

01

**In Pursuit  
of Inclusive  
Growth**

# In Pursuit of Inclusive Growth

## What is Inclusive Growth?

Inclusive growth means, first of all, growth that is rapid enough to matter, given the country's large population, geographical differences, and social complexity. It is sustained growth that creates jobs, draws the majority into the economic and social mainstream, and continuously reduces mass poverty. This is an ideal which the country has perennially fallen short of, and this failure has had the most far-reaching consequences, from mass misery and marginalization, to an overseas exodus of skill and talent, to political disaffection and alienation, leading finally to threats to the constitution of the state itself.

Viewed by majority of Filipinos, the record of economic and social progress up to now has proved unsatisfactory for three reasons: first, its pace has been slow when measured against the achievements of the country's neighbors; second, the benefits of that progress have not been broadly shared; and third, issues of massive corruption and of questioned political legitimacy have undermined the people's sense of ownership of and control over public policy. Growth has not only lagged, it has failed to benefit the majority, who feel increasingly alienated because their political institutions provide little relief and have drifted beyond their control. Growth, in short, has failed to be inclusive.

## It is high growth that is sustained...

Inclusive growth means, first of all, growth that is rapid enough to matter, given the country's large population, geographical differences, and social complexity. It is sustained growth that creates jobs, draws the majority into the economic and social mainstream, and continuously reduces mass poverty. This is an ideal which the country has perennially fallen short of, and this failure has had the most far-reaching consequences, from mass misery and marginalization, to an overseas exodus of skill and talent, to political disaffection and alienation, leading finally to threats to the constitution of the state itself.

Historically the Philippine economy has been mired in tepid and erratic growth.

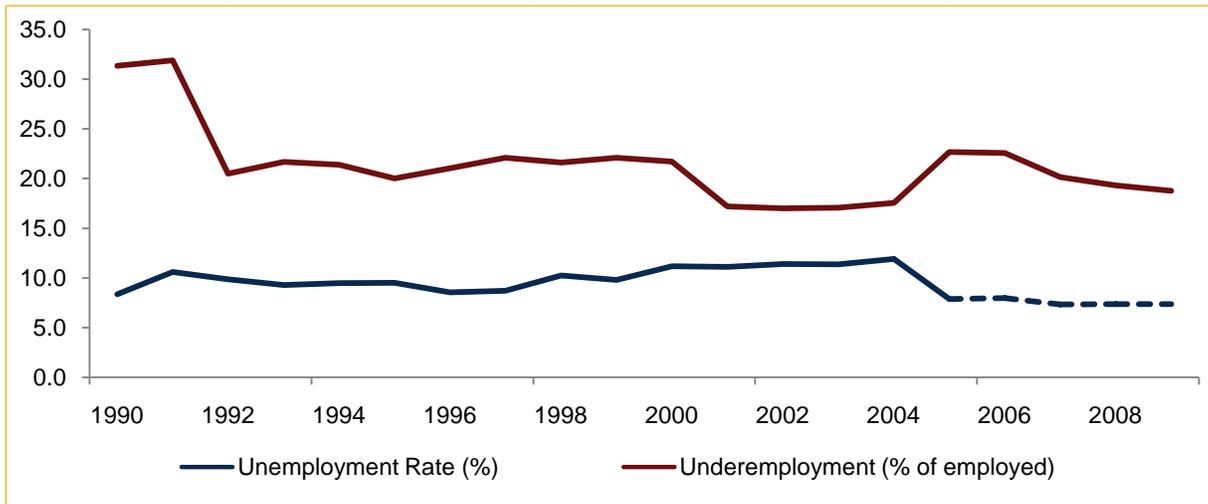
**Table 1.1 Annual Average Growth Rate of Real Per Capita GDP: 1950-2009 (in percent)**

	1951-60	1961-70	1971-80	1981-90	1991-00	2001-09
Hong Kong	9.2	7.1	6.8	5.4	3.0	3.2
Singapore	5.4	7.4	7.1	5.0	4.7	2.0
Korea	5.1	5.8	5.4	7.7	5.2	3.5
Taipei, China	7.6	9.6	9.3	8.2	5.5	2.7
Malaysia	3.6	3.4	5.3	3.2	4.6	2.2
Thailand	5.7	4.8	4.3	6.3	2.4	3.1
Indonesia	4.0	2.0	5.3	4.3	2.9	3.8
Philippines	3.3	1.8	3.1	-0.6	0.9	2.3*

Sources: Asian Development Bank (ADB), 2010; National Statistical Coordination Board (NSCB)

\*Average for the period 2001-2010

**Figure 1.1 Unemployment and Underemployment Rate: 1990 – 2010 (in percent)**



*Note: Starting April 2005, the Labor Force Survey (LFS) adopts the new definition of unemployment. Source: National Statistics Office (NSO)*

Since 1981, growth has averaged only 3 percent annually. This is well below the postwar growth rates of several high-performing Asian economies.

