing Studies | 12 | 35.0 B |
| For Procurement Of Consultants | 5 | TBD |
| Under Conceptualization Or Development | 13 | TBD |
| Other Projects For Implementation | 3 | 111.0 B |
| TOTAL | 51 | 406.99 B* |

*This does not include 31 projects with no estimated costs yet. "B" means billion

Source: PPP Center

Official development assistance can be used in tandem with PPP schemes to address the country's infrastructure problems. Under the legislative framework for PPP projects, that is, RA 7718, public sector financing is allowed up to fifty percent of the project cost. Section 2a of the law specifically provides that: "...projects which would have difficulty in sourcing funds may be financed partly from direct government appropriations and/or Official Development Assistance [ODA] of foreign governments or institutions not exceeding fifty percent [50%] of the project cost, and the balance to be provided by the project proponent."

This defines a role for ODA in the current PPP program. There has been discussion of using ODA for a “viability gap fund”. A viability gap fund is essentially a subsidy that is meant to enhance the commercial viability of a project. Without such fund the project may not be attractive enough given the projected level of revenues⁴⁰. Some PPP projects if properly structured and formulated could be commercially viable projects and may not need viability gap funds. However, other projects may need this form of enhancement. The government could use ODA as a catalyst in PPP approaches to infrastructure development.

3.7.5 Remittances

Remittances of overseas Filipino workers have made a significant contribution to the growth of the Philippine economy. Across the years, these remittances have supported the rise in domestic consumption, contributed to the country’s foreign exchange reserves, and promoted human capital investments among the recipient households. In 2013, overseas Filipino workers remitted USD 25 billion compared to USD 17 billion in 2009.

At the macro level, the significant role of remittances in the economy can be seen in terms of its ratio to GDP which was 9.6% in 2013. The ratio has been stable at more than 9% notwithstanding the global and Asian financial crises [Table 10]. There was even a surge of cash remittances after Typhoon Haiyan [local name: Yolanda] hit the country in November 2013. Total amount of remittances has experienced a growth rate of as much as 16.6% in 2013.

Table 10. Remittances, GDP, and Remittances as % of GDP, 2008-2013

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Remittances (in million USD) | 16,426.90 | 17,348.10 | 18,763.00 | 20,117.00 | 21,391.30 | 24,943.00 |
| GDP (in million USD) | 181,882.3 | 190,057.8 | 207,884.6 | 215,168.9 | 221,779 | 259,608.9 |
| As % of GDP | 9.0% | 9.1% | 9.0% | 9.3% | 9.6% | 9.6% |
| Exchange rate | 42.45 | 42.23 | 43.31 | 45.11 | 47.637 | 44.475 |

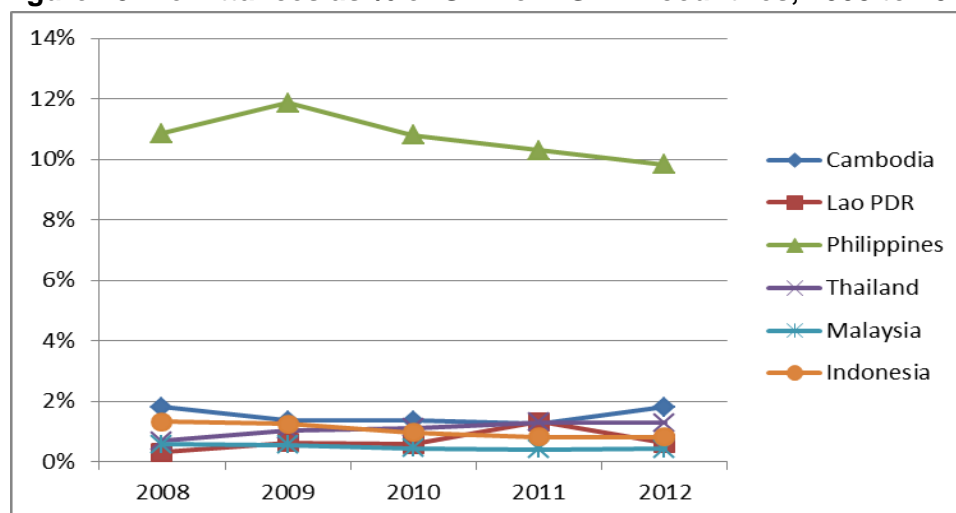
Sources: BSP, Philippine Statistics Authority

Remittances as percentage of GDP of the Philippines had been consistently way above those of other ASEAN countries. The World Bank data showed that the Philippines’ ratio of

⁴⁰ An example of a project in the current PPP pipeline that will be using the viability gap fund is the LRT Line 1 South [Cavite Extension and Operation and Maintenance] project. In this project, the government will finance the rolling stocks, new satellite depot, expansion of an existing depot, and rehabilitation works on the existing system. The main responsibilities of the private project proponent, on the other hand, are the construction of the Cavite extension system, system enhancement works, and operation and maintenance of the integrated LRT 1 system. The PHP 6 billion viability gap fund for the project was approved by the NEDA Board on November 21, 2013. Bid preparations for the project are currently ongoing.

remittances to total GDP stood at around 10 to 12 percent in the recent years whereas other countries have between 0 to 2% of GDP [Figure 15].

Figure 15. Remittances as % of GDP of ASEAN countries, 2008 to 2012



Note: There are no available data for Singapore, Myanmar (GDP), Vietnam and Brunei Darussalam
Source: The World Bank. World Development Indicators

Although the top destinations of the migrant workers are the countries in the Middle East, the highest amounts of remittances nonetheless come from the Americas and Europe [Table 11].

Table 11. Overseas Filipinos' Cash Remittances, by geographical location (in million USD)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 ^P |
|--------------|------------------|---------------|---------------|---------------|---------------|-------------------|
| Total | 17,348.05 | 18,763 | 20,117 | 21,391 | 24,943 | 3,595 |
| Asia | 2,078 | 2,363 | 2,569 | 2,944 | 3,580 | 3,599 |
| Americas | 9,308 | 9,988 | 10,657 | 1,1190 | 11,910 | 1,603 |
| Oceania | 213 | 236 | 297 | 339 | 449 | 59 |
| Europe | 3,062 | 3,180 | 3,348 | 3,421 | 4,252 | 610 |
| Middle East | 2,665 | 2,964 | 3,216 | 3,467 | 4,718 | 772 |
| Africa | 22 | 31 | 30 | 32 | 34 | 4 |
| Others* | 109 | 0 | 0 | 0 | 0 | 0 |

Notes:

^P Preliminary

* Total amount of OFW remittances from countries not elsewhere classified.

Breakdown may not add up to totals due to rounding off.

Source: BSP

Several studies have provided empirical evidences of the positive impacts of remittances to the economy. Bird [2009] found that remittances contributed to the reduction of national

headcount poverty rate by at least five percentage points in 2006, and that recipients in the home country use a portion of the remittances to start small businesses. Zosa and Orbeta [2009] showed a positive impact of remittances on education and health care expenditures, and reduction of poverty. Based on the 2012 Survey on Overseas Filipinos conducted by the National Statistical Office [NSO], two in every five OFWs are able to save from their cash remittances. Out of 1.9 million OFWs surveyed from April to September 2012, 42.2 percent had savings from the cash remittances sent. Moreover, 56.9 percent of the surveyed OFWs reported that they were able to save less than 25 percent of the total amount received, 23.5 percent were able to save from 25 to 49 percent, and 19.6 percent saved 50 percent or more of remittances.

Realizing the remittances' potential to the economy, some governments have taken steps to tap on these huge source of funding for different reasons. **Annex B.7** provides information on so-called 'diaspora bonds' that have been issued by various countries. The Philippine government was not an exception. The Philippine government's Commission on Filipino Overseas [CFO] established the Diaspora Investment program which seeks "to work with financial institutions and intermediaries to develop new and innovative instruments and mechanisms such as diaspora bonds, remittance bonds and other mechanisms that tap into remittances and savings for development" [CFO website].

Given the varying factors affecting the successful issuance of a diaspora bond, it is important to examine first the Philippine experience with the earlier issuance of Retail Treasury Bonds [RTBs] to OFWs. The experience shows that there are constraints in raising resources from the target market such as the limited market [OFWs] and high transaction and selling costs and strict requirements of the Securities and Exchange Commission in the U.S. that constrained the viability of RTB issuances. **Annex B.8** describes the lessons from the issuance of RTBs.

Alternatively, the government may find it more cost effective to rely on traditional fund raising in foreign capital markets in view of the credit rating upgrades given to Philippine sovereign debt and the improving reputation of the Philippines as an attractive investment destination, and leave those cash remittances for the recipient households to dispose or use as they please.

The CFO created in 1989 a program called "Lingkod sa Kapwa Pilipino (LINKAPIL)," to serve as the main channel for donations of overseas Filipinos who wish to help finance the development projects identified by the LGUs and local NGOs. LINKAPIL has gained a positive response from overseas Filipinos because the CFO has remained transparent with its operations [Asis et al., 2010]. There is information on projects and results, processes and details relating to the transmission of donations. Furthermore, the overseas Filipino donors have the liberty to choose the projects that they intend to support. The bulk of donations [85.7 percent] in 2012 was for medical mission and health -related projects [Asis et al., 2010]. Half of the 833 LINKAPIL donors are nurses, doctors, and other medical practitioners. Please see **ANNEX Table 11** for details.

Of the total amount of donations, amounting to PHP 2,625.6 million [USD 61.9 million]⁴¹, PHP 2,336.5 or USD 55 million [89 percent] came from the overseas Filipinos in the US, PHP 71.3 million or USD 1.7 million [2.71 percent] from Canada, PHP 61.8 million or USD 1.5 million (2.35 percent) from Australia, PHP 60.3 million or USD 1.4 million [2.3 percent] from Germany, PHP 33.6 million or USD 0.79 million [1.28 percent] from Japan, and the rest came from those in other countries [e.g. Netherlands, South Korea].

As to the recipients of the donations, CFO [2012] reported that the National Capital Region received the largest amount of donations during the period, 1990 to 2012, which was recorded at PHP 452 million or 17.2 percent of the total donations. The poorest provinces received smaller donations in 2012⁴². This may be because the choice of projects or areas for the donation is made by the donors themselves. Presumably, those donors did not originally come from the poorest provinces of the country or did not have any affinity with those provinces.

There is a case for tapping the wealth of expertise and donations from overseas Filipinos for human capital development such as education and health. To maintain the support of overseas Filipinos, the main issues to be addressed are the credibility and accountability of the intermediary institutions, the social worthiness of projects to be funded by such donations, efficient targeting of donations, and the impact of those projects on development outcomes.

3.7.6. Other private sector initiatives

New funding schemes address global and regional development issues. They are climate-related funding initiatives, funding for humanitarian aid to disaster areas, and regional infrastructure funds⁴³. There is great donor interest and effort in providing technical and logistic support and capacity building in climate change adaptation and mitigation efforts of the Government of the Philippines [Canlas et al. (2013)].⁴⁴

A recent phenomenon is the rise of corporate social responsibility [CSR] programs implemented by the private corporate sector. Those programs were initially pursued for philanthropic goals and public relations purposes in communities where the corporates operate. A few corporates are now considering the integration of CSR activities into their business strategies. Others have become more conscious of the social costs of their operations, e.g., mining companies, and have started to use CSR activities to ameliorate the situation. Although still relatively few and small in terms of funding, CSR programs have the potential to finance

⁴¹ Used the 2013 Peso to US Dollar exchange rate: PHP 42.45 = USD 1

⁴² In particular, Agusan del Sur received PHP 0.55 million [0.02 percent] of the total donations); Bohol received PHP 38.1 million [1.45 percent]; while Camarines Sur received PHP 43.1 million [1.64 percent].

⁴³ There is a newspaper report [BusinessWorld, May 26, 2014] that Vietnam will get the biggest loan (US\$ 100 million) so far from the ASEAN Infrastructure Fund (AIF) established by ASEAN nations and the Asian Development Bank in 2012 to boost infrastructure development in the region. Vietnam's loan will be used for a power transmission project.

⁴⁴ Canlas, D., J. Galvez-Tan, and L. Abuyuan [2011], Second-Phase Country Level Evaluation [CLE 2] of the Implementation of the Paris Declaration in the Philippines, Final Report

local or community public goods such as protection of the watershed, local disaster risk reduction and management, and other climate-related activities. Private sector CSRs could be a significant complement to the national government's agenda of promoting inclusive growth in the country. To maximize the benefits to the community of CSRs, there is a need for proper coordination among government, private sector, civil society and the donor community. **Annex B.9** describes some examples of CSR activities among the corporates.

Public-private-donor efforts to improve governance in certain sectors such as mining have also emerged. In the case of the mining industry, the importance of transparency on the economic activities and revenues generated from the mining sector was realized by both the government and the private sector engaged in the mining industry. Thus, the government with support from the World Bank established in July 2012 the Extractive Industry Transparency Initiative [EITI] process in the country where the government and companies in the extractive industry agree to systematically record and voluntarily disclose the revenues [taxes, permits, and fees] paid by companies and received by government [**Annex B.10**]. The Philippine EITI Multi-Stakeholder Group and Technical Working Group were established to oversee the implementation of this process and have met at least twelve (12) and nine (9) times, respectively, since August 2012⁴⁵.

4. TRENDS IN DEVELOPMENT FINANCE AND FUTURE FLOWS

4.1 Trends in development finance in the Philippines

The emerging trends in development finance flows suggest future directions for the next five years [2015-2019] under three scenarios: (a) business-as-usual scenario, (b) an optimistic scenario, and a highly optimistic scenario⁴⁶. Basically, the business-as-usual scenario assumes that the average performance in the next five years will mirror the average of the 2000-2013 past performance. The optimistic scenario adopts GDP growth forecasts from an ARIMA model that is estimated from 1946-2013 real GDP time series. The highly optimistic scenario adopts the government's aspirational goal of high and rapid GDP growth and puts premium on the more recent trends displayed by the different types of development finance flows. The projections took into account political risks of policy reversal in the future⁴⁷.

⁴⁵ Source: EITI Secretariat, Department of Finance

⁴⁶ All three scenarios use a common forecast for key variables in 2014, which are based on GDP growth forecast in Navarro and Llanto [2014] and official government targets for fiscal deficit, national government revenues and national government expenditures.

⁴⁷ Given that there will be a change in administration in 2016 [national election year], the next five years cover about two years under the current administration and three years under the succeeding administration. In those three years under the next administration there could be political risks that the policy and institutional reforms so far made could be reversed, which could douse positive expectations on the economy. This study maintains that it will be hard to significantly reverse the reforms made so far in view of the public's awareness of the gains arising from reforms. It is by now accepted that growth, governance and reforms are significant correlates. Any future attempt to reverse the tide of reforms and good governance will face a severe political back lash from an enlightened constituency. Nevertheless, if political risks were to materialize, the study argues that at least a "business-as-usual" scenario will prevail at the minimum.

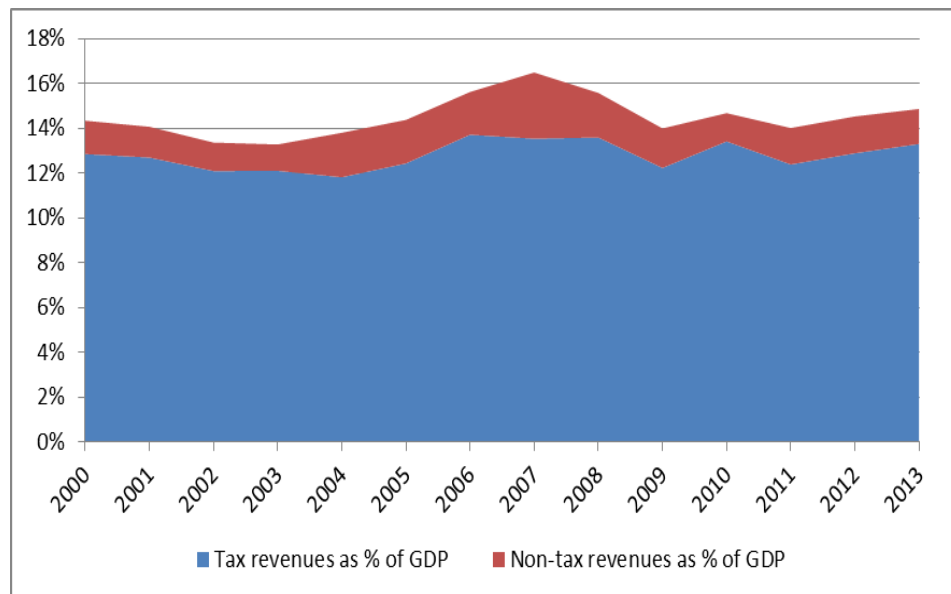
Based on the simple projection exercise done in this study, the major change in development finance flows is the decreasing reliance on external borrowings and the continuous decline in ODA project and program loans. The current trend shows that the government is able to meet and surpass its fiscal deficit targets, with positive implications for the management of net external borrowings. Domestic resource mobilization and more efficient domestic financial markets will be the main sources of development finance flows in the future. Likewise, remittances will continue to be a significant source of financing for household consumption and investment activities. PPPs and FDIs could become significant sources of development finance with better regulatory frameworks and governance.

Revenue effort

Total revenues have increased by an annual average of 9.7% from 2000 to 2013, but as a percentage of GDP, revenues remained substantially below its peers in the ASEAN, which averaged at 18.6% in 2012 [excluding Brunei, which is an outlier because of its large petroleum revenues]. **Figure 16** below shows the trends in revenue effort (or revenues as a percentage of GDP), which are influenced by a combination fiscal policies and economic growth. The 2004-2006 increases in tax effort are positively influenced by three tax-related laws passed during the period. Republic Act [RA] 9334 amending "sin taxes" or excise taxes on cigarettes and alcoholic drinks was passed in 2004. RA 9335 was passed in 2005, and this provided a system of rewards to BIR and BOC officials and employees for exceeding their tax collection targets, and sanctions for not meeting their targets. RA 9337 or the reformed VAT law was passed in 2005 and this expanded the VAT coverage. Non-tax revenue effort show a fairly stable trend, that is, not exceeding 2% of GDP, except for a visibly large increase in 2007 when non-tax revenues are 2.95% of GDP, which is due to the proceeds of increased privatization. Despite the legislature's failure to enact new tax laws, tax revenue effort improved in 2010 mainly due to expansion in economic activities, but then it declined in 2011 as the economy contracted. It improved again in 2012 onwards as the economy recovered and exhibited a high growth; moreover, the sin tax reform law in end-2012 contributed to the overall tax revenue effort improvement. Recent improvement in tax collection was due to the sin tax reform law in end-2012 and improvements in tax administration.

The recent upward trend in revenue effort is a promising trend that can bolster the optimistic outlook in projecting finance flows. The simple average of past performance [i.e., average revenue effort of 14.5% of GDP in 2000-2013] is an important assumption for a business-as-usual scenario. The different scenarios are discussed in section 4.2 below.

Figure 16. Tax and Non-Tax Revenues as % of GDP, 2000-2013

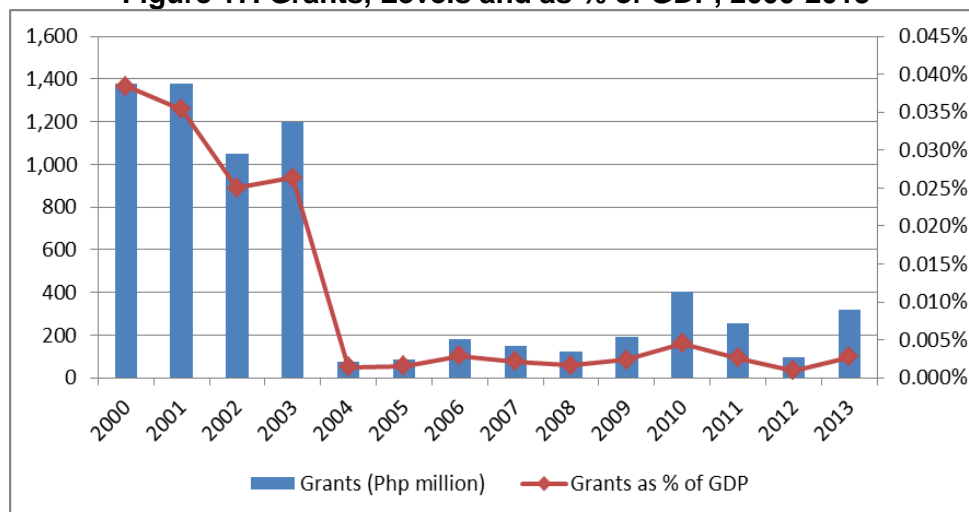


Source of raw data: Bureau of Treasury

Grants

Grants were relatively large amounts [i.e., above PHP 1 billion] in the 2000-2003 period, but starting 2004, there has been a drastic reduction both in levels and as a percentage of GDP [Figure 17]. This reflects the donors' preference to provide grants to poorer developing countries. It is expected that grants will occupy a very minor role in development finance in the future.

Figure 17. Grants, Levels and as % of GDP, 2000-2013



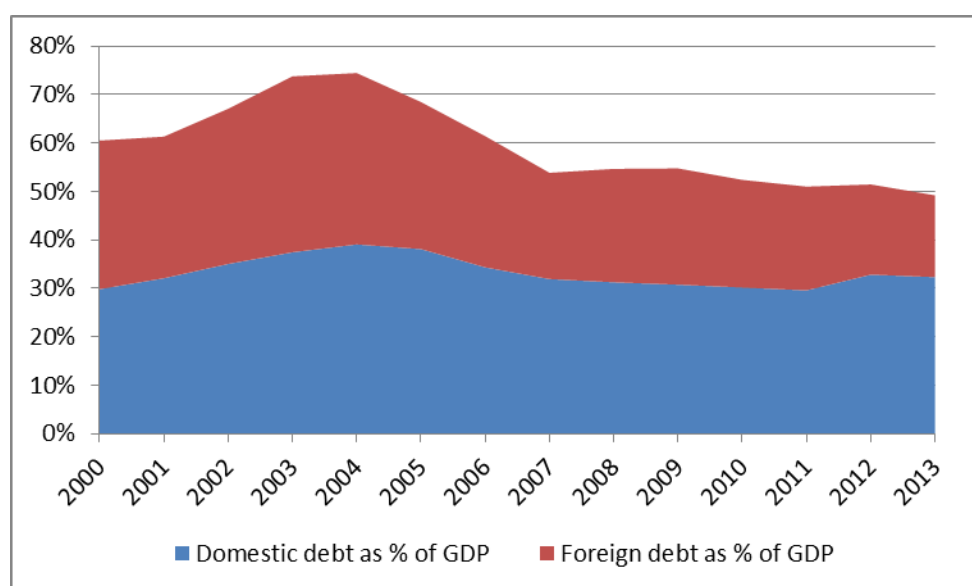
Source of raw data: Bureau of Treasury

Debt

The government adopted a combined strategy of pre-paying debts, reducing reliance on ODA, and optimizing the foreign-domestic borrowing mix given the prevailing low interest rates in the financial markets. The result was a decline in the debt stock of the national government except during the high deficit years of 2000-2004. During the 2000-2013 period total debt peaked at 74.45 percent of GDP in 2004, with foreign debt at 35.36 percent of GDP and domestic debt at 39.08 percent of GDP. By 2013, total debt outstanding was 49.20 percent of GDP, foreign debt was 16.87 percent of GDP and domestic debt was 32.33 percent of GDP [Figure 18]. This trend appears to show a continuing commitment to debt reduction as a fiscal management strategy. The government plans to reduce debt to 45 percent of GDP by 2016.

Another emerging trend is the changing composition of new borrowings. The mix of fresh borrowings every year shows a generally declining ratio for foreign borrowings, despite the sudden peaks during the years when international bonds were issued by the government. This is because the government has been taking advantage of the declining cost of domestic capital, which was a result of high liquidity in the domestic financial system. In 2000, the borrowing mix was 43 percent foreign and 57 percent domestic. In 2013, the government targeted an 80:20 mix in favor of domestic borrowing but the actual mix was 94 percent domestic borrowings and 6 percent foreign borrowings. For 2014, the target is 85:15 in favor of domestic borrowings and given the present trend, it appears that this target may be attained.

Figure 18. Outstanding Foreign and Domestic Debt of the National Government, as % of GDP, 2000-2013



Source of raw data: Bureau of Treasury

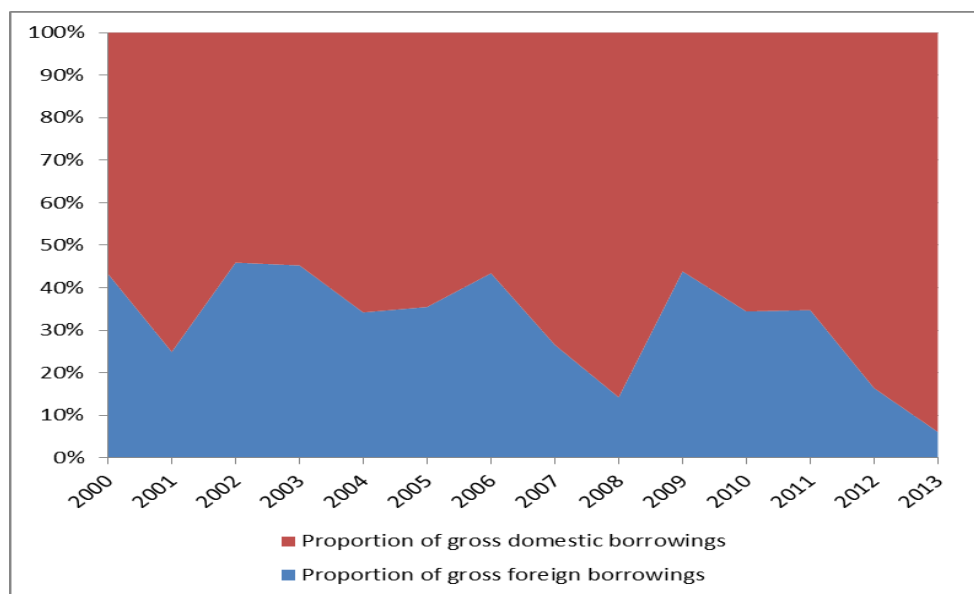
ODA

From a peak at PHP 96.82 million in 2009 [1.21 percent of GDP] due to the huge program loans contracted by the government during that year, ODA loans generally declined in

the following years [Figure 19]. Other types of external borrowings (bonds, credit facility loans, treasury bills, and other foreign denominated securities) show wider variability. The high levels during 2002-2006 were due to large issuances of global bonds, which were needed to manage fiscal deficits that had become large during the period [Figure 20]. The deficit in 2000 was 3.7% of GDP, reaching its peak at 5 percent of GDP in 2002. By 2006, the deficit was down to 1 percent of GDP prompting drastic cuts to bond issuances in the following year by as much as by 77 percent. Total bond issues declined from PHP 209.87 million in 2006 to PHP 48.77 million in 2007. The increases in other types of external borrowings in 2009-2012 were due to issuances of global bonds to take advantage of low interest rates and, to a limited extent, to promote investment opportunities for the Filipino diaspora.

ODA as source of development finance has an advantage over other types of finance because a relatively large size of ODA loans can be more easily mobilized by the government when needed. The capacity building component of an ODA loan or the design of the aid program itself that makes ODA an attractive source of development finance⁴⁸. ODA is also advantageous because ODA loans to the Philippines have remained concessional and meet the 25% grant element required by Philippine law. However, if the present high liquidity environment in the Philippines continues, domestic borrowing becomes more attractive because of: (i) low domestic interest rates; (ii) absence of currency risk; and (iii) greater net present value due to the speed of delivery [i.e., quicker disbursement relative to foreign loans since loan negotiations are local]. The lack of flexibility in use arising from restrictions imposed by thematic lending guidelines and procurement policies imposed by traditional donors continues to be a major issue in use of ODA.

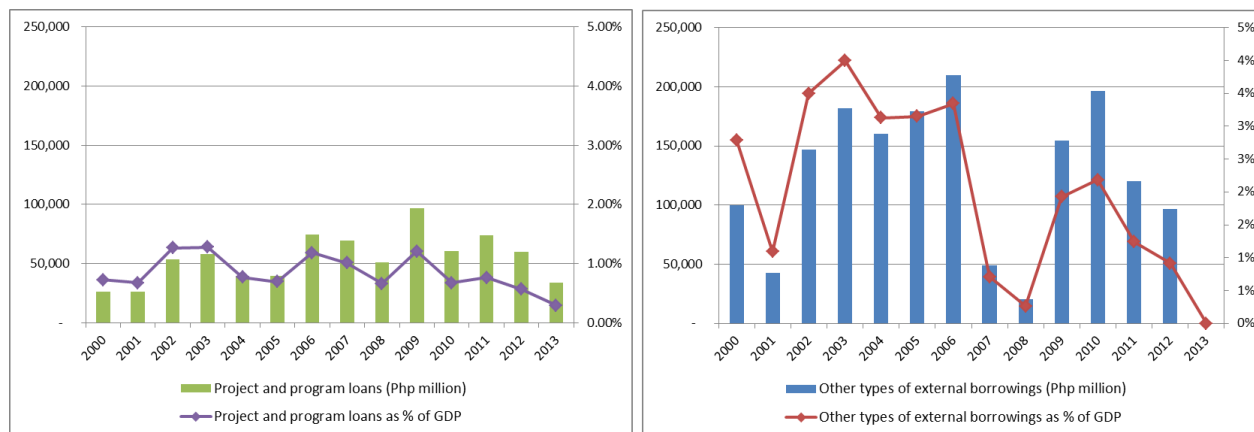
Figure 19. National Government Borrowing Mix, 2000-2013



Source of raw data: Bureau of Treasury

⁴⁸ An example is the design of the conditional cash transfer program based on successful Latin American experiences.

Figure 20. ODA and Other Types of External Borrowings, 2000-2013

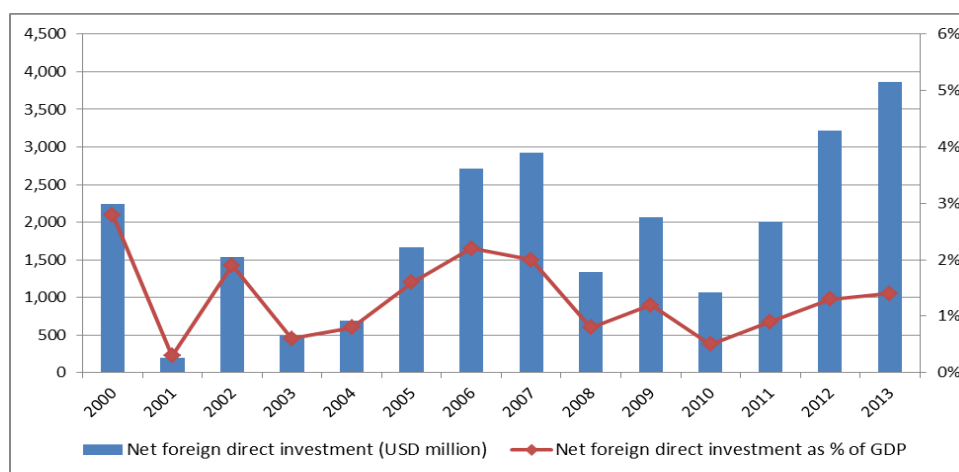


Source of raw data: Bureau of Treasury

Foreign direct investment

FDIs averaged at only 1.31 percent of GDP in 2000-2013. **Figure 21** shows a cyclical pattern in FDIs, which seems to be correlated with uncertainties due to certain risks, e.g. political risks. FDIs were still low at 0.8 percent of GDP in 2008 as the global financial crisis struck, following the collapse of the mortgage markets in the United States. Because of the volatility of FDIs, the average annual growth rate during the period 2010-2013 was only 4.27 percent. In the past four years the economy recovered and displayed sustained growth. FDI growth rates responded positively: the average annual growth rate in 2010-2013 was 53.35 percent and FDIs in 2013 was 3.61 times its level in 2010.

Figure 21. Net Foreign Direct Investments, 2000-2013



Source of raw data: World Bank

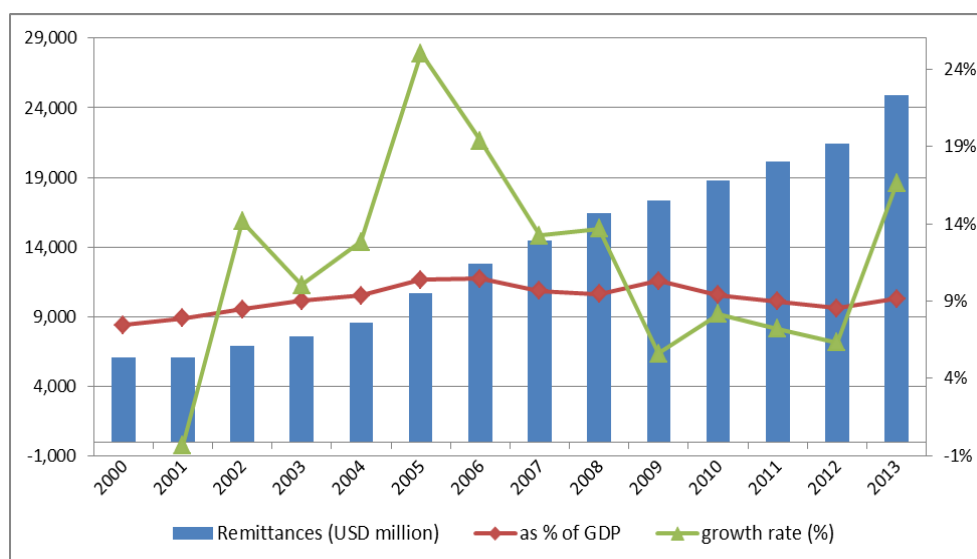
It is highly likely that the FDI growth exhibited in recent years will continue because of the positive developments in the economy. However, there are downside risks in the immediate

term such as a looming energy problem as the economy grows at a faster clip and political risks associated with a change of administration in the forthcoming election year (2016). Foreign investors might adopt a wait-and-see attitude in the run up to the election. In this scenario, it is reasonable to discount the recent high average growth rate of FDIs and assume a relatively flatter growth performance.

Remittances

The pattern of remittances during the period 2000-2013 show an increasing trend, except for a minor decline in 2001, and a fairly stable percentage [9 percent] of GDP **[Figure 22]**. In 2013, remittance growth was high at 16.6 percent and the remittance level was at USD 24.94 billion.

Figure 22. Remittances, 2000-2013



Source of raw data: World Bank

4.2 Alternative scenarios for future development finance flows: 2015-2019

The tables below present the projections for the next five years under the business-as-usual, optimistic, and highly optimistic scenarios⁴⁹.

⁴⁹ The key variables, official targets, and assumptions used in the projections are in **Annex B.11**. If the projections were to be extended to cover the next ten years, assuming linear relationships in all the variables, there will be a wide divergence between the figures to be generated by the business-as-usual and optimistic to highly optimistic scenarios. It is not advisable to make such projections since a ten-year period can cover two distinct administrations [given that in the Philippines, presidential elections are held every six years and a president cannot be re-elected]. The uncertainty in the political landscape and varying expectations of economic agents can be a big factor diminishing the usefulness of ten-year projections.

4.2.1 Projections of GDP, revenues and expenditures

The business-as-usual scenario for GDP, revenues and expenditures [Table 12] assumes the following:

- GDP growth in the next five years will track the average in 2000-2013, which is 5 percent.
- The rate of increase in the revenue effort [i.e., revenue-GDP ratio] will be 0.26 percent annually, which is the average annual rate of increase in the revenue effort in 2000-2013.
- Government expenditures that can be funded by the projected revenues and borrowings are constrained by the target 2 percent fiscal deficit-GDP ratio. Since the officially programmed expenditure [Php2.62 billion in 2015 and Php3.08 billion in 2016] cannot even be funded by the projected revenues, the levels of expenditures that can be funded by a combination of revenues and borrowings are solved using linear programming with the fiscal deficit as constraint⁵⁰. The expenditures for 2018 and 2019 are solved in the same way.

Table 12. Business as Usual scenario: GDP, Revenues and Expenditures

| | Business as Usual | | | | |
|---|-------------------|----------|----------|----------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Real GDP growth (%) | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Real GDP level | | | | | |
| in billion Php | 7,573.7 | 7,953.6 | 8,352.6 | 8,771.6 | 9,211.6 |
| in billion US\$ | 178.2 | 187.1 | 196.5 | 206.4 | 216.7 |
| Nominal GDP level | | | | | |
| in billion Php | 14,033.4 | 15,355.9 | 16,803.0 | 18,386.6 | 20,119.3 |
| in billion US\$ | 330.2 | 361.3 | 395.4 | 432.6 | 473.4 |
| Government revenues | | | | | |
| as % of GDP | 15.78% | 15.82% | 15.86% | 15.90% | 15.94% |
| in billion Php | | | | | |
| Government expenditures including interest payments | | | | | |
| as % of GDP | 17.78% | 17.86% | 17.87% | 17.91% | 17.95% |
| in billion Php | 2,495.81 | 2,742.98 | 3,002.35 | 3,292.96 | 3,611.70 |
| Deficit (as % of GDP) | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |

Source: authors' computations

⁵⁰ Solver tool in MS Excel

The optimistic scenario results are primarily based on time series analysis using an ARIMA model⁵¹. For the optimistic scenario of real GDP growth, maximum likelihood estimation using STATA 13 produced ARIMA [1,1,1] as the suitable model and yielded the real GDP growth forecasts for 2015-2019 in **Table 14**. **Annex B.12** has a technical note that explains the time series analysis that was conducted.

Table 13. Optimistic Scenario: GDP, Revenues and Expenditures

| | Optimistic | | | | |
|---|------------|----------|----------|----------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Real GDP growth (%) | 6.60% | 6.52% | 6.46% | 6.42% | 6.39% |
| Real GDP level | | | | | |
| in billion Php | 7,688.1 | 8,067.7 | 8,467.8 | 8,889.1 | 9,332.3 |
| in billion US\$ | 180.9 | 189.8 | 199.2 | 209.2 | 219.6 |
| Nominal GDP level | | | | | |
| in billion Php | 14,245.3 | 15,576.1 | 17,034.7 | 18,632.8 | 20,383.1 |
| in billion US\$ | 335.2 | 366.5 | 400.8 | 438.4 | 479.6 |
| Government revenues | | | | | |
| as % of GDP | 16.41% | 17.72% | 18.01% | 18.30% | 18.60% |
| in billion Php | 2,337.30 | 2,760.80 | | | |
| Government expenditures including interest payments | | | | | |
| as % of GDP | 18.41% | 19.79% | 20.01% | 20.30% | 20.60% |
| in billion Php | 2,622.60 | 3,082.80 | 3,408.95 | 3,783.12 | 4,198.91 |
| Deficit (as % of GDP) | 2.0% | 2.1% | 2.0% | 2.0% | 2.0% |

⁵¹ ARIMA models are a general class of models used in forecasting time series. These models are univariate, meaning the only information available is on one variable and the data is the history of the series. In ARIMA (p,d,q) model, p is the number of autoregressive terms, d is the number of non-seasonal differences, and q is the number of moving average lags. The minimum number of observations needed in order to get a time series analysis model that can provide a good forecast is not easy to determine. A good enough number may be defined as something that is sufficient to withstand critical scrutiny, and a sufficient number is usually very large. This is why univariate time series models are usually used in high-frequency data like financial data (e.g., hourly foreign exchange rates, daily stock prices, monthly housing prices) and for short-term forecasting. For longer-term forecasting, modeling using structural equations is usually relied on. We followed Box and Jenkins' recommendation of a minimum of 50 observations for an ARIMA model, but with the proviso that a model with seasonal effects has to have enough observations. Of all the variables analyzed in this study, only the real GDP data has long enough time series. Real GDP data for 1946 to 2013, a total of 67 observations, are available from the BSP. The other variables do not have sufficiently long time series.

Table 14. Real GDP Growth Forecasts using ARIMA [1,1,1]

| Year | Real GDP growth (in %) |
|------|------------------------|
| 2015 | 6.60184 |
| 2016 | 6.52188 |
| 2017 | 6.46426 |
| 2018 | 6.42276 |
| 2019 | 6.39285 |

The other assumptions in the optimistic scenario are as follows:

- The revenues for 2015 and 2016 are the "committed" or "anticipated" revenue targets of the government and given the nominal GDP projections, these imply a revenue effort of 16.41 percent of GDP and 17.72 percent of GDP, respectively. The reasonable medium-term target [i.e., at the end of the five-year period] is that the Philippines' revenue effort will be at par with its peers in the ASEAN region. The latest available data on average revenue effort in ASEAN [excluding Brunei, which is an outlier because of its large petroleum revenues] is 18.6 percent of GDP as of 2012. Using the 18.6 percent revenue effort target in 2019, the revenue effort targets for 2017 and 2018 are interpolated.
- The expenditures for 2015 and 2016 are the "programmed" expenditures of the government and given the optimistic nominal GDP projections, these imply an expenditure-GDP ratio of 18.41 percent of GDP and 19.79 percent of GDP, both of which satisfy the constraint that fiscal deficit be maintained at 2 percent of GDP. The government has made announcements that the public infrastructure spending would be 5 percent of GDP before the current administration ends. Based on the officially programmed expenditures, however, such spending would still be below 5 percent by 2016. Using linear programming and with the constraint that the 5 percent-of-GDP target for public infrastructure spending is moved to 2019, the total public expenditure-GDP ratio in 2019 would be 20.6 percent and the fiscal deficit would be 2 percent. Interpolating the estimates for 2017 and 2018 yield an expenditure-GDP ratio of 20.01 percent and 20.3 percent, respectively.

The assumptions of the highly optimistic scenario projections for GDP, revenues and expenditures [Table 15] are as follows:

- GDP growth will be the mid-point between the government's aspirational goal of 7 percent to 8 percent
- Just like in the optimistic scenario, the revenues for 2015 and 2016 are the "committed" or "anticipated" revenue targets of the government. Given the highly optimistic nominal GDP projections, these imply a revenue effort of 16.27 percent of GDP and 17.16 percent of GDP for 2015 and 2019, respectively. The revenue effort targets for 2017 and 2018 are also interpolated using the benchmark 18.6 percent revenue effort target in 2019.

- Just like in the optimistic scenario, the expenditures for 2015 and 2016 are the "programmed" expenditures of the government. Given the highly optimistic nominal GDP projections, these imply an expenditure-GDP ratio of 18.26 percent of GDP and 19.6 percent of GDP for 2015 and 2016, respectively, both of which satisfy the constraint that fiscal deficit be maintained at 2 percent of GDP. The public expenditure-GDP ratios in 2017-2019 were interpolated using the same method as in the optimistic scenario.

Table 15. Highly Optimistic Scenario - 2015-2019 GDP, Revenues and Expenditures

| | Highly Optimistic | | | | |
|---|-------------------|----------|----------|----------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Real GDP growth (%) | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% |
| Real GDP level | | | | | |
| in billion Php | 7,752.9 | 8,334.3 | 8,959.4 | 9,631.4 | 10,353.7 |
| in billion US\$ | 182.4 | 196.1 | 210.8 | 226.6 | 243.6 |
| Nominal GDP level | | | | | |
| in billion Php | 14,365.3 | 16,090.9 | 18,023.8 | 20,188.8 | 22,613.9 |
| in billion US\$ | 338.0 | 378.6 | 424.1 | 475.0 | 532.1 |
| Government revenues | | | | | |
| as % of GDP | 16.27% | 17.16% | 17.63% | 18.11% | 18.60% |
| in billion Php | 2,337.30 | 2,760.80 | | | |
| Government expenditures including interest payments | | | | | |
| as % of GDP | 18.26% | 19.16% | 19.66% | 20.16% | 20.68% |
| in billion Php | 2,622.60 | 3,082.80 | 3,542.57 | 4,069.85 | 4,675.95 |
| Deficit (as % of GDP) | 2.0% | 2.0% | 2.0% | 2.1% | 2.1% |

Source: authors' computations.

4.2.2 Projections of other development finance flows

Given the fiscal deficit implications of the business-as-usual scenario for GDP, revenues and expenditures, **Table 16** below shows the borrowings needed to finance the deficit. The DOF pronouncements on the borrowing mix for 2014 and 2015 show a 1 percent increase in the proportion of domestic borrowing. It is therefore assumed that a gradual increase in domestic borrowing proportion by 1 percent every year will be implemented. Thus, the proportion of external borrowing in the borrowing mix is projected to decline by 1 percent every year. It cannot be projected how much of this external borrowing will be ODA loans since this will be a policy decision and there are no indications or official pronouncements at this point on the level of ODA desired by the Philippine government. The table below also assumes that FDI growth will track the average past performance, that is, 4.27 percent average annual growth. Remittances will also be stable at around 9 percent of GDP, as these had been in the past.

The fiscal deficit implications of the optimistic and highly optimistic scenarios for GDP, revenues and expenditures show larger borrowing requirements in order to finance the deficit. These scenarios assume the same borrowing mix policy as in the business-as-usual scenario. It is difficult to assume a different policy for lack of any basis aside from government policy pronouncements. Since the total borrowing requirements are larger in these scenarios relative to the business-as-usual scenario, the external borrowing component each year is also larger.