With population still increasing at more than 2 percent per year, per-capita incomes have risen only 20 percent in real terms from 1981 to 2009. Over the same period, by comparison, per capita income increased four-fold in Malaysia, five-fold in Thailand, and 11-fold in PR China, an era in which absolute mass poverty was basically eradicated in these countries.

**... that massively creates jobs,**

Quality economic growth means primarily that rapid output increases are translated into employment creation. Unfortunately, rates of unemployment have remained high (Figure 1.1), averaging 10 percent in 1990–2005 and 7.5 percent in 2006–2010, (note that the data before and after 2005 cannot be compared due to

a change in the unemployment definition adopted that year). Underemployment has also been widespread, with rates hovering at around 18–20 percent in the late 2000s. This remarkably contrasts with countries such as PR China, Malaysia, and Thailand, where unemployment has remained at 4 percent or lower over the same period.

**... and reduces poverty.**

Under the Millennium Development Goals (MDG), the country committed to halving extreme poverty from 33.1 percent in 1991<sup>1</sup> to 16.6 percent by 2015. This goal can still be achieved provided that determined efforts are undertaken (Figure 1.2). Mass poverty remains the critical challenge, with the poor accounting for more than one-fourth (26.5%) of the population as of 2009. A deep cause for concern is the fact that the incidence of poverty has remained essentially stagnant for almost a decade now. Given the country’s population growth, this actually means that the number of poor families and persons has been increasing through time. This compares unfavorably with some countries that have

<sup>1</sup> This uses the revised official methodology approved on February 1, 2011 by the NSCB. Under the older methodology, the poverty incidence for 1991 was 45.3 percent.

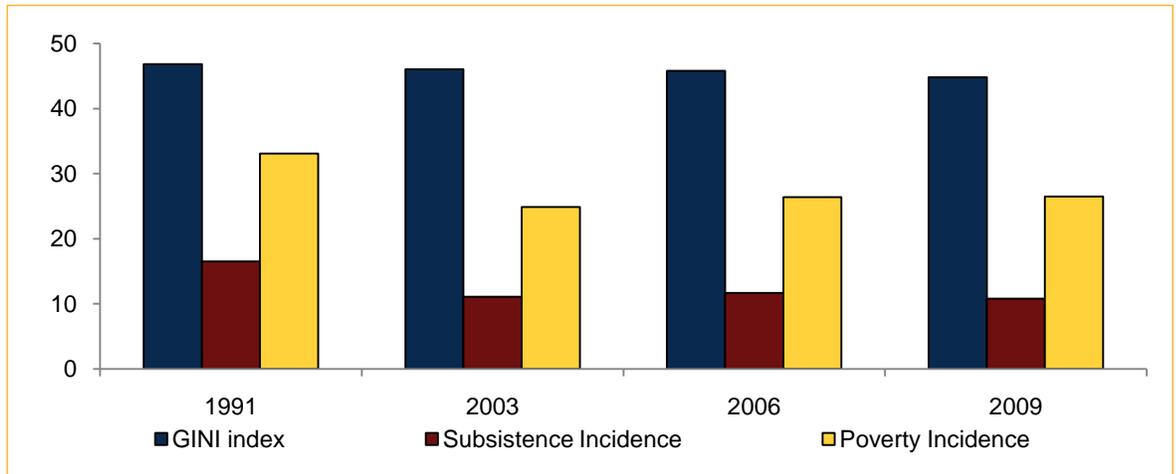
similar or lower per capita incomes (Table 1.2).

While poverty incidence declined between 1991 and 2009, the rate of decline has been exceedingly slow. Indeed, there have been periods, such as between 2003 and 2006, when the poverty incidence actually increased despite above-average economic growth. This underscores the need for renewed efforts if progress in this area is to be sustained. For every percentage-point increase in income-growth in the Philippines,

poverty incidence falls by about 1.5 percentage points compared with the range of 2.9 to 3.5 for high-performing economies (PR China, Indonesia, and Thailand) and the 2.5 average for a set of 47 developing countries. Relative to international experience, therefore, Philippine economic growth thus, by far, has largely bypassed the poor.