Table 16. Business as Usual - Projections of Other Development Finance Flows, 2015-2019

| | Business as Usual | | | | |
|--|-------------------|-----------|-----------|-----------|-----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fiscal deficit as % of GDP | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Projected Borrowings | | | | | |
| Borrowing mix | | | | | |
| Domestic (% of total) | 86% | 87% | 89% | 90% | 91% |
| External (% of total) | 14% | 13% | 11% | 10% | 9% |
| Domestic borrowings (in million US\$, nominal) | 5,700.70 | 6,424.92 | 7,063.91 | 7,816.47 | 8,648.13 |
| External borrowings (in million US\$, nominal) | 928.02 | 960.05 | 873.07 | 868.50 | 855.31 |
| Foreign Direct Investments | | | | | |
| growth (%) | 4.27% | 4.27% | 4.27% | 4.27% | 4.27% |
| level (in million US\$) | 6,171.87 | 6,435.68 | 6,710.78 | 6,997.63 | 7,296.74 |
| Remittances | | | | | |
| as % of GDP | 9% | 9% | 9% | 9% | 9% |
| level (in million US\$) | 29,717.74 | 32,518.35 | 35,582.90 | 38,936.24 | 42,605.61 |

Source: authors' computations.

FDI growth is assumed to grow at a high level but not as high as the 53.55 percent average annual growth exhibited in 2010-2013. It is assumed that the high cost of electricity and the risk of policy reversals after the 2016 national election will moderately dampen this very high FDI growth. Thus, it is deemed reasonable to assume a 50 percent discount on the 53.55 percent FDI growth rate.

In the optimistic and highly optimistic cases wherein high economic growth will continue [with the former assuming ARIMA forecast results and the latter assuming the mid-point of government forecasts], there can be two outlook on remittances. First, domestic job opportunities will be so numerous and satisfactory such that prospective overseas Filipino workers will no longer find working abroad as attractive as working domestically. An alternative scenario is that the structural transformation of the economy through growth of manufacturing and industry, and further growth in the services sector will tap the huge surplus labor in the

country indicated by the high unemployment [7.3 percent of 2.99 million unemployed Filipinos] and underemployment [19.8 percent of the labor force or 7.51 million underemployed Filipinos] rates, leaving the pattern of overseas employment unchanged at least in the medium term. This study believes that given high and sustained GDP growth, the latter scenario is likely to happen in the near future. Thus, high GDP growth coupled with a stable 9 percent remittance-GDP ratio is assumed in the optimistic and highly optimistic scenarios, implying the remittance levels in **Tables 17 and 18**.

Table 17. Optimistic Scenario - Projections of Other Development Finance Flows, 2015-2019

| | Optimistic | | | | |
|--|------------|-----------|-----------|-----------|-----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fiscal deficit as % of GDP | 2.0% | 2.1% | 2.0% | 2.0% | 2.0% |
| Projected Borrowings | | | | | |
| Borrowing mix | | | | | |
| Domestic (% of total) | 86% | 87% | 89% | 90% | 91% |
| External (% of total) | 14% | 13% | 11% | 10% | 9% |
| Domestic borrowings (in million US\$, nominal) | 5,773.13 | 6,591.53 | 7,134.55 | 7,891.56 | 8,728.75 |
| External borrowings (in million US\$, nominal) | 939.81 | 984.94 | 881.80 | 876.84 | 863.28 |
| Foreign Direct Investments | | | | | |
| growth (%) | 26.67% | 26.67% | 26.67% | 26.67% | 26.67% |
| level (in million US\$) | 7,497.62 | 9,497.49 | 12,030.79 | 15,239.80 | 19,304.76 |
| Remittances | | | | | |
| as % of GDP | 9% | 9% | 9% | 9% | 9% |
| level (in million US\$) | 30,166.47 | 32,984.61 | 36,073.57 | 39,457.78 | 43,164.16 |

Table 18. Highly Optimistic Scenario - Projections of Other Development Finance Flows, 2015-2019

| | Highly Optimistic | | | | |
|--|-------------------|----------|----------|----------|-----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fiscal deficit as % of GDP | 2.0% | 2.0% | 2.0% | 2.1% | 2.1% |
| Projected Borrowings | | | | | |
| Borrowing mix | | | | | |
| Domestic (% of total) | 86% | 87% | 89% | 90% | 91% |
| External (% of total) | 14% | 13% | 11% | 10% | 9% |
| Domestic borrowings (in million US\$, nominal) | 5,773.13 | 6,591.53 | 7,660.20 | 8,776.16 | 10,058.36 |
| External borrowings (in million US\$, nominal) | 939.81 | 984.94 | 946.77 | 975.13 | 994.78 |
| Foreign Direct Investments | | | | | |

| | Highly Optimistic | | | | |
|-------------------------|-------------------|-----------|-----------|-----------|-----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| growth (%) | 26.67% | 26.67% | 26.67% | 26.67% | 26.67% |
| level (in million US\$) | 7,497.62 | 9,497.49 | 12,030.79 | 15,239.80 | 19,304.76 |
| Remittances | | | | | |
| as % of GDP | 9% | 9% | 9% | 9% | 9% |
| level (in million US\$) | 30,420.64 | 34,074.82 | 38,167.95 | 42,752.75 | 47,888.29 |

Source: authors' computations.

In the case of public-private partnerships [PPPs], it is assumed that under the optimistic scenario, the pipeline of PPPs will not encounter delays. This means that the USD 4.93 billion financing required for the PPP pipeline projects, excluding those projects for which cost estimates have not yet been done, can be mobilized from domestic and foreign capital markets within the medium term. On the other hand, under the business-as-usual scenario delays in review and approval could be encountered but the extent of such delays is difficult to project.

5. CONCLUSIONS AND RECOMMENDATIONS

Development finance could be made more effective to support the Philippine development agenda. This study examines the changing landscape of development finance in the Philippines. The mapping exercise shows a wide array of development finance flows, some traditional, others non-traditional that can be harnessed to finance the country's development agenda.

From the perspective of development finance, the Philippines is currently in a 'sweet' spot, so to speak, because of the accessibility of bigger volumes of development finance that was not the situation many years ago. This phenomenon is explained by (a) an improving fiscal position brought about by fiscal reforms and good governance, (b) credit rating upgrades that have lowered the cost of foreign borrowing and have given a seal of good housekeeping for the economy, (c) strong commitment made by the international donor community to keep ODA flowing, (d) an improving private financial markets in a regime of low inflation, financial stability and liquidity, (e) continuing stream of substantial amounts of remittances from overseas Filipino workers, and (f) strong economic performance, which has started to attract more foreign direct investments.

Government should stay the course in policy and institutional reforms, and in the case of development finance, reform efforts for more effective domestic resource mobilization, principally through more effective taxation and expenditure management, and more efficient domestic financial markets should be a principal priority.

Traditional ODA financing is declining in importance. However, there is a new strategic use for ODA funds and this has to be exploited. New development funds for climate change,

health pandemics, and regional infrastructure have been by the international donor community for finance regional public goods, not otherwise within the capacity of developing countries like the Philippines to finance.

Domestic borrowing is the likely principal instrument for financing the fiscal deficit even as the government maintains some presence in the foreign capital markets for strategic reasons. As the economy sustains its growth trajectory, domestic finance bolstered by the entry of more foreign banks in the country will take a greater role in development finance.⁵²

Non-traditional development finance is emerging as an important source of development financing, principally with the continuous growth of domestic credit extended by the banking sector, and the use of PPP schemes to finance and build infrastructure. If properly and effectively managed, PPPs will address the country's infrastructure lack and at the same time free up government resources that could be used for other development concerns.

Foreign direct investments show great potential given the more positive outlook on the Philippine economy. The government has to improve the policy environment and regulatory frameworks and manage political risks more efficiently to bolster investor confidence.

Remittances are a steady and stable stream of external resources flowing into the country that have helped strengthen the macroeconomic framework and more importantly, financed household consumption and investment requirements. Remittances and donations from overseas Filipinos can be channeled to human capital investments such as education and health.

Private sector inclusive finance initiatives will make accessible financial services to the excluded segment of the population and help create opportunities for them. Similarly, private corporate social responsibility (CSR) development activities, e.g., environmental protection in mining areas can likewise become significant sources of development finance at the local level if they can move out of their original public-relations objective toward developmental intervention in host communities. There is a need to nudge the private sector into the development cooperation nexus.

This discussion points to the need for an overall Philippine Development Cooperation Strategy that provides for the convergence of PDP and different donor CAS. It will be useful to have a Philippine Development Cooperation Strategy that is animated by common goals, principles, policies, and a sustainable financing framework for the country's development agenda that are shared by the government, the donor community, civil society and other interested stakeholders⁵³. Proper mapping of the individual development partner cooperation strategy into the government's policy and development results space will provide government

⁵² A new law Republic Act 10641 allowing the full entry of foreign banks in the Philippines was signed by the President on July 15, 2014.

⁵³ However, there is no such overall document. Instead there are individual development cooperation strategy (DCS) documents of various ODA partners signed with the government (e.g., Australia-Philippines Development Cooperation Strategy, USAID-Philippines Country Development Cooperation Strategy, WHO Country Cooperation Strategy for the Philippines, World Bank Country Assistance Strategy for the Philippines, and others).

with comprehensive and intensive information on how to best harness development finance and aid offered by development partners in pursuit of development outcomes. Development partner DCS and specific donor interventions should be reviewed by government and other stakeholders to ensure consistency with the Philippine Development Plan.

Future trends indicate that the country could raise the necessary financing to support the development agenda. While there has been some headway in making development finance effective for the country, the following recommendations may further improve the utilization and management of development finance:

To maximize the effectiveness of development finance

- Improve the quality of the Philippine Development Plan [PDP] by using more evidence-based recommendations in framing strategies, policies and interventions. Evaluate the results of the PAPs to determine what strategies and interventions work⁵⁴.
- Ensure ownership of the PDP by whole-of-government, more specifically, implementing agencies that are responsible for designing and implementing sectorial public investments by making those agencies more accountable for their PAPs.
- Use the PDP as platform for better coordination of various country assistance strategies [CAS] of donors.

To strengthen the complementarity and value added of development finance flows

- Engage donors in a dialogue to determine how their respective CAS contributes to the attainment of desired development outcomes [inclusive growth]. Develop a Philippine Development Cooperation Strategy as a blueprint for the convergence of government and donor development initiatives.
- Work closely with donors in exploiting an important emerging role for bilateral and multilateral donors in the provision of key public goods: (i) disaster prevention, post-disaster rehabilitation and post-conflict transition (such as the Bangsamoro transition), (ii) social safety nets similar to conditional cash transfer programs, and (iii) productivity-enhancing research and development and technical assistance for capacity building, e.g., financing SME innovations⁵⁵.
- Use ODA to have a more strategic and catalytic role in attracting private capital to finance certain public goods by focusing on credit enhancements, e.g., loan guarantees for projects

⁵⁴ The importance of impartial evaluations is illustrated in the case of the Pantawid Pamilyang Pilipino Program (4Ps), the government's Conditional Cash Transfer Program whose expansion in terms of funding and coverage was justified on the basis of empirical findings showing its efficacy in improving human capital (see **Annex B.13**).

⁵⁵ **Annex B.14** shows the different types of regional public goods. An International Public Good (IPG) is a Public Good which provides benefits crossing national borders of the producing country. A Regional Public Good (RPG) is an International Public Good which displays spill-over benefits to countries in the neighbourhood of the producing country, in a region which is smaller than the rest of the world. A Global Public Good (GPG) is an International Public Good which, while not necessarily to the same extent, benefits consumers all over the world. These definitions are from Reisen, H., M. Soto, and T. Weithoner (2004), "Financing Global and Regional Public Goods through ODA: Analysis and Evidence from the OECD Creditor Reporting System", Working Paper 232, OECD Development Centre.

to entice private capital, building institutional capacities in evaluating and monitoring PPP projects, and investing in social public goods such as disaster risk management, climate change measures, etc.

- Explore the usefulness of a “viability gap fund” as an instrument to enhance the commercial viability of a public sector project, and thus, encourage more private sector investments⁵⁶.
- Continue with institutional reforms, e.g., ensuring competition, cost recovery tariffs, to make PPPs an attractive vehicle for infrastructure development⁵⁷.
- For inclusive growth purposes, consider providing labor-intensive, job-creating FDIs in manufacturing and agriculture with appropriate incentives⁵⁸.
- Review the effectiveness of the country’s tax system at the national and local level to increase revenue effort. Broaden the tax base and make the tax system more efficient and more equitable.
- Continue with reforms in tax administration, budgetary policy and expenditure management at the national and local government levels.

To strengthen institutional arrangements for ODA

- Ensure that ODA-funded projects are matched with the required assistance in focus areas identified under the PDP and Budget Priorities Framework to improve the channeling and the distribution of loans and grants to priority areas identified by the government.
- Strengthen the technical capacity of the different working groups of the Philippine Development Forum to ensure convergence of donor efforts with priorities established by the PDP and the Budget Priorities Framework.
- Strengthen institutional arrangement for oversight of development finance and aid through better coordination and a convergent policy among government agencies⁵⁹.
- Collaborate with the private sector in making CSRs more strategic and better targeted. Undertake a mapping of such CSRs at the local community level in cooperation with the corporates and the different LGU leagues, e.g., League of Provinces.

⁵⁶ An example of a project in the current PPP pipeline that will be using viability gap funding is the LRT Line 1 South (Cavite Extension and Operation and Maintenance) project. In the LRT Line 1 South project, the government will finance the: rolling stocks, new satellite depot, expansion of an existing depot, and rehabilitation works on the existing system. The main responsibilities of the private project proponent, on the other hand, are: construction of the Cavite extension system, system enhancement works, and operation and maintenance of the integrated LRT 1 system. The PHP 6-billion viability gap fund for the project was approved by the NEDA Board on November 21, 2013.

⁵⁷ In infrastructure the government has financed right-of-way and basic civil works with the private sector financing the construction of toll roads or assuming the task of maintenance and operation of mass rail transit.

⁵⁸ This is to encourage use of the country’s abundant labor resources in manufacturing and agriculture. All manufacturing and agriculture related foreign direct investments may also be asked to include an agreed CSR focus, say financial functional literacy training for its employees and their households as part of the conditions for their investment. They may also be requested to adopt a particular community for their CSR activities, or in the case of inclusive finance, partner with a MFI of their choice in promoting financial literacy and numeracy.

⁵⁹ A case in point is the successful implementation and later, expansion of a conditional cash transfer program (CCT) called the *Pantawid Pamilyang Pilipino Program (4Ps)*, which started in 2008. This program benefited from close coordination between the donor (World Bank), the principal government agency implementing the program (Department of Social Work and Development) and the oversight agencies (NEDA, DOF, DBM). Third party academics conducted impact evaluation studies to determine the efficacy of this intervention.

To effectively monitor development finance

- Provide NEDA-MES with technical assistance (training, exposure visits to other countries on development effectiveness and advisory services) to build in-house monitoring and evaluation capacity⁶⁰.

⁶⁰ Technical assistance in project development and capacity-building for PPP evaluation and monitoring is also another role wherein ODA will continue to be relevant. The Australian Agency for International Development (AusAID) is currently a key player in this area through its participation in the Project Development and Monitoring Fund (PDMF).

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ANNEXES

TABLES

Table 1. Annual growth rates and share to GDP, Philippines

At constant 2000 prices and in percent, unless otherwise stated

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Gross National Income (GNI) | 7.7 | 3.6 | 4.1 | 8.5 | 7.1 | 7.0 | 5.0 | 6.2 | 5.0 | 6.1 | -2.0 | 2.8 | 6.5 | 7.5 |
| Gross Domestic Product (GDP) | 4.4 | 2.9 | 3.6 | 5.0 | 6.7 | 4.8 | 5.2 | 6.6 | 4.2 | 1.1 | 7.6 | 3.6 | 6.8 | 7.2 |
| GDP by Expenditure Shares | | | | | | | | | | | | | | |
| 1. Household Final Consumption Expenditure | 5.2 | 4.1 | 5.1 | 5.5 | 6.0 | 4.4 | 4.2 | 4.6 | 3.7 | 2.3 | 3.4 | 5.7 | 6.6 | 5.6 |
| <i>Percent share to total GDP</i> | <i>72.2</i> | <i>73.0</i> | <i>74.1</i> | <i>74.4</i> | <i>73.9</i> | <i>73.7</i> | <i>72.9</i> | <i>71.6</i> | <i>71.2</i> | <i>72.1</i> | <i>69.2</i> | <i>70.6</i> | <i>70.4</i> | <i>69.4</i> |
| 2. Government Final Consumption Expenditure | -1.0 | -1.6 | -4.0 | 3.6 | 2.0 | 2.1 | 10.6 | 6.9 | 0.3 | 10.9 | 4.0 | 2.1 | 12.2 | 8.6 |
| <i>Percent share to total GDP</i> | <i>11.4</i> | <i>10.9</i> | <i>10.1</i> | <i>10.0</i> | <i>9.6</i> | <i>9.3</i> | <i>9.8</i> | <i>9.8</i> | <i>9.4</i> | <i>10.4</i> | <i>10.0</i> | <i>9.9</i> | <i>10.3</i> | <i>10.5</i> |
| 3. Capital Formation | 11.5 | -2.7 | 2.9 | 6.8 | 1.8 | 2.5 | 5.3 | -0.5 | 23.4 | -8.7 | 31.6 | 2.0 | -3.2 | 18.2 |
| <i>Percent share to total GDP</i> | <i>18.4</i> | <i>22.1</i> | <i>24.7</i> | <i>23.4</i> | <i>21.5</i> | <i>21.1</i> | <i>17.0</i> | <i>15.9</i> | <i>18.8</i> | <i>17.0</i> | <i>20.8</i> | <i>20.4</i> | <i>18.5</i> | <i>20.4</i> |
| 4. Exports | 13.7 | -7.1 | 4.7 | 4.5 | 12.8 | 5.0 | 12.6 | 6.7 | -2.7 | -7.8 | 21.0 | -2.8 | 8.9 | 0.8 |
| <i>Percent share to total GDP</i> | <i>51.4</i> | <i>46.4</i> | <i>46.9</i> | <i>46.6</i> | <i>49.3</i> | <i>49.4</i> | <i>52.8</i> | <i>52.9</i> | <i>49.4</i> | <i>45.0</i> | <i>50.6</i> | <i>47.5</i> | <i>48.4</i> | <i>45.5</i> |
| 5. Imports | 11.8 | 1.2 | 10.1 | 2.6 | 6.2 | 3.3 | 3.5 | 1.7 | 1.6 | -8.1 | 22.5 | -1.0 | 5.3 | 4.3 |
| <i>Percent share to total GDP</i> | <i>53.4</i> | <i>52.5</i> | <i>55.7</i> | <i>54.5</i> | <i>54.2</i> | <i>53.4</i> | <i>52.6</i> | <i>50.1</i> | <i>48.9</i> | <i>44.4</i> | <i>50.6</i> | <i>48.3</i> | <i>47.6</i> | <i>46.4</i> |
| GDP by Industrial Origin | | | | | | | | | | | | | | |
| 1. Agriculture, Hunting, Forestry and Fishing | 3.4 | 3.4 | 3.3 | 4.7 | 4.3 | 2.2 | 3.6 | 4.7 | 3.2 | -0.7 | -0.2 | 2.6 | 2.8 | 1.1 |

| | | | | | | | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|------------|------------|------------|
| <i>Percent share to total GDP</i> | 14.0 | 14.0 | 14.0 | 14.0 | 13.6 | 13.3 | 13.1 | 12.9 | 12.8 | 12.5 | 11.6 | 11.5 | 11.1 | 10.4 |
| 2. Industry Sector | 6.5 | 1.0 | 2.9 | 4.3 | 5.2 | 4.2 | 4.6 | 5.8 | 4.8 | -1.9 | 11.6 | 1.8 | 6.8 | 9.5 |
| <i>Percent share to total GDP</i> | 34.5 | 33.8 | 33.6 | 33.3 | 32.9 | 32.7 | 32.5 | 32.2 | 32.4 | 31.5 | 32.6 | 32.0 | 32.0 | 32.7 |
| <i>of which (growth rates):</i> | | | | | | | | | | | | | | |
| <i>Mining and Quarrying</i> | 2.7 | -5.4 | 64.2 | 13.1 | -4.8 | 15.9 | -0.2 | 18.6 | -1.4 | 16.1 | 11.4 | 7.0 | 2.2 | -2.5 |
| <i>Manufacturing</i> | 5.5 | 2.7 | 3.0 | 3.7 | 5.2 | 5.0 | 4.1 | 3.6 | 4.3 | -4.8 | 11.2 | 4.7 | 5.4 | 10.5 |
| <i>Construction</i> | 11.1 | -7.3 | -4.0 | 3.2 | 5.9 | -0.1 | 9.8 | 14.6 | 7.0 | 6.8 | 14.3 | -9.8 | 15.7 | 11.1 |
| <i>Electricity, Gas and Water</i> | 7.4 | 3.2 | 1.9 | 7.4 | 7.0 | 1.4 | 2.9 | 5.5 | 6.8 | -0.9 | 9.9 | 0.6 | 5.1 | 4.0 |
| 3. Service Sector | 3.3 | 4.0 | 4.2 | 5.5 | 8.3 | 5.8 | 6.0 | 7.6 | 4.0 | 3.4 | 7.2 | 4.9 | 7.6 | 7.1 |
| <i>Percent share to total GDP</i> | 51.6 | 52.1 | 52.4 | 52.7 | 53.5 | 54.0 | 54.4 | 54.9 | 54.8 | 56.0 | 55.8 | 56.5 | 56.9 | 56.8 |
| <i>of which (growth rates):</i> | | | | | | | | | | | | | | |
| <i>Transportation, Storage and Communication</i> | 8.2 | 10.8 | 10.3 | 12.2 | 12.1 | 7.1 | 4.3 | 8.4 | 3.9 | -0.1 | 1.0 | 4.3 | 8.1 | 5.5 |
| <i>Trade and Repair</i> | 6.9 | 5.3 | 3.9 | 5.1 | 7.4 | 5.9 | 6.0 | 8.6 | 1.4 | 1.4 | 8.4 | 3.3 | 7.5 | 6.5 |
| <i>Financial Intermediation</i> | 1.9 | 4.1 | 5.1 | 6.2 | 7.0 | 10.6 | 11.9 | 10.2 | 1.8 | 5.5 | 10.1 | 5.3 | 8.2 | 12.5 |
| <i>Real Estate</i> | -0.3 | -0.1 | 2.2 | 5.3 | 9.6 | 6.8 | 6.5 | 7.9 | 9.0 | 4.1 | 7.5 | 8.4 | 7.6 | 8.4 |
| <i>Public Administration and Defense</i> | 0.1 | 1.8 | 0.9 | 3.4 | 7.5 | 0.6 | 3.5 | 1.4 | 2.0 | 6.1 | 5.8 | 1.9 | 6.1 | 4.0 |
| <i>Other Services</i> | 0.9 | 2.9 | 3.8 | 2.2 | 6.5 | 3.5 | 4.8 | 6.1 | 6.0 | 6.5 | 8.4 | 5.6 | 7.8 | 5.4 |
| Core Inflation (2006=100) | 7.1 | 5.9 | 3.3 | 2.5 | 4.2 | 6.2 | 5.4 | 2.9 | 5.8 | 4.2 | 3.6 | 4.3 | 3.7 | 2.9 |
| Headline Inflation (2006=100) | 6.7 | 5.3 | 2.7 | 2.3 | 4.8 | 6.5 | 5.5 | 2.9 | 8.3 | 4.2 | 3.8 | 4.6 | 3.2 | 3.0 |

Source: Philippine Statistics Authority (PSA) and Bangko Sentral ng Pilipinas (BSP)

Table 2. Value of Imports (F.O.B value in thousand U.S Dollars), 2000 to 2012

| Countries | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total | 31,387,402 | 33,057,160 | 39,236,514 | 40,470,512 | 44,039,212 | 47,418,183 | 51,773,684 | 55,513,743 | 56,746,060 | 43,091,536 | 54,932,917 | 60,495,840 | 62,128,658 |
| Asia | 20,537,109 | 21,061,456 | 24,070,460 | 25,553,727 | 29,130,334 | 31,667,383 | 36,218,678 | 39,115,042 | 41,555,319 | 30,806,414 | 40,781,341 | 43,887,966 | 44,887,077 |
| ASEAN | 4,955,438 | 5,123,897 | 6,179,903 | 15,903,294 | 8,355,857 | 8,867,131 | 10,218,342 | 12,875,119 | 14,379,996 | 10,968,420 | 15,492,371 | 14,337,204 | 14,208,484 |
| East Asia | 12,311,053 | 12,994,151 | 15,444,398 | 15,903,294 | 18,026,502 | 18,816,046 | 20,357,781 | 20,401,184 | 19,604,338 | 16,647,032 | 20,350,439 | 22,740,116 | 23,996,802 |
| South Asia | 194,770 | 276,026 | 451,490 | 323,668 | 306,512 | 382,342 | 470,497 | 545,653 | 735,207 | 581,293 | 750,800 | 766,628 | 763,934 |
| Middle East | 3,075,848 | 2,667,382 | 1,994,670 | 2,523,176 | 2,441,462 | 3,601,864 | 5,172,057 | 5,293,086 | 6,835,778 | 2,609,671 | 4,187,731 | 6,044,018 | 5,917,857 |
| America | 5,709,959 | 6,923,594 | 9,937,070 | 9,602,561 | 9,054,671 | 9,850,576 | 9,185,771 | 8,810,204 | 8,212,597 | 6,041,170 | 6,867,008 | 7,641,332 | 8,138,995 |
| North America | 5,525,661 | 6,682,751 | 9,611,566 | 9,219,887 | 8,524,443 | 9,331,433 | 8,675,213 | 8,099,055 | 7,483,512 | 5,342,531 | 6,296,952 | 6,915,568 | 7,431,525 |
| Central America | 25,758 | 27,479 | 23,649 | 17,848 | 21,183 | 32,234 | 43,371 | 62,777 | 61,807 | 45,163 | 44,979 | 43,669 | 72,061 |
| South America | 158,540 | 213,364 | 301,855 | 364,826 | 509,045 | 486,909 | 467,187 | 648,372 | 667,278 | 653,477 | 525,077 | 682,094 | 635,409 |
| Europe | 3,423,039 | 3,393,502 | 3,639,796 | 3,889,006 | 4,387,070 | 4,294,667 | 4,775,647 | 5,508,236 | 4,696,246 | 3,614,067 | 4,600,003 | 6,142,399 | 5,862,762 |
| Western Europe | 1,792,099 | 1,661,052 | 1,786,950 | 2,165,447 | 2,592,833 | 2,486,336 | 2,693,469 | 2,901,635 | 2,757,181 | 2,237,892 | 2,734,000 | 3,164,643 | 3,264,742 |
| Northern Europe | 1,129,399 | 1,261,246 | 1,274,147 | 1,090,543 | 1,097,894 | 1,168,267 | 1,577,768 | 2,154,691 | 1,424,726 | 792,026 | 1,012,750 | 914,896 | 1,014,081 |
| Southern Europe | 260,869 | 242,591 | 202,332 | 280,404 | 316,340 | 282,520 | 297,580 | 341,823 | 378,938 | 321,712 | 393,044 | 511,389 | 564,221 |
| Eastern Europe | 240,673 | 228,612 | 20,182 | 352,612 | 380,003 | 357,544 | 206,803 | 110,087 | 135,401 | 262,437 | 460,209 | 1,551,471 | 1,019,718 |
| Oceania | 1,007,400 | 939,159 | 391,974 | 822,668 | 920,645 | 923,171 | 1,062,331 | 1,192,815 | 976,712 | 1,261,494 | 1,544,449 | 1,818,193 | 1,977,316 |
| Africa | 42,731 | 43,321 | 44,362 | 31,775 | 47,508 | 61,004 | 50,132 | 69,853 | 67,693 | 68,010 | 69,581 | 175,667 | 99,594 |
| Others | 667,164 | 696,129 | 290,664 | 570,775 | 498,985 | 621,381 | 481,125 | 817,593 | 1,237,492 | 1,300,381 | 1,070,535 | 830,284 | 1,162,914 |

Source: PSA-National Statistics Office

Table 3. Value of Exports (F.O.B value in thousand U.S Dollars), 2000 to 2012

| Countries | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total | 38,078,250 | 32,150,203 | 35,208,159 | 36,231,205 | 39,680,520 | 41,254,683 | 47,410,117 | 50,465,724 | 49,077,541 | 38,435,796 | 51,497,515 | 48,304,928 | 52,099,520 |
| Asia | 18,471,697 | 15,865,593 | 18,647,469 | 21,727,621 | 24,310,855 | 25,448,185 | 28,413,333 | 31,407,516 | 30,443,932 | 22,052,751 | 34,421,695 | 32,685,229 | 36,342,112 |
| ASEAN | 5,982,697 | 4,986,020 | 5,529,686 | 6,581,681 | 6,837,883 | 7,143,786 | 8,192,204 | 8,031,906 | 7,081,712 | 5,844,310 | 11,545,359 | 8,693,733 | 9,807,597 |
| East Asia | 12,213,086 | 10,601,664 | 12,831,532 | 14,812,357 | 1,712,156 | 17,903,218 | 19,684,596 | 22,614,708 | 22,514,395 | 15,508,386 | 21,896,514 | 23,055,341 | 25,650,362 |
| South Asia | 95,812 | 94,179 | 112,167 | 135,908 | 125,311 | 149,057 | 191,054 | 315,005 | 317,611 | 280,360 | 535,686 | 504,544 | 420,975 |
| Middle East | 180,181 | 183,731 | 174,083 | 197,675 | 225,705 | 252,123 | 345,479 | 445,897 | 530,214 | 419,695 | 444,136 | 431,611 | 463,178 |
| America | 12,050,410 | 9,482,615 | 9,405,909 | 7,728,585 | 7,579,015 | 7,910,657 | 9,239,973 | 9,136,016 | 8,782,864 | 7,299,779 | 8,361,264 | 8,095,397 | 8,393,771 |
| North America | 11,708,624 | 9,261,193 | 9,061,286 | 7,581,585 | 7,369,203 | 7,682,903 | 8,975,625 | 8,851,777 | 8,474,663 | 7,027,467 | 7,892,721 | 7,518,182 | 7,925,624 |
| Central America | 284,582 | 162,658 | 301,884 | 110,777 | 133,920 | 125,145 | 143,638 | 160,899 | 173,648 | 133,493 | 269,379 | 336,678 | 225,163 |
| South America | 57,204 | 58,764 | 42,739 | 35,823 | 75,981 | 102,609 | 120,710 | 123,341 | 134,552 | 138,819 | 199,163 | 240,537 | 242,984 |
| Europe | 6,896,568 | 6,270,630 | 6,427,782 | 5,935,303 | 6,578,915 | 6,867,434 | 8,632,199 | 8,470,802 | 8,360,488 | 7,938,567 | 7,257,985 | 5,885,161 | 6,092,164 |
| Western Europe | 4,823,623 | 4,825,182 | 5,037,838 | 4,681,989 | 5,517,305 | 5,888,004 | 7,589,081 | 7,340,724 | 7,142,877 | 7,096,205 | 6,022,390 | 4,660,161 | 4,667,009 |
| Northern Europe | 1,761,596 | 1,202,164 | 1,167,430 | 972,353 | 768,448 | 640,385 | 683,325 | 699,360 | 670,716 | 434,412 | 578,957 | 661,034 | 933,953 |
| Southern Europe | 299,505 | 222,906 | 202,332 | 258,307 | 262,054 | 285,801 | 319,834 | 386,524 | 479,321 | 327,830 | 554,118 | 462,737 | 379,075 |
| Eastern Europe | 11,845 | 20,378 | 20,182 | 22,653 | 31,108 | 53,224 | 36,960 | 44,195 | 67,575 | 80,120 | 102,520 | 101,229 | 112,127 |
| Oceania | 345,908 | 258,550 | 391,974 | 462,008 | 553,523 | 518,166 | 561,235 | 677,850 | 561,386 | 344,566 | 407,338 | 476,181 | 473,545 |
| Africa | 41,711 | 37,515 | 44,362 | 58,570 | 55,362 | 54,996 | 66,783 | 131,418 | 116,142 | 119,223 | 164,878 | 175,276 | 133,055 |
| Other s | 271,955 | 235,300 | 290,664 | 319,119 | 602,851 | 455,246 | 496,593 | 642,121 | 812,728 | 680,912 | 884,355 | 987,684 | 664,873 |

Source: PSA-National Statistics Office

Table 4. National Government Revenues (in million PHP)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Revenues | 514,762 | 567,481 | 578,406 | 639,737 | 706,718 | 816,159 | 979,638 | 1,136,560 | 1,202,905 | 1,123,211 | 1,207,926 | 1,359,942 | 1,534,932 | 1,716,093 |
| <i>Tax Revenues</i> | 460,034 | 493,608 | 507,637 | 550,468 | 604,964 | 705,615 | 859,857 | 932,937 | 1,049,189 | 981,631 | 1,207,520 | 1,202,066 | 1,361,081 | 1,535,310 |
| Bureau of Internal Revenue | 360,802 | 388,679 | 402,742 | 427,350 | 470,329 | 542,697 | 652,734 | 713,605 | 778,581 | 750,287 | 822,623 | 924,146 | 1,057,916 | 1,216,661 |
| Bureau of Customs | 95,006 | 99,981 | 99,322 | 117,201 | 127,269 | 154,566 | 198,161 | 209,439 | 260,248 | 220,307 | 259,241 | 265,108 | 289,866 | 304,537 |
| Other Offices | 4,226 | 4,948 | 5,573 | 5,917 | 7,366 | 8,352 | 8,962 | 9,893 | 10,360 | 11,037 | 11,779 | 12,812 | 13,299 | 14,112 |
| <i>Non-tax Revenues</i> | 53,352 | 53,352 | 53,352 | 53,352 | 101,680 | 110,456 | 119,598 | 203,473 | 153,591 | 141,389 | 113,877 | 157,621 | 173,752 | 180,462 |
| <i>Grants</i> | 1,376 | 1,376 | 1,052 | 1,198 | 74 | 88 | 183 | 150 | 125 | 191 | 406 | 255 | 99 | 321 |
| Total Revenues, as % of GDP | 14.4% | 14.6% | 13.8% | 14.1% | 13.8% | 14.4% | 15.6% | 16.5% | 15.6% | 14.0% | 13.4% | 14.0% | 14.5% | 14.9% |
| Expenditures | 648,974 | 714,504 | 789,147 | 839,605 | 893,775 | 962,937 | 1,044,429 | 1,149,001 | 1,271,022 | 1,421,743 | 1,522,384 | 1,557,696 | 1,777,759 | 1,880,155 |
| Allotment to Local Government Units | 99,816 | 118,179 | 140,540 | 145,502 | 147,524 | 160,550 | 174,713 | 193,712 | 222,995 | 264,645 | 279,552 | 315,114 | 298,322 | 317,255 |
| Interest Payments | 140,894 | 174,834 | 185,861 | 226,408 | 260,901 | 299,807 | 310,108 | 267,800 | 272,218 | 278,866 | 294,244 | 278,996 | 312,799 | 323,434 |
| Subsidy | 3,586 | 3,749 | 3,072 | 11,109 | 14,242 | 12,237 | 13,810 | 27,336 | 21,109 | 17,439 | 21,005 | 53,705 | 42,637 | 19,002 |
| Equity | 9,064 | 9,365 | 7,584 | 14,977 | 44 | 190 | 3,561 | 3,729 | 1,691 | 1,359 | 2,149 | 12,889 | 21,340 | 66,329 |
| Net Lending | 536 | 484 | 1,486 | 2,623 | 5,676 | 1,707 | 131 | 9,750 | 14,393 | 5,064 | 9,258 | 18,055 | 27,421 | 11,479 |
| Tax Expenditures | 2,634 | 3,944 | 2,626 | 5,620 | 4,798 | 13,319 | 15,577 | 24,984 | 49,717 | 45,231 | 39,693 | 25,831 | 32,281 | 16,626 |
| Others | 392,444 | 403,949 | 447,978 | 433,366 | 460,590 | 475,127 | 526,529 | 621,690 | 688,899 | 809,139 | 876,483 | 853,106 | 1,042,959 | 1,126,030 |
| Total Expenditures, as % of GDP | 18.1% | 18.4% | 18.8% | 18.5% | 17.5% | 17.0% | 16.7% | 16.7% | 16.5% | 17.7% | 16.9% | 16.0% | 16.8% | 16.3% |
| Surplus (Deficit) | (134,212) | (147,023) | (210,741) | (199,868) | (187,057) | (146,778) | (64,791) | (12,441) | (68,117) | (298,532) | (314,458) | (197,754) | (242,827) | (164,062) |
| As % of GDP | -3.7% | -3.8% | -5.0% | -4.4% | -3.7% | -2.6% | -1.0% | -0.2% | -0.9% | -3.7% | -3.5% | -2.0% | -2.3% | -1.4% |
| GDP Nominal | 3,580,714 | 3,888,801 | 4,198,345 | 4,548,102 | 5,120,435 | 5,677,750 | 6,271,157 | 6,892,721 | 7,720,903 | 8,026,143 | 9,003,480 | 9,706,268 | 10,564,886 | 11,546,104 |

Source: Bureau of Treasury, Philippine Statistics Authority

Table 5. Debt-to-GDP Ratio, Philippines (In Billion PHP)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Total Debt | 2,166.710 | 2,384.917 | 2,815.468 | 3,355.108 | 3,812.000 | 3,888.200 | 3,851.500 | 3,712.500 | 4,220.900 | 4,396.600 | 4,718.200 | 4,951.200 | 5,437.100 | 5,681.200 |
| Domestic | 1,068.200 | 1,247.683 | 1,471.202 | 1,703.781 | 2,001.200 | 2,164.300 | 2,154.100 | 2,201.200 | 2,414.400 | 2,470.000 | 2,718.200 | 2,873.400 | 3,468.400 | 3,733.400 |
| External | 1,098.510 | 1,137.234 | 1,344.266 | 1,651.327 | 1,810.700 | 1,723.900 | 1,697.400 | 1,511.300 | 1,806.500 | 1,926.600 | 2,000.000 | 2,077.800 | 1,968.700 | 1,947.700 |
| Total, as % of GDP | 60.51% | 61.33% | 67.06% | 73.77% | 74.45% | 68.48% | 61.42% | 53.86% | 54.67% | 54.78% | 52.40% | 51.01% | 51.46% | 49.20% |
| Domestic, as % of GDP | 29.83% | 32.08% | 35.04% | 37.46% | 39.08% | 38.12% | 34.35% | 31.93% | 31.27% | 30.77% | 30.19% | 29.60% | 32.83% | 32.33% |
| External, as % of GDP | 30.68% | 29.24% | 32.02% | 36.31% | 35.36% | 30.36% | 27.07% | 21.93% | 23.40% | 24.00% | 22.21% | 21.41% | 18.63% | 16.87% |
| Nominal GDP | 3,580.71 | 3,888.80 | 4,198.35 | 4,548.10 | 5,120.40 | 5,677.80 | 6,271.20 | 6,892.30 | 7,720.90 | 8,026.10 | 9,003.50 | 9,706.30 | 10,564.90 | 11,546.10 |

Source: Bureau of Treasury, Philippine Statistical Authority

Table 8. ODA Grants by Development Partner (USD Million)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Grand Total |
|-----------------------|--------------|---------------|--------------|---------------|-------------|--------------|-------------|--------------|---------------|---------------|---------------|-----------------|
| MCC | - | - | - | - | - | - | - | - | 433.91 | - | - | 433.91 |
| USAID | 21.12 | 16.99 | 3.09 | 84.9 | 9.57 | 48.8 | - | 1.96 | 6.25 | 42.52 | 70.88 | 306.07 |
| WB | 17.25 | 31.58 | 18.73 | 14.82 | 27.01 | - | 1.36 | 2.97 | 23.09 | 21.97 | 0.53 | 159.31 |
| Australia | - | 28.5 | - | - | - | - | - | - | - | 88.06 | 42.35 | 158.91 |
| UNICEF | - | - | - | - | - | - | - | - | 21.97 | 87.38 | 35.88 | 145.23 |
| ILO | - | - | - | - | - | - | - | - | 0.97 | 1.63 | 119.94 | 122.54 |
| ADB | 5.46 | 3.6 | 2.6 | 2.55 | 1.6 | 2 | 2.3 | 4.93 | 25.55 | 9.82 | 43.99 | 104.4 |
| FAO | - | - | - | 59.01 | - | - | - | 8.57 | 2.14 | 1.58 | 9.24 | 80.54 |
| EC | - | 7.54 | - | 42.33 | - | 16.43 | - | - | - | - | - | 66.3 |
| KOICA | - | - | - | - | - | 5.2 | - | 1 | 27.02 | - | 31.3 | 64.52 |
| Canada | 4.55 | 0.41 | 14.1 | 0.53 | 0.51 | 10.06 | 0.32 | 0.98 | 2.55 | - | 24.74 | 58.73 |
| EU | - | - | - | - | - | - | - | - | 48.72 | 4.28 | - | 53 |
| JICA | 7.4 | 24.61 | - | - | - | - | - | - | 12.89 | 0.19 | 0.05 | 45.14 |
| GIZ/GTZ | 12.19 | 1.91 | 2.61 | - | 3.42 | - | - | 2.36 | 20.68 | - | - | 43.17 |
| Spain | - | - | - | 2.52 | - | - | - | 12.13 | 19.6 | - | 0.68 | 34.92 |
| WHO | - | - | - | - | - | - | - | - | - | 5.13 | 14.04 | 19.16 |
| WFP | - | - | - | - | - | - | - | - | 0.5 | 17.43 | - | 17.93 |
| New Zealand | - | 0.11 | 0.42 | 0.36 | - | - | - | 0.11 | 4.7 | 3.24 | 6.85 | 15.8 |
| UNDP | - | - | 1.11 | 0.15 | 1.69 | - | - | - | 0.42 | 2.22 | 5.64 | 11.22 |
| UNFPA | - | - | - | - | - | - | - | - | - | 10.7 | - | 10.7 |
| IOM | - | - | - | - | - | - | - | - | 5.36 | 2.13 | - | 7.49 |
| UNIDO | - | - | - | - | - | - | - | - | 2.09 | - | - | 2.09 |
| Czech Republic | - | - | - | 1.77 | - | - | - | - | - | - | - | 1.77 |
| UN Habitat | - | - | - | - | - | - | - | - | - | - | 1.13 | 1.13 |
| Norway | - | - | 0.31 | 0.58 | - | - | - | - | - | - | - | 0.89 |
| Sweden | 0.21 | 0.42 | - | - | - | - | - | - | - | - | - | 0.63 |
| OCHA | - | - | - | - | - | - | - | - | - | 0.57 | - | 0.57 |
| UNHCR | - | - | - | - | - | - | - | - | - | 0.35 | - | 0.35 |
| UNCHR | - | - | - | - | - | - | - | - | - | - | 0.14 | 0.14 |
| UN Women | - | - | - | - | - | - | - | - | 0.06 | - | - | 0.06 |
| UNAIDS | - | - | - | - | - | - | - | - | 0.05 | - | - | 0.05 |
| Grand Total | 68.18 | 115.67 | 42.97 | 209.51 | 43.8 | 82.49 | 3.98 | 35.01 | 658.52 | 299.22 | 407.34 | 1,966.68 |

Source: NEDA-Monitoring and Evaluation Staff

Table 7. Loans Net Commitment by Sector, as of CY 2012

| | Net Commitments (USD Million) | | | Inc / (Dec) (US\$M) CY 2012 | Inc / (Dec) (%) CY 2012 | Inc / (Dec) (US\$M) CY 2013 | Inc / (Dec) (%) CY 2013 |
|--|-------------------------------|-----------------|-----------------|-----------------------------------|-------------------------------|--------------------------------------|----------------------------------|
| | CY 2011 | CY 2012 | CY 2013 | | | | |
| Agriculture, Natural Resources and Agrarian | 1,192.03 | 1,495.26 | 1,392.77 | 303.23 | 25.44 | (102.49) | (6.85) |
| <i>Agriculture and</i> | 1,072.76 | 1,160.64 | 1,004.47 | 87.88 | 8.19 | (156.17) | (13.46) |
| <i>Agrarian Reform</i> | 119.27 | 334.62 | 388.30 | 215.35 | 180.56 | 53.68 | 16.04 |
| <i>Environment and</i> | | | | | | | |
| <i>Natural Resources</i> | | | | | | | |
| Infrastructure | 4,950.35 | 5,185.99 | 5,173.41 | 235.64 | 4.76 | (12.58) | (0.24) |
| <i>Energy, Power and</i> | 98.82 | 97.03 | 455.97 | (1.79) | (1.81) | 358.94 | 369.93 |
| <i>Electrification</i> | | | | | | | |
| <i>Social</i> | 706.17 | 924.84 | 652.30 | 218.67 | 30.97 | (272.54) | (29.47) |
| <i>Infrastructure</i> | | | | | | | |
| <i>Transportation</i> | 3,283.32 | 2,836.75 | 2,847.85 | (446.57) | (13.6) | 11.10 | 0.39 |
| <i>Urban</i> | 458.41 | 447.16 | 377.63 | (11.25) | 100 | (69.53) | 100.00 |
| <i>Infrastructure</i> | | | | | | | |
| <i>Water Resources</i> | 403.63 | 880.21 | 839.66 | 476.58 | 118.07 | (40.55) | (4.61) |
| Industry, Trade and Tourism | 218.64 | 115.05 | 115.05 | (103.59) | (47.38) | - | - |
| Governance and Institutions | 32.9 | 332.4 | 1,338.15 | 299.5 | 910.33 | 1,005.75 | 302.57 |
| Development | | | | | | | |
| <i>Economic</i> | 11 | 11 | 1,311.00 | - | - | 1,300.00 | - |
| <i>Governance</i> | | | | | | | |
| <i>Political</i> | 21.9 | 321.4 | 27.15 | 299.5 | 1,367.58 | (294.25) | (91.55) |
| <i>Governance</i> | | | | | | | |
| Social Reform and Community | 2,205.63 | 1,692.30 | 1,069.64 | (513.33) | (23.27) | (622.66) | (36.79) |
| Development | | | | | | | |
| <i>Shelter and Urban</i> | - | - | 0.00 | - | - | - | - |
| <i>Development</i> | | | | | | | |
| <i>Education and</i> | 200 | 200 | 0.00 | - | - | (200.00) | (100.00) |
| <i>Manpower</i> | | | | | | | |
| <i>Health, Population</i> | 232.14 | 218.85 | 75.52 | (13.29) | (5.72) | (143.33) | (65.49) |
| <i>and Nutrition</i> | | | | | | | |
| <i>Social Welfare and</i> | 1,773.49 | 1,273.45 | 994.12 | (500.04) | (28.2) | (279.33) | (21.93) |
| <i>Community</i> | | | | | | | |
| <i>Development</i> | | | | | | | |
| GRAND TOTAL | 8,599.55 | 8,821.00 | 9,089.02 | 221.45 | 2.58 | 268.02 | 3.04 |

Source: NEDA-Project Monitoring Staff⁶¹

⁶¹ * Exchange Rates Used:

2011 : 1US\$ = ¥77.3216

2012 : 1US\$ = ¥80.6452

2013: 1US\$ = ¥100.334

Source: NEDA (2013, 2014).