A proximate factor behind the weak response of poverty to growth is high

**Figure 1.2 Poverty Incidence and the Gini Ratio: 1991, 2003, 2006, 2009**



Sources: NSCB, NSO

**Table 1.2 Poverty and Inequality in Selected Countries (most recent available)**

	Official poverty incidence in % (2007/2008) 1/	Share of population below \$1.25 per Day, % (2004/2005/2006/2007) 2/	Gini Coefficient (2004/2005/2006/2007)1/
China	4.2	15.9	0.415
Indonesia	14.2	29.4	0.376
Malaysia	3.6	2.0	0.379
Philippines	26.5*	22.6	0.448**
Thailand	8.5	2.0	0.425
Vietnam	13.5	21.5	0.378

Sources/Notes:

\*2009 Official Poverty Statistics, NSCB

\*\*2009 Family Income and Expenditures Survey (FIES), NSO

1/ 2010 ADB Key Indicators

2/ UN Economic and Social Commission for Asia and the Pacific (UNESCAP) 2009 Statistical Yearbook ([www.unescap.org/stat/data/syb2009/](http://www.unescap.org/stat/data/syb2009/))

inequality. Compared to other countries in the region, income inequality in the Philippines is high (Figure 1.2 and Table 1.2). The Gini ratio, a measure of inequality, is in the mid-40s, whereas in Indonesia and Vietnam the Gini ratio is at 38-39. Moreover, there has been no secular tendency towards falling inequality; movements in the Gini ratio have been erratic at best, declining in the early 1990s, rising until 2000, then falling slightly before leveling off at a still-high level by 2006. In general, it is safe to conclude that the trade-off between growth and inequality that is commonly observed in other countries still raises no policy dilemma in the Philippines, where low growth has been accompanied by increasing or high inequality.

### What Makes Inclusive Growth Elusive?

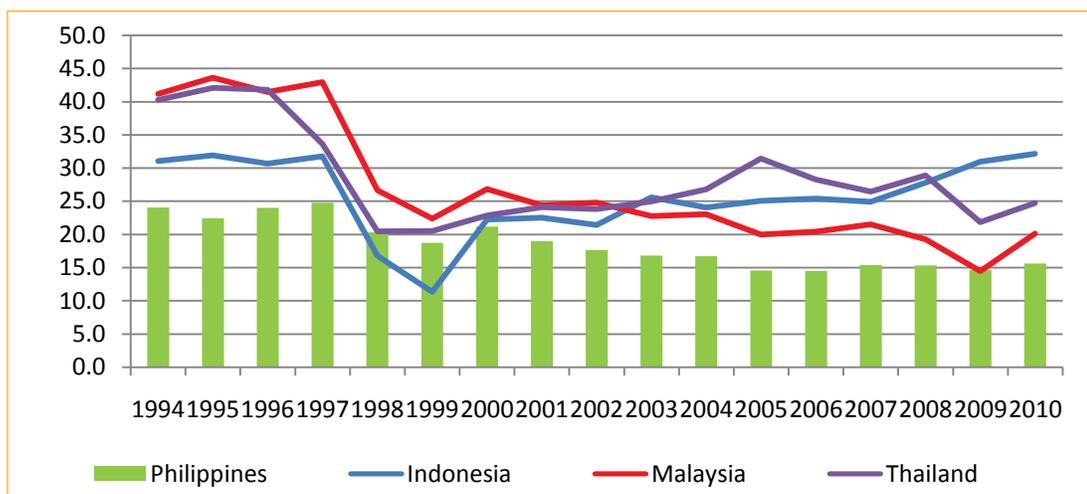
Low growth, weak employment generation, and persistently high inequality are the immediate reasons for the failure of inclusive growth in the country. But these in turn have deeper structural underpinnings.

### Inadequate infrastructure is a major constraint...

First, the country’s investment record has been poor and falling (Figure 1.3). As a share of GDP, gross domestic investment peaked at about 24.8 percent, before falling to just 15.6 percent in 2010. In contrast, investment in Malaysia and Thailand soared to over 40 percent of GDP, and although they have dipped since the Asian crisis, their levels are still way above that of the Philippines (except for Malaysia). Not only is the Philippines’ investment ratio low, it has also been falling since the mid-1990s, down to 15.6 percent in 2010. This fall in capital accumulation is a constraint to long-term economic growth and employment-generation.