Table 8. Key Activities/Components and Implementing Agencies of ODA Loans

| Sector | Key Activities/Components | Agencies |
|---------------|--|---|
| AARNR | Farm-to-market roads, irrigation systems/facilities, agriculture and enterprise development, agricultural credit, multi-purpose buildings, bridges, flood protection, solar driers, warehouses, potable water supply, watershed conservation, forest management and agro-forestry, agribusiness, environmental management (e.g. climate change, disaster risk reduction) | DA, DAR, DENR, DPWH, LBP, LLDA, NIA, DBP |
| GID | Tax reforms, human resource development and management, judicial reforms, local governance | BIR, DILG, PNP, SC |
| IT&T | Trade and investment, environmental technologies in industries, microfinance and microenterprise development | DBP, DTI, LBP, SBC, BOC |
| INFRA | Power and electrification, air transport, rail transport, road transport, water transport, flood control and drainage facilities, solid waste management, water supply and sanitation, local roads and bridges, other public works (e.g. public markets, bus terminals) | DBP, DOE, DOST, DOTC, DPWH, LBP, LWUA, MWSS, North Rail |
| SRCD | Primary and secondary education, women's health and safe motherhood services, hospital services, nutrition and population, social reform and community development, farm-to-market roads, multi-purpose buildings, potable water supply | ARG, DBP, DepEd, DOH, DSWD |

Table 9. Regional Distribution of Grants (Cumulative)

| Region | Number of Grants | Grant Amount (US\$M) | Percentage Share % |
|----------------|-------------------------|-----------------------------|---------------------------|
| Luzon | 48 | 135.84 | 4.58 |
| II | 4 | 9.13 | 0.3 |
| III | 4 | 20.03 | 0.6 |
| IV-A | 3 | 5.11 | 0.19 |
| IV-B | 3 | 1.58 | 0.06 |
| V | 4 | 9.80 | 0.35 |
| CAR | 2 | 4.06 | 0.15 |
| NCR | 28 | 86.13 | 2.96 |
| Visayas | 13 | 20.73 | 0.7 |
| VI | 3 | 8.74 | 0.06 |
| VII | 5 | 5.39 | 0.17 |
| VIII | 5 | 6.60 | 0.15 |
| Mindanao | 43 | 149.17 | 5.03 |
| IX | 5 | 5.39 | 0.02 |
| X | 8 | 5.83 | 0.19 |
| XI | 8 | 4.73 | 0.17 |
| XII | 1 | 0.05 | 0 |
| XIII | 2 | 4.87 | 0.05 |
| ARMM | 19 | 128.29 | 4.58 |
| Multi-regional | 274 | 1,659.19 | 55.95 |
| Nationwide | 125 | 1,000.57 | 33.74 |
| TOTAL | 503 | 2,965.49 | 100 |

Source: NEDA (2013).

Table 10. Government Expenditure Program by Sector, 2000 to 2013 (in million PHP, nominal)

| | 2000 | 2001 | 2002 | 2003 ^P | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 ^P |
|--|-----------|-----------|---------|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|
| Total | 2,670,244 | 4,777,897 | 875,432 | 1,044,175 | 1,071,127 | 1,185,510 | 1,358,007 | 1,414,890 | 1,448,422 | 1,571,297 | 1,635,406 | 1,633,563 | 1,823,886 | 2,140,518 |
| Social Services | 212,810 | 194,545 | 212,117 | 228,307 | 259,689 | 286,478 | 326,793 | 310,005 | 368,779 | 375,126 | 399,276 | 501,318 | 559,760 | 669,392 |
| Education, Culture, and Manpower Development | 115,931 | 119,140 | 125,247 | 129,824 | 128,617 | 131,217 | 144,226 | 167,425 | 186,620 | 208,719 | 225,141 | 254,363 | 279,375 | 330,181 |
| Health | 27,088 | 15,422 | 15,487 | 14,909 | 16,948 | 16,924 | 15,666 | 22,086 | 24,457 | 33,495 | 35,904 | 41,229 | 46,247 | 68,321 |
| Social Security, Welfare and Employment | 32,031 | 26,895 | 39,074 | 36,489 | 55,931 | 59,353 | 57,386 | 66,195 | 90,857 | 75,620 | 70,277 | 138,802 | 165,983 | 169,670 |
| Housing and Community Development | 10,012 | - | 2,188 | 7,807 | 5,827 | 42,153 | 67,717 | 10,162 | 10,241 | 6,544 | 11,945 | 5,115 | 2,374 | 3,067 |
| Land Distribution | 981 | 6,404 | 2,855 | 517 | 17,585 | 4,098 | 2,663 | 5,290 | 4,167 | 1,286 | 4,028 | 4,015 | 23 | 5,000 |
| Other Social Services | 26,766 | 926 | 913 | 4,327 | 1,053 | 975 | 1,056 | 1,093 | 1,226 | 1,849 | 1,435 | 1,584 | 2,095 | 1,871 |
| Subsidy to Local Government Units | | 25,756 | 26,353 | 34,434 | 33,727 | 31,758 | 38,079 | 37,754 | 51,212 | 47,612 | 50,547 | 56,210 | 63,663 | 91,282 |
| Economic Services | 324,298 | 297,435 | 259,147 | 347,496 | 315,984 | 320,351 | 372,284 | 443,736 | 372,939 | 526,452 | 504,823 | 440,410 | 486,687 | 553,746 |
| Agriculture, Agrarian Reform and Natural Resources | 59,692 | 57,491 | 36,821 | 39,753 | 39,445 | 43,392 | 54,992 | 70,015 | 82,790 | 109,066 | 86,927 | 86,492 | 115,205 | 163,680 |
| Trade and Industry | 10,324 | 9,613 | 6,851 | 12,965 | 8,132 | 9,312 | 6,801 | 8,918 | 7,213 | 11,132 | 5,537 | 13,154 | 6,263 | 8,598 |
| Tourism | 3,094 | 1,006 | 1,991 | 2,607 | 2,046 | 1,983 | 3,073 | 3,678 | 3,179 | 3,769 | 11,802 | 3,321 | 4,425 | 6,081 |
| Power and Energy | 141,323 | 103,832 | 94,700 | 149,665 | 122,613 | 123,779 | 122,981 | 139,866 | 29,652 | 111,386 | 121,881 | 103,558 | 71,006 | 20,866 |
| Water Resources Development and Flood Control | 9,506 | 11,612 | 8,977 | 9,182 | 12,004 | 9,194 | 12,022 | 13,845 | 17,956.51 | 21,076 | 18,460 | 15,850 | 21,028 | 22,994 |
| Communications, Roads, and Other Transport | 86,430 | 73,275 | 63,263 | 78,858 | 73,980 | 62,727 | 100,473 | 133,129 | 156,534 | 176,207 | 159,896 | 154,501 | 169,394 | 228,586 |
| Other Economic Services | 13,929 | 13,214 | 17,597 | 22,018 | 26,042 | 36,871 | 35,532 | 35,493 | 28,479 | 40,504 | 38,704 | 14,864 | 16,776 | 18,487 |
| Subsidy to Local Government Units | - | 27,392 | 28,947 | 32,447 | 31,722 | 33,094 | 36,409 | 38,793 | 47,135 | 53,314 | 61,618 | 48,670 | 82,590 | 84,454 |
| Defense | 36,208 | 36,288 | 39,804 | 42,953 | 43,526 | 47,505 | 51,396 | 61,949 | 62,057 | 62,915 | 91,420 | 71,132 | 74,371 | 89,539 |

| | | | | | | | | | | | | | | |
|--------------------------------------|-----------|-----------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| General Public Services | 146,098 | 153,770 | 169,608 | 183,194 | 181,885 | 211,677 | 222,848 | 245,774 | 292,826 | 320,914 | 333,233 | 316,905 | 363,978 | 454,779 |
| General Administration | 42,359 | 43,647 | 49,732 | 50,651 | 45,875 | 65,411 | 64,184 | 73,598 | 87,683 | 92,613 | 85,485 | 85,430 | 100,642 | 125,450 |
| Public Order and Safety | 47,177 | 50,056 | 50,198 | 53,495 | 53,254 | 56,241 | 63,849 | 72,006 | 79,491 | 93,405 | 107,051 | 101,967 | 113,915 | 124,279 |
| Other General Public Services | 86 | 706 | 99 | 866 | 1,066 | 5,123 | 5,546 | 7,871 | 13,008 | 13,235 | 10,400 | 3,394 | 13,568 | 13,944 |
| Subsidy to Local Government Units | 56,476 | 59,361 | 69,580 | 78,182 | 81,691 | 84,901 | 89,269 | 92,299 | 112,645 | 121,661 | 130,297 | 126,113 | 135,851 | 191,105 |
| TOTAL PRODUCTIVE EXPENDITURES | 719,414 | 682,037 | 680,676 | 801,951 | 801,084 | 866,010 | 973,320 | 1,061,465 | 1,096,601 | 1,285,407 | 1,328,752 | 1,329,765 | 1,484,795 | 1,767,456 |
| INTEREST PAYMENT | 140,894 | 174,834 | 185,861 | 230,697 | 260,901 | 299,807 | 310,104 | 267,800 | 272,218 | 278,866 | 294,244 | 290,106 | 325,739.69 | 356,767.61 |
| FINANCIAL SERVICES | 1,809,936 | 3,921,025 | 8,895 | 11,527 | 9,142 | 19,693 | 74,583 | 85,624 | 79,602 | 7,024 | 12,410 | 13,692 | 13,351.07 | 16,293.831 |

Note: p – Preliminary; Source: Department of Budget and Management

Table 8. Domestic banks' outstanding loans by economic activity, 2000-2013 (in billion pesos)

| Sectors | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| a. Agriculture | 56.04 | 52.00 | 68.22 | 104.66 | 119.82 | 125.19 | 133.03 | 134.58 | 336.78 | 357.92 | 405.22 | 220.41 | 196.51 | 204.19 |
| b. Fishing | 5.37 | 4.81 | 4.19 | 7.66 | 9.06 | 9.16 | 9.29 | 10.15 | 7.25 | 6.20 | 5.35 | 8.30 | 10.13 | 12.30 |
| c. Mining and Quarrying | 21.13 | 19.89 | 14.45 | 14.39 | 12.82 | 11.80 | 10.16 | 11.05 | 9.74 | 5.94 | 16.46 | 25.37 | 14.64 | 19.15 |
| d. Manufacturing | 405.66 | 390.64 | 381.26 | 385.79 | 440.33 | 429.96 | 394.11 | 391.62 | 418.02 | 342.14 | 402.80 | 558.31 | 577.51 | 668.51 |
| e. Electricity, Gas & Water | 75.48 | 70.56 | 71.44 | 65.42 | 78.55 | 71.17 | 73.44 | 123.91 | 140.19 | 147.68 | 169.88 | 260.43 | 285.18 | 380.15 |
| f. Construction | 46.50 | 42.34 | 35.54 | 47.20 | 35.93 | 34.44 | 33.89 | 35.90 | 41.03 | 32.72 | 36.35 | 45.01 | 63.33 | 93.57 |
| g. Wholesale, Retail, Trade & Repair | 205.61 | 217.89 | 218.90 | 252.79 | 258.83 | 243.12 | 270.27 | 278.59 | 278.82 | 289.15 | 303.35 | 464.84 | 526.47 | 621.04 |
| h. Hotel and Restaurant | | | | | | | | | 24.83 | 32.38 | 38.57 | 43.94 | 49.76 | 62.29 |
| i. Transportation, Storage & Communication | 99.78 | 83.33 | 71.91 | 83.26 | 82.62 | 76.60 | 84.11 | 98.01 | 121.00 | 159.41 | 155.31 | 183.66 | 250.78 | 246.07 |
| j. Financial Intermediation | 338.10 | 356.26 | 385.38 | 465.45 | 426.57 | 575.94 | 759.82 | 796.72 | 616.25 | 822.67 | 717.48 | 685.71 | 766.54 | 833.38 |
| k. Real Estate, Renting & Business Activities | 223.54 | 203.72 | 203.79 | 262.38 | 261.54 | 258.29 | 291.47 | 290.28 | 400.38 | 448.10 | 497.36 | 607.81 | 747.06 | 905.57 |
| l. Public Administration & Defense, Compulsory Social Security | 13.26 | 21.91 | 21.24 | 32.18 | 35.84 | 33.25 | 43.25 | 39.19 | 54.94 | 67.20 | 67.89 | 96.89 | 106.73 | 108.99 |
| m. Education | 7.41 | 8.90 | 8.56 | 12.62 | 14.37 | 13.62 | 14.49 | 15.16 | 16.86 | 16.64 | 16.11 | 19.99 | 21.39 | 25.90 |
| n. Health & Social Work | 3.65 | 4.18 | 5.29 | 7.90 | 10.02 | 9.87 | 10.23 | 11.30 | 12.87 | 14.73 | 14.71 | 14.99 | 17.63 | 24.34 |

| | | | | | | | | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| n. Other Community, Social & Personal Activities | 101.21 | 122.01 | 137.62 | 188.03 | 170.96 | 164.80 | 181.98 | 172.85 | 122.00 | 95.64 | 88.44 | 114.61 | 129.97 | 132.96 |
| o. Undifferentiated Production Activities of Private Households | 8.84 | 9.67 | 10.42 | 34.81 | 54.92 | 80.69 | 102.45 | 174.19 | 42.88 | 37.32 | 42.06 | 49.56 | 59.25 | 56.62 |
| p. Others | 16.66 | 16.92 | 16.94 | 17.65 | 19.16 | 15.68 | 15.92 | 18.20 | 280.62 | 304.12 | 326.13 | 362.08 | 405.71 | 501.92 |
| GRAND TOTAL | 1,628.2 1 | 1,625.0 5 | 1,655.1 5 | 1,982. 18 | 2,031.3 3 | 2,153.5 7 | 2,427.9 4 | 2,601.7 0 | 2,924.4 4 | 3,179.9 3 | 3,303.4 7 | 3,761.9 0 | 4,228.6 0 | 4,896.9 5 |

Notes:

2000-2002 data are for universal and commercial banks only; 2003-onwards data include all banks (which include universal, commercial, thrift, rural and cooperative banks)
Hotel and restaurant - no data from 2000-2007; did not start recording until 2008
2013 data are as of April 4, 2014

Source: Bangko Sentral ng Pilipinas

Table 9. Net Foreign Direct Investments ^a by Industry/Sector ^b (in million USD)

| | 2010 | 2011 | 2012 | 2013 p/ |
|---|----------|---------|----------|---------|
| Agriculture, Forestry and Fishing | 2.37 | 3.97 | 9.47 | 16.75 |
| Mining and Quarrying | 282.08 | -240.43 | 34.37 | 43.69 |
| Manufacturing | 1,275.19 | 119.41 | 1,770.31 | 216.41 |
| Electricity, Gas, Steam and Air-conditioning Supply | -14.82 | -22.40 | -14.19 | -27.37 |
| Water Supply; Sewerage, Waste Management and Remediation Activities | 0.00 | 0.00 | -1.66 | 461.38 |
| Construction | -1.57 | 28.07 | 8.75 | 1.74 |
| Wholesale And Retail Trade; Repair Of Motor Vehicles and Motorcycles | 32.39 | 30.64 | 202.19 | 23.57 |
| Transportation and Storage | 103.90 | 1.04 | 3.80 | 21.31 |
| Accommodation and Food Service Activities | 105.67 | 3.10 | 2.63 | 6.51 |
| Information and Communication | 2.41 | 264.01 | 19.98 | 5.21 |
| Financial and Insurance Activities | 59.62 | 222.21 | -200.04 | -376.98 |
| Real Estate Activities | 181.53 | 135.16 | 164.24 | 70.46 |
| Professional, Scientific and Technical Activities | -0.10 | 4.03 | 9.93 | 5.79 |
| Administrative and Support Service Activities | 2.05 | 12.31 | 7.00 | 11.41 |
| Public Administration and Defense; Compulsory Social Security | 0.00 | 0.00 | 0.00 | 0.00 |
| Education | 0.68 | 0.38 | 0.34 | 0.38 |
| Human Health and Social Work Activities | 0.00 | -13.88 | -5.08 | 16.23 |
| Arts, Entertainment and Recreation | 104.14 | 3.60 | 4.40 | 167.28 |
| Other Service Activities | 5.57 | 0.91 | 0.00 | -0.28 |
| Activities of Households as Employers; Undifferentiated Goods-and-Services- | 0.00 | 0.00 | 0.00 | 0.00 |

| | | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| Producing Activities of Households For Own Use | | | | |
| Activities Of Extraterritorial Organizations and Bodies | 0.00 | 0.00 | 0.00 | 0.00 |
| Others N.E.C. ^c | 13.27 | 5.86 | -10.77 | 0.00 |
| EQUITY OTHER THAN R.E., NET | -396.00 | 558.00 | 2,005.68 | 663.49 |
| REINVESTMENT OF EARNINGS | 182.39 | 972.64 | 818.73 | 700.73 |
| DEBT INSTRUMENTS | 1,284.00 | 476.52 | 391.00 | 2495.58 |
| Total | 1,070.39 | 2,007.15 | 3,215.42 | 3,859.79 |

^a The BSP adopted the Balance of Payments, 6th edition (BPM6) compilation framework effective 22 March 2013 with the release of the full -year 2012 and revised 2011 BOP statistics. On 21 March 2014, the BSP released the BPM6-based series from 2005-2013. In BPM6, net FDI flows refer to non-residents' net equity capital (i.e., placements less withdrawals) + reinvestment of earnings + debt instruments (i.e., net intercompany borrowings).

^b The BSP shifted to the 2009 Philippine Standard Industrial Classification (PSIC) from the 1994 PSIC starting with the January 2011 report.

^c Covers non-residents investments in non-banks sourced from the Cross-Border Transactions Survey and in local banks; sectoral/industry breakdown statistics are not available.

^{p/} Preliminary

Details may not add up to total due to rounding.

Source: BSP

Table 10. List of PPP Projects, by stage

| Status | Name of Project |
|-------------------------|---|
| Awarded Projects (5) | <ul style="list-style-type: none"> Daang Hari-SLEX Link Road PPP for School Infrastructure Project (PSIP) Phase I NAIA Expressway (Phase II) Project PSIP Phase II Modernization of the Philippine Orthopedic Center |
| Projects with Live | <ul style="list-style-type: none"> Daang Hari-SLEX Link Road |

| | |
|---|--|
| Bidding (5) | <ul style="list-style-type: none"> • PPP for School Infrastructure Project (PSIP) Phase I • NAIA Expressway (Phase II) Project • PSIP Phase II • Modernization of the Philippine Orthopedic Center |
| For Evaluation of Relevant Bodies (4) | <ul style="list-style-type: none"> • O&M of the Laguindingan Airport • Enhanced O&M of the New Bohol (Panglao) Airport • New Centennial Water Supply Source Project • Operation & Maintenance of LRT Line-2 |
| NEDA Board-Approved (1) | <ul style="list-style-type: none"> • Bulacan Bulk Water Supply Project |
| For Finalization of Project Structure (3) | <ul style="list-style-type: none"> • Rehabilitation, Operation & Maintenance of the Angat Electric power plant (AHEPP) Auxilliary Turbines 4&5 • Establishment of Cold Chain Systems Covering Strategic Areas in the Philippines • Davao Sasa Port |
| Project with On-going Studies (12) | <ul style="list-style-type: none"> • Operation & Maintenance of the Puerto Princesa Airport • Integrated Luzon Railway Project • Makati-Pasay-Taguig Mass Transit System • Regional Prison Facilities through PPP • Laguna Lakeshore Expressway Dike • Calamba-Los Banos Toll Expressway Project • Central Luzon Link Expressway Phase II • O & M of Iloilo, Davao, and Bacolod Airports • Improvement and O&M of Kennon Road and Marcos Highway • Motor Vehicle Inspection System |

| | |
|--|---|
| | <ul style="list-style-type: none"> • LRT-1 Extension to Dasmariñas Project • Upgrading of the San Fernando Airport |
| For Procurement of Consultants to Conduct Pre-investment Studies (5) | <ul style="list-style-type: none"> • Modernization of the National Center for Mental Health • Plaridel Bypass Toll Road • Manila Bay-Pasig River-Laguna Lake Ferry System • Batangas-Manila (BatMan) 1 Natural Gas Pipeline • C-5 Transport Development Project |
| Other Projects for Implementation (3) | <ul style="list-style-type: none"> • NLEX-SLEX Connector Road • Skyway Stage 3 Project • MRT Line-7 |
| Projects under Conceptualization (13) | <ul style="list-style-type: none"> • Civil Registration System – IT Project Phase II • Central Spine RORO • Ferry Passenger Terminal Buildings Development • O&M of Clark Airport • Metro Cebu Expressway Project • Tagum-Davao-General Santos High-Standard Highway • C6 Expressway (South-East, East, and North Sections) • Modernization of the Region 1 Medical Center • PhilHealth Information Technology Project • Manila Heritage and Urban Renewal Project • Trimedical Complex (including Modernization of the Jose Fabella Memorial Hospital Project) • R-7 Expressway • NLEX East |

Source: PPP Center

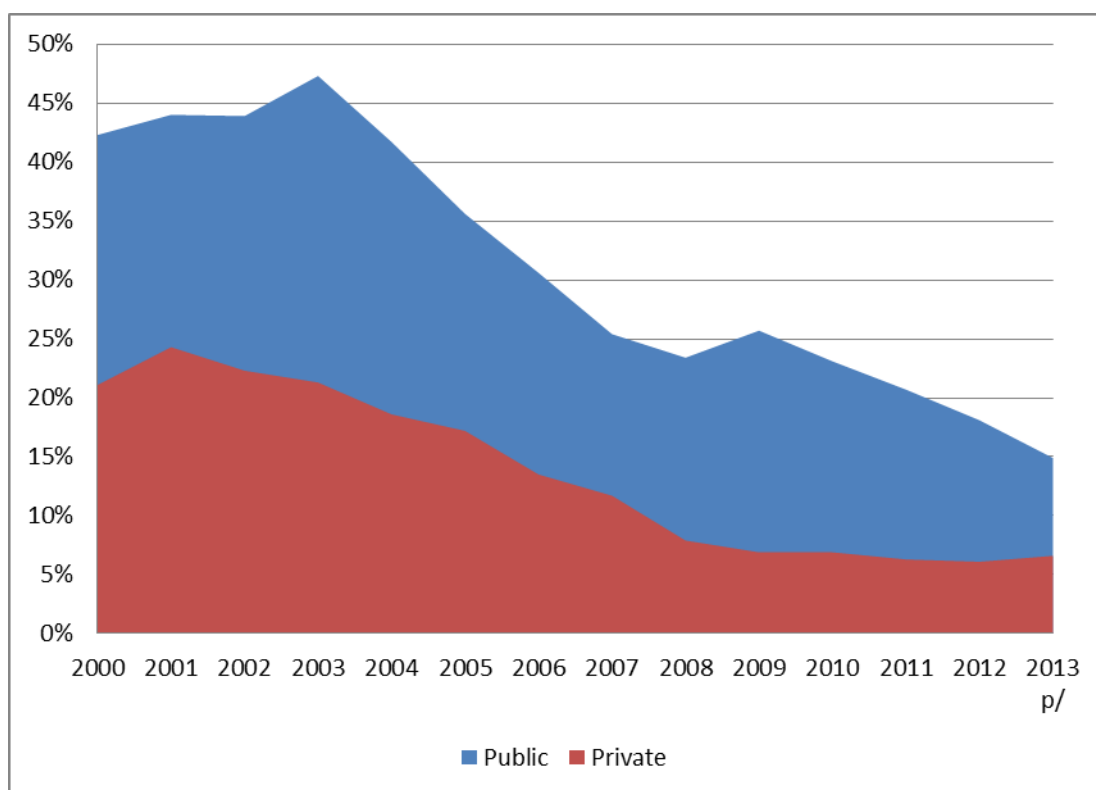
Table 11. LINKAPIL Donations per Program (1990 to 2012)

| | Health Related/Medical Mission | Education/ Scholarship | Livelihood | Relief Calamity | Infrastructure | Skills Transfer | TOTAL | Growth rate (in %) |
|------|--------------------------------------|---------------------------|---------------|-----------------|----------------|-----------------|----------------|--------------------------|
| 1990 | 118,326,327.00 | 10,000,000.00 | 27,270,451.00 | 93,910,567.00 | - | - | 249,507,345.00 | |
| 1991 | 26,545,899.20 | 6,078,000.00 | - | 113,000,448.00 | - | - | 145,624,347.20 | -41.6% |
| 1992 | 3,215,092.00 | 12,857,500.00 | 326,912.00 | 8,616,619.10 | 17,000.00 | - | 25,033,123.10 | -82.8% |
| 1993 | 30,029,045.00 | 48,784,477.00 | 606,000.00 | 480,478.00 | - | - | 79,900,000.00 | 219.2% |
| 1994 | 47,378,132.00 | 17,975,949.43 | 1,083,000.00 | 1,204,524.29 | - | - | 67,641,605.72 | -15.3% |
| 1995 | 17,383,830.00 | 13,492,500.00 | - | 263,203.00 | 155,800.00 | - | 31,295,333.00 | -53.7% |
| 1996 | 36,322,000.00 | 14,354,000.00 | 60,000.00 | 2,871,331.33 | 430,000.00 | - | 54,037,331.33 | 72.7% |
| 1997 | 40,219,952.00 | 11,553,290.50 | 563,000.00 | 4,120,000.00 | 533,003.70 | - | 56,989,246.20 | 5.5% |
| 1998 | 65,840,658.01 | 3,708,756.00 | 390,000.00 | - | 597,874.60 | - | 70,537,288.61 | 23.8% |
| 1999 | 85,157,667.43 | 1,085,307.00 | - | 1,822,605.10 | 491,426.08 | - | 88,557,005.61 | 25.5% |
| 2000 | 82,399,175.37 | 19,290,619.79 | - | 185,600.00 | 4,077,300.00 | - | 105,952,695.16 | 19.6% |
| 2001 | 57,037,862.27 | 7,795,572.00 | 292,115.00 | 196,091.40 | 557,105.00 | - | 65,878,745.67 | -37.8% |
| 2002 | 136,767,710.22 | 9,052,647.95 | 50,000.00 | 101,551.50 | 860,034.00 | - | 146,831,943.67 | 122.9% |
| 2003 | 113,182,693.76 | 75,959,553.17 | 148,600.00 | 433,470.00 | 1,333,698.20 | - | 191,058,015.13 | 30.1% |
| 2004 | 121,854,324.67 | 6,004,703.77 | 135,700.00 | 554,632.32 | 10,405,885.91 | - | 138,955,246.67 | -27.3% |
| 2005 | 359,033,516.14 | 3,911,260.67 | 1,433,428.30 | 5,439,059.00 | 2,018,693.25 | - | 371,835,957.36 | 167.6% |
| 2006 | 146,821,897.93 | 6,206,910.54 | 355,665.23 | 1,841,268.89 | 3,087,338.00 | - | 158,313,080.59 | -57.4% |
| 2007 | 90,648,951.37 | 4,284,874.10 | 199,500.00 | 921,172.70 | 6,063,639.30 | - | 102,118,137.47 | -35.5% |
| 2008 | 126,720,475.50 | 3,601,884.90 | 163,000.00 | 595,792.87 | 2,149,494.65 | 17,449,311.55 | 150,679,959.47 | 47.6% |
| 2009 | 28,311,960.15 | 1,488,713.68 | 833,250.00 | 1,923,442.80 | 5,252,846.50 | 21,552,491.14 | 59,362,704.27 | -60.6% |
| 2010 | 99,074,814.66 | 908,782.79 | 818,255.00 | 1,442,772.80 | 5,738,595.31 | 11,105,669.34 | 119,088,889.90 | 100.6% |
| 2011 | 39,151,996.68 | 934,898.55 | 534,200.00 | 1,601,002.40 | 3,554,066.63 | 9,483,975.26 | 55,260,139.52 | -53.6% |
| 2012 | 78,158,442.18 | 1,840,523.17 | - | 792,403.80 | 7,674,124.16 | 2,723,049.24 | 91,188,542.55 | 65.0% |

Source: CFO (2013)

FIGURES

Figure 1. Public and Private External Debt, as % of GDP



Note: 2000 to 2004 data (BPM5 concept); 2005 to 2013 p/ data (BPM6 concept)

Source of raw data: BSP

B. SUPPORTING NOTES AND COMMENTS

Annex B.1. Philippine commitment to development aid effectiveness

Current discourse re-examines the goals of development finance, what development results ODA could really engender, how it can be better designed (Sumner and Mallett, 2012; Fischer, 2010; Birdsall and Savedoff, 2010); financing development after the post-2015 MDGs (Greenhill and Prizzon, 2012), and how the international donor community should respond to the new geography of global poverty where a major shift in the distribution of global poverty towards non-aid dependent middle-income countries (MICs) from traditional low income countries (LICs) has occurred (Kanbur and Sumner, 2011a; Sumner, 2010; 2011a; 2011b).

The effectiveness of development finance is a crucial concern because past experience in recipient countries showed poor delivery of commitments relative to the amounts of

development finance made available to recipient countries. More effective management of aid will significantly increase the value and impact of aid programs (**Annex Box 1**).

Annex Box 1. Reasons for More Effective Aid Management

- Estimated loss in value of aid programs when aid is tied: 30 percent
- Estimated loss in value of aid programmes when aid is unpredictable: 10-20 percent
- Estimated losses due to fragmentation – equivalent to a \$5 billion reduction in value
- Estimated cost to the European Commission's aid programme of failing to implement the full aid effectiveness agenda ranges from EUR 5 to EUR 7 billion a year.

Source: Killen (2011)

Thus, the consensus in the international development community is to work for more effective development finance and this culminated to the agreements on aid effectiveness in the Paris Declaration (2005) and the Accra Agenda for Action (2008). The agreements underscore the general principle that aid effectiveness must increase significantly to support partner country efforts to strengthen governance and improve development performance⁶².

Box 2 shows some milestones of aid effectiveness.

Annex Box 2. Milestones of Aid Effectiveness

1996: The DAC issues the report *Shaping the 21st Century: The Role of Development Cooperation*, setting out the basic concepts of aid effectiveness.

2000: MDG-8 of the Millennium Declaration calls for a Global Partnership for Development.

2002: The Monterrey Financing for Development Conference sets funding targets to achieve the MDGs and calls for a more effective way of giving aid to ensure these resources have the maximum impact possible on development.

2003: At the High Level Forum on Harmonization (HLF-1, Rome), donors agree to improve in-country co-ordination and to reduce transaction costs for aid recipients.

2005: At the High Level Forum on Aid Effectiveness in Paris (HLF-2), donors and developing countries endorse the Paris Declaration on Aid Effectiveness, with 56 action-oriented commitments to improve aid quality that will be monitored (in 2005, 2007 and 2010) against 14 targets.

⁶² The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action

2008: In Accra, at the Third High Level forum on Aid Effectiveness (HLF-3), DAC and non-DAC donors, middle-income countries, low-income countries, civil society organisations, parliamentarians and global partnerships agree on the Accra Agenda for Action – a framework to accelerate achievement of the Paris commitments.

Source: Accelerating progress in aid effectiveness: from here to 2011
<http://www.oecd.org/dac/effectiveness/45536364.pdf> (accessed 2/3/14)

The Fourth High Level Forum on Aid Effectiveness (HLF-4) took place in Busan, Korea in December 2011 where delegates met to review the progress on implementing the principles of the Paris Declaration and how to maintain the relevance of the aid effectiveness agenda in the context of the evolving development landscape. The Fourth High Level Forum on Aid Effectiveness follows [declarations in Rome, Paris and Accra](#) that helped transform aid relationships between donors and partners into true vehicles for development co-operation.⁶³ The [principles](#) that were agreed at these fora have encouraged local ownership, alignment of development programs around a country's development strategy, harmonization of practices to reduce transaction costs, avoidance of fragmented efforts and the creation of results frameworks⁶⁴.

Immediate results were realized following the adoption and implementation of those principles. The Working Group on Aid Effectiveness reports that with strong support from developing countries, civil society organizations, parliamentarians, global partnerships and donors worldwide the aid effectiveness agenda has contributed to progress against several MDGs, and helped to produce impact more quickly and at a lower cost. It has underpinned significant increases in annual aid flows from US\$60 billion in 2002 to US\$120 billion in 2008⁶⁵.

For its part, the Philippine government has given public commitments on accountability and responsible management of development finance in order to produce better development results from use of those resources. It has taken appropriate steps to deliver those commitments. It is a signatory to agreements and declarations of development cooperation, and support the principles enunciated in those high-level forums.

The government puts in practice principles of development finance effectiveness by formulating a Philippine Development Plan that discusses national development policies and strategies, and presenting it to policy makers and the public through wide consultations (*ownership*), and has used it as the principal document to inform Country Partnership Strategies

⁶³ Source: <http://www.oecd.org/dac/effectiveness/fourthhighlevelforumonaideffectiveness.htm> (accessed May 11, 2014).

The ministers of developed and developing countries and other stakeholders signed the Busan Partnership for Effective Development Co-operation in December 2011.

⁶⁴ Ibid.

⁶⁵ Working Party on Aid Effectiveness, "Accelerating progress in aid effectiveness: from here to 2011" <http://www.oecd.org/dac/effectiveness/45536364.pdf> (Accessed April 3, 2014)

that support the country's development agenda (*alignment, harmonization*). The Philippine Development Plan and the government's Public Investment Program have clear measurable goals against targets (*managing for development results*) even as donors and government take responsibility for achieving the announced development goals (*mutual accountability*). Philippine civil society and non-governmental organizations (NGOs) have taken an active part in dialogues and monitoring of government performance, and have become important stakeholders in moving forward development goals. In this respect, the thrust in the Philippines toward more effective development cooperation is strongly supported by the recognition of the complementary roles of different development partners and by sharing common goals and principles.

ANNEX B.2. Priority programs and geographical focus, budget years, FY 2014, 2015

| FY 2014⁶⁶ | Priority programs | Geographical focus |
|-----------------------------|---|--|
| | Good governance and anti-corruption | Coconut industry areas ⁶⁷ |
| | Sustaining the growth momentum | Fishing industry areas ⁶⁸ |
| | Making growth inclusive | Tourism development areas ⁶⁹ |
| | Managing disaster risk | |
| | | |
| FY 2015⁷⁰ | Priority programs | Geographical focus |
| | Social protection and social services | Provinces with high poverty magnitude |
| | Economic expansion | Provinces with high poverty incidence |
| | Job creation and livelihood development | Provinces vulnerable to shocks and disasters |
| | Climate change and disaster risk management | |

⁶⁶ Based on National Budget Memorandum No. 18

⁶⁷ Where dire poverty occurs, infrastructure access is insufficient, and land tenure is not secure

⁶⁸ Around 30 percent of Conditional Cash Transfer beneficiaries are fisherfolk

⁶⁹ Those that are international gateway tourism clusters

⁷⁰ Based on National Budget Memorandum No. 19

ANNEX B.3

Priority provinces in the new poverty reduction roadmap, PDP 2011-2016

Category 1 provinces

These provinces have the highest number of poor families in 2012 based on the National Household Targeting System of the Department of Social Welfare and Development (DSWD). But they are not necessarily the poorest provinces. For a number of the provinces in this category, namely Cebu, Pangasinan, and Iloilo, development opportunities clearly exist. However, pockets of poverty also exist in these provinces to the extent that opportunities may be limited and certain segments of the population are unable to readily participate in the growth process. In-migration may also be a factor to the extent that the provinces tend to attract the poor from other places but opportunities for gainful employment are limited given existing skill sets.

In this context, interventions for these provinces shall aim at increasing investments to create more employment opportunities. To achieve this, the Plan recommends the following: (1) focus on improving physical infrastructure to enhance trade and labor mobility; (2) tap the potential of new growth drivers such as agro-industry, food manufacturing, and logistics in some of the provinces; (3) expand current sources of growth such as information technology-business process management and tourism; (4) improve human capital through investments in education and training (e.g., technical vocational education) to increase the employability of the workforce; and (4) introduce more flexible work arrangements. The Plan also emphasizes the need to continuously upgrade social services in the relatively more developed and urbanized areas (e.g., Cebu) to prevent congestion as a result of in-migration from other areas.

Category 2 provinces

The 10 provinces with the highest poverty incidence among its population are placed in Category 2. These provinces are generally characterized as having limited opportunities for development. They have small populations, are less dense, or are located in remote areas. They are subject to extreme weather-related events and armed conflict.

For these provinces, the thrust shall be the effective and efficient provision of basic social services particularly health services, basic education, water, and sanitation. Job creation shall be pursued simultaneously by linking small agriculture-based enterprises to supply chains of product or service providers in the more developed areas of the region. With human security a critical issue in these provinces, it is necessary to strengthen and earnestly pursue peace-building efforts by addressing the fundamental roots of the conflicts.

Category 3 provinces

Twenty-eight provinces belong to this category of highly vulnerable areas that are prone to multiple hazards, including landslides and flooding. The marginally non-poor in these provinces can slide into poverty relatively quickly owing to economic shocks or natural disasters.

The strategies to be implemented in these provinces will focus on disaster-risk reduction and mitigation, social insurance and social protection, and income diversification.

Source: Philippine Development Plan 2011-2016

ANNEX B.4 Guidelines under Budget Priorities Framework and author's comments

The budget preparation guidelines under the Budget Priorities Framework (BPF) state that: (i) only those new and expanded programs rating high on the list in the BPF shall be included in the budget proposal; (ii) low-ranked agency proposals shall be discarded in favor of high ranking proposals; their resources shall be realigned to the high ranking proposals; and (iii) the list of programs/projects shall be further narrowed down by matching their locations to focus/convergence areas enumerated in the BPF. The ranking and matching procedures are also to be followed in the preparation of the FY 2015 budget.⁷¹

The priority programs indicated in FY 2014 and FY 2015 budget years are generic and can accommodate different types of programs and projects. The completion of programs and projects that were established as priorities and funded the previous year rests on the certainty that they would stay as priorities in the current year. On the other hand, the geographical focus has drastically changed from those stated in FY 2014 to the list shown for FY 2015. The focus in 2014 is sectorial while that for 2015 is spatial.

To ensure significant impacts on the reduction of poverty and inequality in geographical areas identified as priority areas, the government should ensure that those areas will continue to remain as priority areas. Stable matching of priority programs with priority areas/geographical focus, and consistent implementation would create maximum impacts on the reduction of poverty and inequality. Conversely, shifting priorities- program-wise and area-wise- creates uncertainty and inefficiencies in program implementation, and erodes the credibility of the Budget Priorities Framework and the Philippine Development Plan.

Because BPF is a new framework and the guidelines are not generally understood or appreciated during the early stages of the implementation of the BPF, the government should develop an effective communication mechanism to explain it to various stakeholders, especially the donor community that will continue to play a strategic role in funding domestic and regional public goods.

Setting priorities under the BPF is an important step in ranking proposals and matching them to locations where projects proposed under the ranked proposals will be implemented. It is equally important to recognize that development programs are typically multi-year efforts that should be funded and sustained to deliver the expected development results or outcomes. Priorities set by the government could shift in response to political expediency, which puts at risk the sustainability of meritorious programs. What were set as priorities in a given year could be ignored or set aside in the following year as government and legislators deliberate on the annual budgetary appropriation. The way to protect such meritorious multi-year programs from political caprice or machination is to ensure that they form part of the overall government's development agenda, strategy, and investment program as indicated in the Philippine Development Plan and that they enjoy broad-based stakeholder support.

⁷¹ National Budget Memorandum No. 119 issued on December 27, 2013.

ANNEX B.5 Philippines Development Forum

The Philippines Development Forum (PDF) is the primary mechanism of the Government for facilitating substantive policy dialogue among stakeholders on the country's development agenda. The Forum serves as a process for developing consensus and generating commitments among different stakeholders toward critical actionable items of the Government's reform agenda.

The Philippines Development Forum process involves continuous dialogue on thematic areas through working groups, which hold meetings in between the formal PDF meetings to follow up on the issues and agreements at the last one⁷². The PDF has 10 working groups, each focused on one of the following themes: (a) Millennium Development Goals (MDGs) and Social Progress, (b) Growth and Investment Climate, (c) Economic and Fiscal Reforms, (d) Governance and Anti-Corruption, (e) Decentralization and Local Government, (f) Sustainable Rural Development, (g) Mindanao, (h) Infrastructure, (i) Rule of Law, and (j) Climate Change.

Source: <http://www.pdf.ph/> (date accessed May 24, 2014)

ANNEX B.6

PWRF Financing Structure

- The loans to the water service providers will come from JBIC (now JICA) funds lent to the Development Bank of the Philippines (DBP) and funds from private financial institutions (PFIs). Loans to water service providers will have a blended rate based on fixed interest rate from DBP and the PFI's floating rate; with up to a 20-year tenor inclusive of 2 years grace.
- The financing ratio will be 75 percent JBIC/DBP funds and 25 percent PFI funds. The LGUGC will provide PFIs with a credit risk guarantee of up to 85 percent of the loan principal. USAID-Development Credit Authority will issue a co-guarantee to the LGUGC guarantee of the PFI loan.
- The PFI loan will have a 7-year tenor. The loan will be retired in seven years if the cash flow can support the repayment schedule. If not, whilst the seven-year tenor is maintained, the principal will be amortized over 20 years.
- The PFIs will have an option to extend the maturity beyond 7 years but if they opt not to, they will be assured of a balloon payment for the outstanding balance at the end of the 7 years. The source of the balloon payment will be a take-out loan from the Municipal Development Fund Office (MDFO) for LGU loans, and from DBP for water district loans, executed under the same terms as the PFI loan.

Source: PWRF Executive Brief, October 2006; Llanto (2013)⁷³

⁷² The last PDF formal meeting was held on February 4-5, 2013 in Davao City with around 300 participants from government, international development partners, and other stakeholders.

⁷³ Llanto, Gilberto (2013), "A Review of Water Financing Programs: Are We Making Progress?" PIDS Discussion Paper No. 2013-34.

ANNEX B.7 Some Notes on Diaspora Bonds

Today, developing countries are becoming more aware of the need to tap innovative development financing schemes that would complement the resources of their respective economies. One of the recently explored development financing schemes is the so-called “Diaspora Bonds”. This type of bonds, which is known to have originated in Japan and China in the 1930s (Anglade and Garbrah 2012), is characterized as a debt instrument that are sold by the national government to the diaspora community, or citizens who work or live outside their home country, to help finance local development initiatives (e.g. infrastructure projects). Unlike other bonds, these are sold at a lower rate-of-return than the prevailing rate in the market. It is, thus, often described as bonds with “patriotic discount” as diaspora investors accept this relatively lower yield out of concern for their home country.

One of the earlier success stories of this financing scheme was in Israel in 1957 during the time when the Development Corporation for Israel (DCI) was established with the aim of strengthening the foreign exchange rate through the selling of “non-negotiable bonds” to the Jewish diaspora communities in other countries, especially in the United States (Ketkar and Ratha 2007). Different from the usual debt instruments, the Israeli government described diaspora bonds as a mechanism to gain sources of financing and an instrument to maintain its ties with its people abroad. Diaspora bonds also played an important role during the time when Israel had difficulty in accessing external sources of borrowing. According to Ketkar and Ratha (2007), the DCI bonds that were offered back then vary in terms of maturity and minimum subscription amounts, which ranged from USD 100 to USD 100,000. Also, it was noted that most of the DCI bonds were only claimed during maturity, which ranged from 10 to 15 years until the mid-1970s, and with some unclaimed maturing bonds amounting to USD 200 million. In 2003, the total DCI bond sales reached USD 1,659 million.

Another distinctive feature of the DCI bonds is that they were not considered by the Israeli government as market-based source of finance, and hence were not subject to rating agencies such as S&P and Moody’s (Ketkar and Ratha 2007). Having the most successful diaspora bonds scheme, the Israel government raised around USD 25 billion in the last 30 years from those living outside Israel (Anglade and Garbrah 2012).

Key Features of Diaspora Bonds: Ethiopia, India, and Israel

| | Date of Issuance | Amount and Currency | Maturity (type & value) | Interest rate | Special features |
|--------------------------------|------------------|----------------------------|-------------------------|--------------------------------------|------------------------------------|
| India | 2000 | \$5.5 bn USD-EUR-GBP | 5 years | Fixed: 8.5% | For the Indian Diaspora in the USA |
| Ethiopia (Millennium Corporate | 2008 | Amount unknown USD-EUR- | 5,7, and 10 years | Fixed: 4%, 4.5%, and 5% depending on | Limited to Ethiopians with access |

| Bond) | | other convertible currency | | tenor | to foreign exchange |
|---------------------------------------|------|---|---------------------|---|--|
| Israel | 2010 | €1.5 bn | 10 years | Fixed: 4.625% | Not specific to the Diaspora. Regular issuances. |
| Ethiopia (Grand Renaissance Dam bond) | 2011 | Amount unknown but project cost \$4.8 bn USD-EUR-GBP and Birr | Range of 5-10 years | Floating: 5y: Libor + 1.25 6-7y: Libor + 1.5% 8-10y: Libor + 2% | Sovereign instrument. |

Sources: Development Corporation of Israel, State Bank of India, Ethiopian Ministry of Foreign Affairs quoted in Anglade and Garbrah (2012).

The International Diaspora Engagement Alliance (IDEA) reported in February 2014 other countries which have started to engage in this type of development financing scheme. Such countries include Bangladesh, Ethiopia, Greece, India, Kenya, Nepal, Nigeria, Rwanda, Sri Lanka, and Zimbabwe. In 2011, diaspora bonds had helped the Ethiopian government construct the Grand Renaissance Dam on the Abay River which had a total cost of USD 4.8 billion. Kenya, on the other hand, offered a “re-opened 12-year infrastructure bond and a new one-year Treasury bond” worth a USD 239 million to the diaspora community in February 2012 (Reuters Africa 2012)⁷⁴. Since 2001, the Sri Lankan government has raised diaspora bonds amounting to USD 580 million through the Sri Lanka Development Bond. Similarly, Zimbabwe issued a USD 50 million worth of diaspora bonds in July 2011. The government of the Zimbabwe deemed this successful in helping rebuilding their economy (IDEA 2014).

Not all cases of diaspora bonds, however, were a success story. The Millennium Corporate Bond which was supposed to finance the Ethiopian Electric Power Corporation (EEPCO) in 2008 failed to meet its expectations as the diaspora bond faced the following risks: “(i) risk perceptions on the payment ability of EEPCO on its future earnings from the operations of the hydroelectric power; ii) lack of trust in the government as a guarantor; and iii) political risks” (Plaza 2011).

It seems that Israel’s issuance of diaspora bonds became successful largely because these were issued during war when its economy was at the low end of the growth spectrum. Those diaspora bonds helped the government finance the war and other expenditures. Meanwhile, India, another success story, issued diaspora bonds during the following events: “India Development Bonds (IDBs) following the balance of payments crisis in 1991 (\$1.6 billion),

⁷⁴ Reuters Africa [2007] “Kenya to sell bonds worth USD 239 million in Feb”, Accessed <http://af.reuters.com/article/commoditiesNews/idAFL5E8D62BN20120206>; 5 May 2011.

Resurgent India Bonds (RIBs) following the imposition of sanctions in the wake of the nuclear explosions in 1998 (\$4.2 billion), and India Millennium Deposits (IMDs) in 2000 (\$5.5 billion)” (Ketkar and Ratha 2007). To wit, the issuances of these bonds were partly motivated by certain events (e.g. crisis, war) wherein the diaspora communities responded out of sympathy, patriotism or even a feeling of solidarity with the home country.

Some studies explored the determinants of a diaspora bond. Akkoyunlu and Stern (2012), conducted an empirical analysis of the said bonds for eight developing countries (i.e. Bangladesh, Ethiopia, Ghana, India, Lebanon, Pakistan, the Philippines, and Sri Lanka) and one developed country (i.e. Israel, from 1951 to 2008). The results showed that the: (i) closeness indicator, which is measured in the amount of remittances sent per migrant; (ii) the sovereign rating; (iii) good governance; (iv) war variable positively impact the investors’ decision to buy diaspora bonds. The positive impact of the war variable (i.e. intra-state war) on the diaspora bonds was not expected in the model. Nonetheless, Akkoyunlu and Stern (2012) posited that this may have been caused by the “patriotic motives of solidarity in times of crises”, which may also be seen when natural disasters hit the home countries. On the other hand, the supply side factors such as the FDI, ODA, foreign exchange, inflation, external debt and remittances were found to be statistically significant in affecting the issuance of diaspora bonds.

Source: Llanto, Notes from a review of literature on remittances

ANNEX B.8

Lessons from Issuance of Retail Treasury Bonds

In 2010, the Department of Finance (DOF)-Bureau of the Treasury issued retail treasury bonds (RTBs) which were specifically marketed to overseas Filipino workers. These RTBs had a maturity period of three to five years and were at denominations as low as USD 100 or €100. The Bureau of Treasury believed that these bonds would serve two purposes: (i) an additional source of funding for the government and (ii) an investment option for OFWs. The national government planned to conduct “road shows” in the US, Middle East, and in Asia to encourage the Filipino diaspora community to buy the said RTBs and provide “financial literary seminars” to complement this initiative (Gonzales 2010). These bonds are described as risk-free, high-yielding, affordable, and offers a frequent cash flow, i.e., interest payments are made quarterly (BPI website).

At the end of 2010, the BTr reported that the government was able to issue RTBs to OFWs amounting to PHP 22,303 million or 4.5% of the gross domestic borrowing for the said year. However, it seems that RTBs did not take off in the latter years because the market perceived that the issuance of the bonds was cost ineffective. Organizations such as the Philippine-American NGOs, which were supposed to market the bonds, lacked the capacity and capability to conduct such operations (i.e. legal- and market-wise). The result was a RTB that entailed either a higher cost to government or lower yields for OFWs.

Source: Communication with former DOF Undersecretary Romeo Bernardo, May 14, 2014.

ANNEX B.9

Corporate Social Responsibility (CSR) Programs in the Philippines

The positive performance of the Philippine economy in the recent years is underscored by the expansion of the private sector activities as the business sector tries to maximize the growing opportunities arising in the market. Such growth in the business sector involves externalities that may have negative impact on society as a whole and the environment. In the late 1960s and early 1970s, the government had already recognized the importance of taking into account the social costs (negative externalities) arising from private sector operation. The notion of corporate social responsibility (CSR) is a private sector response to mitigate negative externalities arising from their operation; in other cases, CSR has also been viewed as some sort of corporate attempts to build goodwill in host communities through efforts to address local issues, e.g., health, education, environment.

In 2003, a joint study showed three case studies on the CSR practices of three major Philippine mining firms, namely, Philex Mining Corporation, Silangan Mindanao Exploration Company, and APO Cement Corporation. In response to the alleged social and environmental costs brought about by the Philex Mining Corporation operations, the company started to formulate policies which would focus on the following CSR areas: (i) environment; (ii) social; (iii) governance; and (iv) economic. This also involved the creation of the Environment and Community Relations Division (ECRD) which would serve as the main group tasked to “formulate, implement and recommend policies, procedures and trainings related to environment and community development” (Hubo and MGB 2003). Among the projects and programs that had been implemented in relation to this thrust are the following: “construction of school buildings within the mine site which has an average enrolment of 5,000 and an operating subsidy from the company amounting to PHP 25 million annually”, provision of skills program on cottage industries, training for out of school youth on basic industrial skills, upgrading of agricultural and resource-based industries, construction of an irrigation system and feeder roads, free medical and dental service in the company’s hospital, establishment of livelihood associations, and implementation of reforestation projects. Overall, the study shows that the said engagement between the stakeholders and the community has led to a balance in business and development (social) benefits (Hubo and MGB 2003).

Another study discussed the experience of the Silangan Mindanao Exploration Company in implementing CSR practices in the south of Surigao City. Given similar concerns as with the Philex Mining Company, the Silangan Company thought of establishing an integrated “program of assistance that strives to empower communities to become self-reliant and participate productively in their own development”. In 2002, the company won the Presidential Mineral Industry Achievement Award which reflects the effectiveness of the company’s initiatives in relation to environmental management (Hubo and MGB 2003).

Essentially, this was similar to what happened in the case of the APO Cement Corporation. The APO Cement Corporation improved its operations and introduced new technology to an old cement plant. Moreover, the company started to envision itself as a company which: (i) cares for health, safety, and the environment; (ii) treats its communities as family; (iii) believes in the potential of the youth; and (iv) a partner of the government in nation building (Hubo and MGB 2003).

In 2007, a survey by the Newsbreak with funding support from the British Embassy sought to determine whether the majority of companies have formulated and integrated CSR practices into their business strategy. Based on a survey of 54 multinational companies, Rimando (2007) reported the following key findings: (i) CSR programs are largely initiated by the Chief of Executive of the companies;

(ii) the communities, “profits from last year”, and public relations (e.g. with social development foundation) serve as the foundation of the CSR practice; (iii) “getting the other functional groups involved in embedding the CSR strategy into the way the company plans and implements products and services is rare”; (iv) CSR programs are passed on to the corporate foundation, public relations or corporate communications group of the company; and (v) next to the community, the company employees are targeted for the CSR program.

ANNEX B.10

Extractive Industry Transparency Initiative (EITI)

The EITI (Extractive Industries Transparency Initiative) Standard is an international standard that ensures more transparency around countries’ oil, gas and mineral resources. It is developed and overseen by a coalition of governments, companies, civil society, investors and international organizations. The EITI Standard has robust yet flexible methodology, which countries adopt to address the specific issues they are facing. When implemented, the EITI ensures more transparency in how the country’s natural resources are governed, and full disclosure of government revenues from its extractive sector.

The EITI standard has two core elements: (a) companies publish what they pay and governments publish what they receive in an EITI Report and (b) this process is overseen by a multi-stakeholder group of governments, companies and civil society. To become an EITI candidate, an implementing country must first meet the sign-up requirements. It will then be given two and a half years to comply to EITI Standard which will be assessed by the EITI board. Implementing countries cannot hold a candidate status for more than five years. If the EITI board finds that the implement country has met all of the EITI requirements, an implementing country will then be given a compliant status.

Basically, achieving an EITI compliant status means that the implementing country has provided “satisfactory levels of disclosure and openness in the management of the natural resources, as well as a functioning process to oversee and improve disclosure” (EITI FAQs). The Compliant countries are required to undergo validation, which provides an independent assessment of the EITI implementation every three years or when deemed necessary by the EITI Board. To date, there are 27 countries which have complied with the EITI Standard, 17 candidate countries, and 35 countries which have produced EITI reports.

The EITI believes that compliance to this standard will be beneficial to the governments, the private sector, and the citizens and civil society. In particular, this will help prevent corruption practices in the extractives sector (i.e. through improvement in the tax collection process) which will enhance the countries’ tax collections, as well as, attract foreign direct investments (FDIs) in the country. The citizens will also gain from this through having accurate and relevant information about the extractives sector (e.g. amount earned by the government, possible impacts to the environment).

Source: http://eiti.org/files/2014-03-26%20Factsheet%20English_0.pdf; <http://eiti.org/faqs>

ANNEX B.11 Key variables, official targets and assumptions

Philippine government official targets in the medium term are available for the key variables real GDP growth, fiscal deficit-to-GDP ratio, national government debt-to-GDP ratio and domestic-external borrowing mix. The government also makes public the anticipated levels of revenues as well as programmed levels of expenditures including interest payments. These official targets and programmed levels are used in projecting the optimistic scenarios of development finance flows. **Table 1** below summarizes the official targets of the government. For purposes of comparison, it also shows the average performance in the period 2000-2013 and the latest actual accomplishment (i.e., in 2013). Note that the trends based on averages of past performance will be used in projecting the business-as-usual scenarios.

Table 1. Key variables, actual accomplishments and official targets

| | Actual Accomplishments | | Official Targets | | |
|---|------------------------|--------|-------------------|-------------------|-------------------|
| | 2000-2013 average | 2013 | 2014 ^a | 2015 ^b | 2016 ^c |
| Real GDP growth | 5.0% | 7.2% | | | |
| high target | | | 7.5% | 8.0% | 8.0% |
| low target | | | 6.5% | 7.0% | 7.0% |
| Government revenues | | | | | |
| actual, as % of GDP | 14.5% | 14.9% | | | |
| target, in billion Php | | | 2,018.10 | 2,337.30 | 2,760.80 |
| Government expenditures including interest payments | | | | | |
| as % of GDP | 17.3% | 16.3% | | | |
| programmed, in billion Php | | | 2,264.63 | 2,622.60 | 3,082.80 |
| Interest payments | | | | | |
| as % of GDP | 4.0% | 2.8% | | | |
| programmed, in billion Php | | 323.43 | 352.65 | n.a. | n.a. |
| Fiscal deficit (as % of GDP) | 2.7% | 1.4% | 2.0% | 2.0% | 2.0% |
| National government debt (as % of GDP) | | 49.2% | n.a. | n.a. | 45.0% |
| Borrowing mix (as % of total) | | | | | |
| Domestic borrowing | | | 85.0% | 86.0% | n.a. |
| External borrowing | | | 15.0% | 14.0% | n.a. |

Notes:

n.a. – not available

^a – DBCC's macroeconomic assumptions; from DBM (2014), *The People's Budget*.

^{b, c} – GDP growth: target in the PDP 2011-2016; deficit, revenues and expenditures: DBCC targets (from DBM (2014), *The People's Budget*); national government debt as % of GDP and borrowing mix: based on DOF pronouncements to the media.

Source: Department of Budget and Management.

Note that the 7.2% GDP growth in 2013 compared with the average 5% annual GDP growth in 2000-2013 suggests that the Philippines is making significant progress in achieving high economic growth. As mentioned in Section 2 of this study, the outlook is positive in the short to medium term. The aspirational goal in the Philippine Development Plan 2011-2016 is to achieve rapid and sustained economic growth in the medium term with annual GDP growth rate of 7% to 8%. For this year, the Development Budget and Coordination Committee established a GDP growth rate target of 6.5% to 7.5%.

The 14.9% revenue-GDP ratio in 2013 is higher than the average revenue-GDP ratio in 2000-2013, which is 14.5%. This reiterates the trend shown in the revenue chart in the last section which suggests that the government is making headways in improving its revenue effort. Based on budget programming documents, the government anticipates revenues to grow by 17.6% in 2014, 15.82% in 2015 and 18.12% in 2016.

Given the continuous reductions in outstanding debt, interest payments also declined-- as shown by an interest payment-GDP ratio of 2.8% in 2013 that is lower than the average interest payment-GDP ratio of 4% in 2000-2013. The reduced debt stock, target borrowing mix in 2014, and schedule of debt obligations imply an anticipated interest payment of Php352.65 billion in 2015. Budget programming documents do not show the anticipated interest payments for 2015 and 2016.

The official targets also show that debt reduction will be a major fiscal management strategy in the medium term and the aspirational goal is to reduce the national government debt to 45% of GDP by the time the Aquino administration ends.

The borrowing mix targets show a flexible targeting system based on actual conditions in the domestic and international capital markets. At the start of the 2013 fiscal year, the target borrowing mix was 80:20 in favor of the domestic market but changing conditions in the capital market and the Department of Finance's borrowing strategy for cash operations led to an actual 94:6 domestic-external borrowing ratio. The (flexible) target for 2015 is 85:15, and it is loosely anticipated that a 1% increase in the proportion of domestic borrowing can be accommodated.

Given the available official targets on some key variables and the GDP growth forecast assumed by this study, the following assumptions for this year, which will be the starting point for projecting scenarios in the next five years (**Table 2**)

Table 2. 2014 Assumptions for GDP, revenues and expenditures

| | 2014 Official Targets | 2014 Assumptions |
|---|-----------------------|------------------|
| Real GDP growth (%) | 6.5%-7.5% | 6.6% |
| Real GDP level | | |
| in billion Php | | 7,212.0 |
| in billion US\$ | | 169.7 |
| Nominal GDP level | | |
| in billion Php | | 12,824.8 |
| in billion US\$ | | 301.8 |
| Government revenues | | |
| as % of GDP | | 15.74% |
| in billion Php | 2,018.10 | |
| Government expenditures including interest payments | | |
| as % of GDP | | 17.66% |
| in billion Php | 2,264.63 | |
| Deficit (as % of GDP) | 2.0% | 1.9% |

The assumed real GDP growth adopts the projection in Navarro and Llanto (2014). It implies a real GDP of Php7.21 trillion and nominal GDP of Php12.82 trillion this year. The DBCC assumes an exchange rate of Php41=US\$1 and Php44=US\$1 during the medium term. This study assumes the mid-point of this exchange rate range in converting pesos to US dollars. Thus, the 2014 real GDP and nominal GDP levels in dollars are US\$ 169.7 billion and US\$301.8 billion, respectively. Given the government's anticipated revenues and the nominal GDP level assumed by this study, the revenue-GDP ratio in 2014 is solved as 15.74%. The programmed expenditures (inclusive of interest payments) this year and the nominal GDP assumed by the study result in an expenditure-GDP ratio of 17.66%. The revenue-GDP ratio and expenditure-GDP ratio implies a projected financing gap or fiscal deficit of 1.9% of GDP, which is still within the government's official deficit target (**Table 3**).

Table 3. 2014 Assumptions for other development finance flows

| | 2014 - Actual | 2014 Assumptions |
|---|---------------|------------------|
| Fiscal deficit that needs financing (as % of GDP) | 1.4% | 1.9% |
| Borrowing mix | | |
| Domestic (% of total) | 94% | 85% |

| | | |
|---------------------------------------|-----------|-----------|
| External (% of total) | 6% | 15% |
| Domestic borrowings (in million US\$) | 12,257.27 | 4,930.60 |
| External borrowings (in million US\$) | 794.52 | 870.11 |
| Foreign Direct Investments | | |
| growth (%) | 53.35% | 53.35% |
| level (in million US\$) | 3,859.79 | 5,918.86 |
| Remittances | | |
| as % of GDP | 9% | 9% |
| level (in million US\$) | 24,943.00 | 27,158.33 |

The fiscal deficit resulting from the GDP growth assumption for 2014 and the official revenue and expenditure targets is 1.9% of GDP. If this were to be financed through borrowings, a total of US\$5.8 billion will be needed. Given the Department of Finance pre-announced target of 85:15 borrowing mix in favor of domestic financing, it can be assumed that deficit financing in 2014 will require US\$4.93 billion domestic borrowings and US\$870 million foreign borrowings (**Table 26** above).

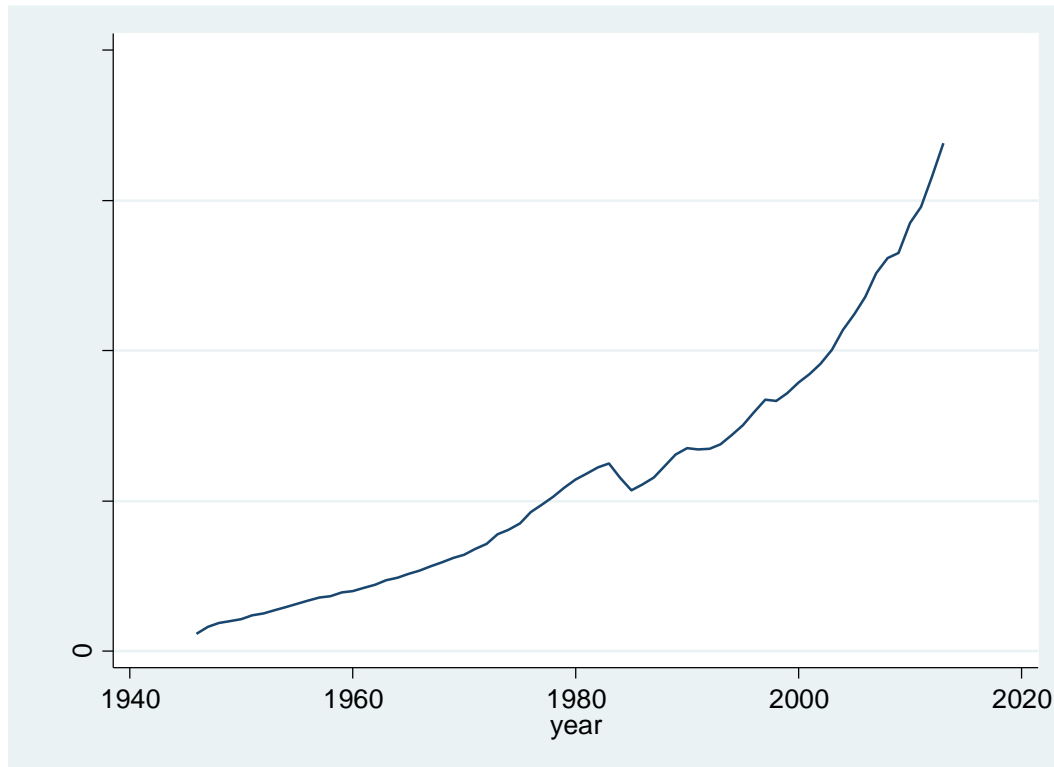
FDI growth during the current administration (2010-2013) was high at 53.55%. Given that the country continues to enjoy high investment rating and business expectations continue to be positive, it is assumed that FDI flows this year will continue to be strong and will grow at the same rate as in 2013.

Remittances are steadily growing and the pattern of growth shows that the annual level is around 9% of GDP. The 9% remittance-GDP ratio has been stable notwithstanding the global financial crises, domestic economic downturns and political instability. It is assumed therefore that for 2014, the 9% ratio will be maintained.

Annex B.12 Technical Note on the ARIMA(1,1,1) Result

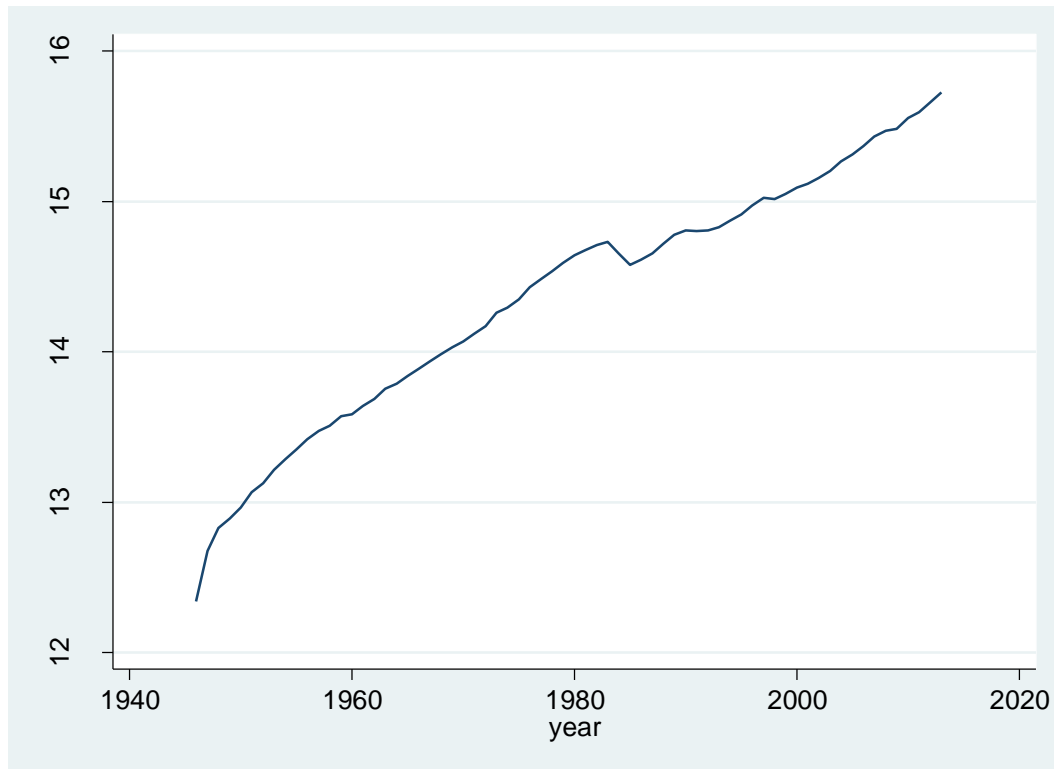
The modeling and analysis that follow used the STATA 13 software (<http://www.stata.com/stata13/>).

The 1946-2013 real GDP data (in constant 2000 prices) for the Philippines can be depicted by the graph below.



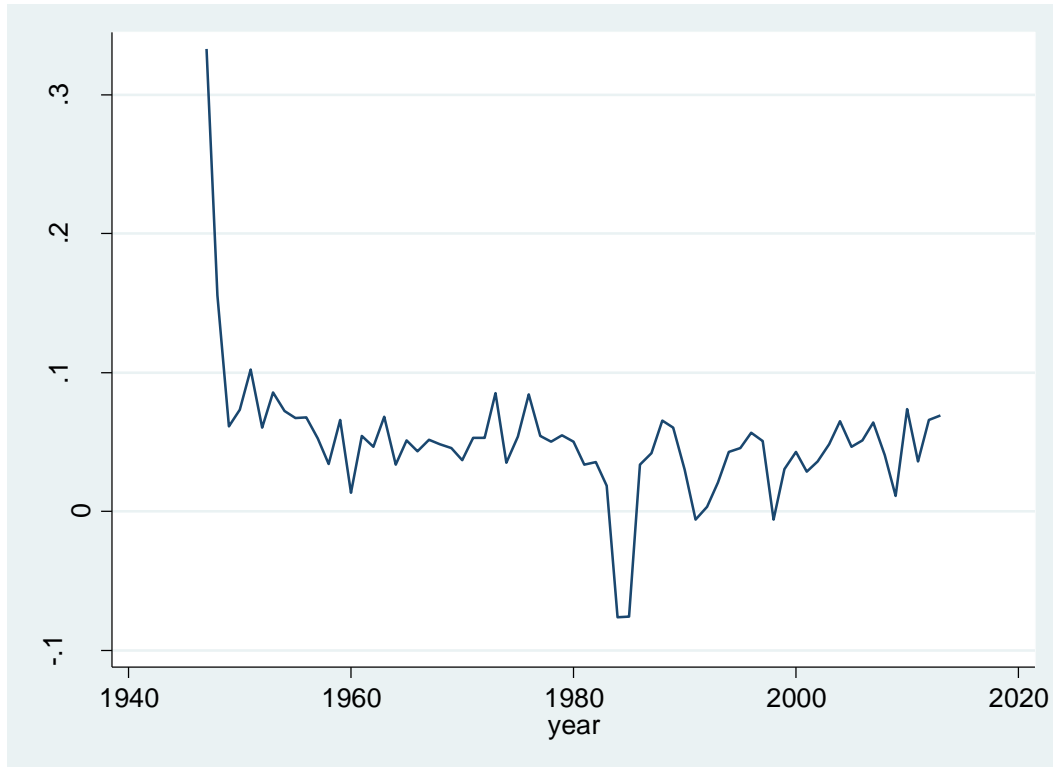
Note that the time series is not stationary as it has a trend. Stationarity is necessary to make the time series valid for forecasting. Stationarity essentially says that the future, in a probabilistic sense, is like the past and the present. A stationary time series is one whose statistical properties such as mean, variance, autocorrelation, etc. are all constant over time. Non-stationary time series, or time series which have means, variance and covariances that change over time, are unpredictable and cannot be modeled. The results obtained using non-stationary time series may be spurious, or may indicate a relationship although one does not exist.

In order to have consistent and reliable results, the non-stationary time series needs to be transformed into stationary time series. Let us see if the log transformation will make the time series stationary. Below is the logarithmic of real GDP, $\ln(\text{real GDP})$.



The time series above still shows a clear trend and therefore is not stationary. Let us take the first-order difference and visually check again for stationarity. The first-order difference of $\ln(\text{real GDP})$ is

$$\Delta \ln(\text{real GDP}) = \ln(\text{real GDP})_t - \ln(\text{real GDP})_{t-1}$$



From the graph above, the first-order difference seems stationary. We can perform a Dickey-Fuller test to check whether or not that the differenced time series is stationary. If not, we need to perform another differencing. The Dickey-Fuller test yields the following:

```
. dfuller realGDP_logD1, regress trend
```

Dickey-Fuller test for unit root Number of obs = 66

| | Test Statistic | Interpolated Dickey-Fuller | | |
|------|-------------------|----------------------------|----------------------|-----------------------|
| | | 1% Critical Value | 5% Critical Value | 10% Critical Value |
| Z(t) | -8.339 | -4.115 | -3.484 | -3.170 |

MacKinnon approximate p-value for Z(t) = 0.0000

| D.realGDP_~1 | Coef. | Std. Err. | t | P> t | [95% Conf. Interval] | |
|--------------|-----------|-----------|-------|-------|----------------------|----------|
| realGDP_lo~1 | | | | | | |
| L1. | -.6117958 | .0733658 | -8.34 | 0.000 | -.7584056 | -.465186 |
| _trend | -.0001593 | .0001837 | -0.87 | 0.389 | -.0005265 | .0002078 |
| _cons | .0320875 | .0088976 | 3.61 | 0.001 | .014307 | .049868 |

Since the coefficient of lagged $\ln(\text{real GDP})$ is significantly different from zero, the series is stationary. We can proceed to determining the appropriate ARIMA model.

ARIMA models are univariate, meaning, the only information available for the model is on one variable and the data is the history of the series. That's why these models are only good for short-term forecasting. The forecasts for longer periods will quickly decay to the constant term in the ARIMA model. For example, when we start forecasting for two-periods ahead or $t+2$ using the one-period ahead or $t+1$ forecast, we no longer have any "noise" in the forecast because the model no longer adds in error terms, or the variable no longer reacts to a previous stochastic variation.

ARIMA models are a general class of models used in forecasting time series which can be stationary by transformations such as differencing and lagging. In $\text{ARIMA}(p,d,q)$ model, we need to determine p , d , and q , where p is the number of autoregressive terms, d is the number of non-seasonal differences, and q is the number of moving average lags.

We know that the d in the ARIMA model is 1 after first-order differencing. We can then determine the p and q by looking at the sample autocorrelations and partial autocorrelations.

| LAG | AC | PAC | Q | Prob>Q | [Autocorrelation] | [Partial Autocor] |
|-----|---------|---------|--------|--------|-------------------|-------------------|
| 1 | 0.4119 | 0.4123 | 11.882 | 0.0006 | | |
| 2 | 0.1430 | -0.0619 | 13.335 | 0.0013 | | |
| 3 | 0.1313 | 0.0794 | 14.58 | 0.0022 | | |
| 4 | 0.1188 | 0.0553 | 15.616 | 0.0036 | | |
| 5 | 0.0534 | 0.0372 | 15.829 | 0.0074 | | |
| 6 | 0.1660 | 0.2153 | 17.917 | 0.0064 | | |
| 7 | 0.1538 | 0.0023 | 19.739 | 0.0062 | | |
| 8 | 0.1165 | 0.0285 | 20.803 | 0.0077 | | |
| 9 | 0.0452 | -0.0439 | 20.966 | 0.0128 | | |
| 10 | 0.0378 | 0.1113 | 21.082 | 0.0205 | | |
| 11 | -0.0248 | -0.1240 | 21.133 | 0.0320 | | |
| 12 | -0.0274 | -0.0022 | 21.196 | 0.0476 | | |
| 13 | -0.0375 | 0.0409 | 21.316 | 0.0669 | | |
| 14 | 0.0642 | 0.0128 | 21.676 | 0.0855 | | |
| 15 | 0.0273 | 0.0095 | 21.742 | 0.1147 | | |
| 16 | 0.0558 | 0.0498 | 22.024 | 0.1424 | | |
| 17 | 0.0206 | 0.0311 | 22.063 | 0.1823 | | |
| 18 | 0.0178 | 0.0068 | 22.093 | 0.2279 | | |
| 19 | -0.0260 | -0.0077 | 22.158 | 0.2764 | | |
| 20 | -0.0000 | 0.0217 | 22.158 | 0.3320 | | |
| 21 | -0.0103 | 0.0179 | 22.169 | 0.3898 | | |
| 22 | -0.0367 | -0.0148 | 22.308 | 0.4417 | | |
| 23 | -0.0127 | 0.0480 | 22.325 | 0.5007 | | |
| 24 | 0.0802 | 0.1620 | 23.016 | 0.5189 | | |
| 25 | 0.0652 | -0.0164 | 23.483 | 0.5494 | | |
| 26 | 0.0566 | 0.0943 | 23.845 | 0.5848 | | |
| 27 | -0.0176 | -0.0335 | 23.881 | 0.6369 | | |
| 28 | -0.0158 | 0.1031 | 23.911 | 0.6862 | | |

From the PACF plot, it can be viewed that significant spike occurs at lag 1; it implies we should build an AR(1) model. From the ACF plot, an MA(3) process is implied. We can therefore try the maximum likelihood estimation of an ARIMA(1,1,3) model, which has the following result:

| ARIMA regression | | | | | | |
|---------------------------|-----------|------------------|---------------|-------|----------------------|----------|
| Sample: 1947 - 2013 | | | Number of obs | | = | 67 |
| Log likelihood = 125.1519 | | | Wald chi2(4) | | = | 1297.98 |
| | | | Prob > chi2 | | = | 0.0000 |
| D. realGDP_log | Coef. | OPG Std. Err. | z | P> z | [95% Conf. Interval] | |
| realGDP_log _cons | .073226 | .0333955 | 2.19 | 0.028 | .007772 | .1386799 |
| ARMA | | | | | | |
| ar L1. | .9367974 | .0973517 | 9.62 | 0.000 | .7459916 | 1.127603 |
| ma L1. | -.0283545 | .1841467 | -0.15 | 0.878 | -.3892754 | .3325664 |
| L2. | -.2917435 | .1922902 | -1.52 | 0.129 | -.6686254 | .0851383 |
| L3. | -.1891332 | .2260267 | -0.84 | 0.403 | -.6321375 | .2538711 |
| /sigma | .0370176 | .0023124 | 16.01 | 0.000 | .0324853 | .0415498 |

But note that the coefficients of the MA terms are insignificant, and a better-fitting model may still be found. Another way of finding a better fit is this: When using the ARMA model, we can estimate ARMA for candidate models with $p=0, q=1$ and so on to say $p=3, q=3$. Then we obtain the Akaike's information criterion (aic) and Bayesian information criterion (bic). We then choose the model with the lowest aic or bic. From the repeated estimations using different combinations of p and q , the model with the lowest aic and bic is ARIMA(1,1,1), which is estimated below:

ARIMA regression

Sample: 1947 - 2013

Number of obs = 67

Wald chi2(2) = 300.11

Log likelihood = 124.4

Prob > chi2 = 0.0000

| D. realGDP_log | Coef. | Std. Err. | z | P> z | [95% Conf. Interval] | |
|----------------------|----------|-----------|-------|-------|----------------------|----------|
| realGDP_log _cons | .0631578 | .0205406 | 3.07 | 0.002 | .0228989 | .1034166 |
| ARMA | | | | | | |
| ar L1. | .7204612 | .0702934 | 10.25 | 0.000 | .5826887 | .8582337 |
| ma L1. | .2086177 | .1650973 | 1.26 | 0.206 | -.114967 | .5322025 |
| /sigma | .0374955 | .0021992 | 17.05 | 0.000 | .0331851 | .0418059 |

Using the values predicted by the ARIMA(1,1,1) model of real GDP, the projected growth rates for 2014-2019 are as follows:

| Year | Real GDP growth (in %) |
|------|------------------------|
| 2014 | 6.71284 |
| 2015 | 6.60184 |
| 2016 | 6.52188 |
| 2017 | 6.46426 |
| 2018 | 6.42276 |
| 2019 | 6.39285 |

ANNEX B.13

Pantawid Pamilyang Pilipino Program (4Ps): Philippine CCT Program

Program

The Philippines principal anti-poverty program is the Pantawid Pamilyang Pilipino Program (4Ps) which started in 2008. It is a human development program that aims to alleviate poverty by improving the health seeking behavior of Filipinos and increase the school participation rate of children aged 0-18 years old. Structured with the same purpose as that of the earlier CCT programs in other countries (e.g. Brazil and Mexico), the 4Ps will provide fixed cash grants to

targeted beneficiaries for so long as they comply with the conditions set by the national government. The target beneficiaries are identified through the National Household Targeting System for Poverty Reduction (NHTS-PR) as based on the Proxy Means Test result. As of March 26, 2014, the 4Ps has operated in 1,410 cities and municipalities in 79 provinces nationwide which translate to 4,004,795 registered households.

The government allocated PHP 62.61 billion to the 4Ps in 2014, an increase of 41.5 percent over last year's budget of PHP 44.25 billion. The 2014 4Ps' budget of PHP 62.6 billion is allocated as follows: (a) Regular CCT Program (PHP 48.3 billion or 77.2 percent of the total budget), (b) Expanded CCT Program (PHP 12.3 billion or 19.6 percent of the total budget), and (c) Modified CCT Program (PHP 2 billion or 3.3 percent of the total budget). The Regular CCT Program gives benefits to around 4.3 million of the poorest households in the country. The benefit is in the form of a cash grant amounting to PHP 500 per month to the parents and their children to enable them to access health care services and PHP 300 per month for every child aged 6-14 years on condition that the child attends at least 85 percent of total class days in the academic year. The benefits are limited to three children per targeted household.

The Expanded CCT Program is for the additional beneficiaries (15-18 years old children) belonging to the poorest households. The cash grant amounts to PHP 500 per month per child to help those children finish high school.

The Modified CCT Program is for 7,007 homeless street families nationwide, and 8,956 itinerant indigenous-people families in urban areas without permanent homes and who live from place to place, in addition to 116,000 indigenous-people families across the country (DBM 2013).

Target and Actual Number of Household Beneficiaries, 2008 to 2014 p/

| | Number of Enrolled Households | Cumulative Enrolled | Number of Target Households | Cumulative Target |
|---------|-------------------------------------|------------------------|-----------------------------------|------------------------|
| 2008 | 292,906 | 292,906 | 314,818 | 314,818 |
| 2009 | 251,887 | 544,793 | 267,884 | 582,702 |
| 2010 | 378,849 | 923,642 | 399,462 | 982,164 |
| 2011 | 1,219,077 | 2,142,719 | 1,270,658 | 2,252,822 |
| 2012 | 857,831 | 3,000,550 | 854,157 | 3,106,979 |
| 2013 | 934,844 | 3,935,394 | 702,790 | 3,809,769 |
| 2014 p/ | 69,401 | 4,004,795 | 337,399 | 4,147,168 ^a |

Notes:

p/ - Preliminary (as of March 26, 2014)

a Sum of the target household beneficiaries of the Regular and Modified CCT Program, as per National Expenditure Program FY 2014

Source: DSWDa (2013); Official Gazette (2014)

The substantial increase in budget allocation and the large number of poor beneficiary households can be explained by the government's confidence that 4Ps could be an effective program to improve human capital and address poverty issues. The decision to expand the coverage to include those in ages 15-18 so that they may be able to finish high school and correspondingly provide a significant increase in the budget is based on the results of empirical

studies that confirm the hypothesized relationship between the cash grant and the expected development outcomes (improvement in human capital and poverty reduction). The documented experience of Latin American countries about the positive impacts of conditional cash transfers on those development outcomes also helped policy makers in understanding the impact of CCTs and how they work.

Results

Using data from the 2011 Annual Poverty Indicators Survey (APIS) Reyes, et al. (2013) reported that the 4Ps program has facilitated an increase in the school participation rate by 3.5 percentage points among the intended beneficiaries (i.e. children aged 6-14 years old). An impact evaluation study conducted by Chaudhury et al. (2013) showed that 4Ps has, in general, increased enrolment among children aged 3-11 years old and has increased attendance among 6-17 years old, which is even beyond the age range of the targeted beneficiaries. Chaudhury et al. (2013) also indicated that 4Ps had no significant impact on increasing the enrolment among children aged 12-17 years old. This implies that the 4Ps has failed to increase the enrolment rate among older children beneficiaries. Reyes et al. (2013) had a similar finding: after receiving cash grants from the five-year program of the 4Ps, a six-year old child will only finish Grade 5. There is a chance that this child may not even finish elementary schooling.

The advice given to policymakers was to extend the 4Ps' coverage to include 15-18 years old to motivate them to finish high school. The average daily wage of an elementary graduate is about 10 percent higher than an individual who doesn't finish elementary school. In contrast, a high school graduate's average daily wage is 40 percent higher than an elementary undergraduate. With respect to health status, Chaudhury et al. (2013) reported that 4Ps had been successful in helping "improve the long-term nutritional status of younger children (6-36 months old)." More specifically, there was a 10 percentage point reduction in severe stunting among 4Ps recipients relative to non-recipients. There was also a significant improvement in the health seeking behavior of poor women especially in terms of accessing maternal and child health services. Overall, 4Ps seemed to have increased per capita income from PHP 9,131 in 2008 to PHP 10,348 in 2011 and lowered the poverty rate but these findings were deemed to be statistically insignificant.

A more recent impact evaluation study on 4Ps conducted by Orbeta, Pacqueo, Spohr (2013) explored the empirical effects of the program on labor force participation and employment. Results reveal that the program increases the desire for more work of the employed household head, female spouse, household members aged 18 years old and above, and middle-aged workers aged 35-54 years old. Furthermore, the study shows that 4Ps does not have an impact on the incidence of child labor for all children. These results prove to be contrary to the claims of the program's critics.

Notwithstanding the overall positive impact of the 4Ps program, there remain challenges that need to be tackled by the government. The targeting scheme must be improved as there is some evidence of overestimation in the number of poor families listed in the 4Ps. Leakages had been observed by Fernandez and Olfindo (2011) who noted that among the 4P beneficiaries in 2009, only 72% belongs to the 20% poorest households. This translates to a 29% leakage rate in the program. Moreover, Reyes et al. (2013) estimated that 27% of the beneficiaries belong to the non-poor based on calculations from 2009 official poverty incidence in the country.

The NEDA (2012) also recommends increasing the grant amount for older children and all the beneficiaries must receive the full benefits that are entitled to them. Supply-side intervention in the education sector must be explored because the promotion of higher school participation rate among the target children has to be complemented with adequate classrooms, teachers, and

other school paraphernalia, e.g. textbooks.

Role of development finance

From the perspective of effectiveness of development finance and aid, the 4Ps is a very good example of close coordination and cooperation among the government, multilateral donor institutions (World Bank and the Asian Development Bank) international donor community, the academe (who conducted third party evaluation of the program), civil society and other stakeholders in the formulation, implementation, and monitoring of the program. From the very start the main collaborators, namely the government (DSWD) and the international funding institution adopted a transparent and coordinative approach in shepherding the program from conceptualization to implementation and monitoring. Donor money was effectively strategic in its role of kick starting the 4Ps through a combination of grants (technical assistance) and timely loan and enthused by positive development results, the government with Congressional support allocated bigger amounts of monies to the program and expanded its coverage.

ANNEX B.14

| Sector | Examples of Regional Public Goods |
|---|---|
| Health (capacity concerns) | <ul style="list-style-type: none">• Vaccines for region-specific diseases• Monitoring disease outbreaks• Developing best practices for treating region-specific diseases• Maintaining sterilization in hospitals |
| Environment (need for information) | <ul style="list-style-type: none">• Curbing acid rain• Reducing transboundary haze• Preserving rain forests• Preventing floods |
| Knowledge (pooling efforts; leadership) | <ul style="list-style-type: none">• Agriculture extension services• Network of data and information exchange• Geoclimatic-specific research findings• Mapping spillovers of public goods |
| Governance (coordination needed) | <ul style="list-style-type: none">• Adopting sound financial practices• Monitoring economic and financial practices• Harmonizing transport conventions• Eliminating trade barriers |
| Infrastructure (coordination and capacity) | <ul style="list-style-type: none">• River development• Energy grids• Trans high way and railway• Air traffic control |

Source: Sandler (2007), as quoted in ADB (2012)