Weak investment – particularly in the face of a surfeit of national saving – is a clear sign of a lack of productive opportunities in the economy. Inadequate infrastructure and a resulting poor logistics network have been identified as among the critical constraints to investment and growth (ADB, 2007). Besides stimulating investment itself, infrastructure helps improve total factor productivity, enabling the country to produce

Figure 1.3 Investment-to-GDP Ratios of Selected Asian Countries: 1994 – 2010 (in percent)



Note: For 2010, available data for Malaysia and Thailand are for Q1 to Q3 only.  
Sources: ADB-Asian Development Outlook; Official Country Statistics websites; NSCB

**Table 1.3 Transport Infrastructure Ranking of Selected Countries (out of 139)**

	Road	Port	Air	Railway
Philippines	114	131	112	97
Indonesia	84	96	69	56
Viet Nam	117	97	88	59

Source: *The Global Competitiveness Report 2010–2011, World Economic Forum (2010)*

An inefficient transport network and unreliable power supply have been identified as the most significant infrastructure constraints on overall growth. The percentage of paved roads to total roads in the country remains one of the lowest in the Southeast Asia. Similarly, the quality of the country’s port, air, and railroad infrastructure leaves much to be desired. Unless urgent action is taken, the hitherto slow pace of investments in power-generation threatens not only growth but also the realization of many critical social and economic goals under the Plan. Currently, power is already in short supply and unreliable in some parts of the country.

more from each amount of input, effectively lowering unit-cost.

An inefficient transport network and unreliable power supply have been identified as the most significant infrastructure constraints on overall growth. The percentage of paved roads to total roads in the country remains one of the lowest in the Southeast Asia. Similarly, the quality of the country’s port, air, and railroad infrastructure leaves much to be desired (Table 1.3). Unless urgent action is taken, the slow pace of investments in power-generation threatens not only growth but also the realization of many critical social and economic goals under the Plan. Power is already in short supply and unreliable in some parts of the country.

**...as are major gaps and lapses in governance,**

Weak institutions and governance failures are the second major barriers to investment. On the positive side, with peaceful leadership-changes through orderly and credible elections, the nation has put behind it a period of political instability and deep mistrust of government actions, both of which were rooted in allegations of corruption in major economic projects and the perversion of vital political processes.

The advent of a new administration is an opportunity for government to regain the citizens’ trust, lay bare the truth regarding past abuses, and instil civic vigilance for the future. But stability and a new atmosphere of openness and accountability are only the first steps in removing the governance-based fetters to investment and growth. A

great deal more remains to be done in creating a governance climate that encourages massive investment and wins the people’s support. The country continues to suffer from a reputation for bureaucratic inefficiency, excessive red tape, and widespread corruption. In the 2011 Doing Business ranking, for example, the Philippines placed 156th out of 183 countries. After three decades of trade-policy reform, it rated relatively well in “trading across borders”. It rated poorly, however, for “starting a business”, “closing a business”, “dealing with construction permits”, and “protecting investors”, (156th, 153rd, 156th, and 132nd, respectively).

The country also ranks poorly in international comparisons of the enforcement of law and contracts, and competition measures. At the national level, contracting for and implementation of large public infrastructure projects are frequently stymied by difficult and nontransparent bidding and award rules that discourage wider private sector participation, promote collusion, encourage corruption, or provoke legal and other challenges from losing parties. Risks to large-scale investments can also arise from the bias, incompetence, or outright corruption on the part of some regulatory agencies and other oversight bodies, as well as lead to a culture of litigiousness, encouraged by misplaced judicial activism. Less sensationally but with not less damage, local governments impose their own share of arbitrary requirements and

demands for corruption rents, which take a toll especially on the investment and employment decisions of many small- and medium-scale enterprises.

The country's long-standing problems with high electricity and construction costs are readily evident in global comparisons (Table 1.4). Such high costs are attributed to the lack of real competition in strategic sectors such as agriculture, maritime and air transport, power, cement, and banking. In some important cases, dominant firms and interests can exert enough social influence and political clout to limit entry. Many of these same sectors have dense backward and forward linkages, so that their failure to advance causes collateral negative effects in productivity growth and investment in the linked sectors, such as manufacturing (Bocchi, 2008). The threat of regulatory capture extends not only to the functions of agencies in the Executive branch but also to those exercising legislative and judicial functions that expand the scope of government.

In agriculture, meanwhile, investment has been stymied by continuing property-rights problems and inconsistent policy. Property rights in the countryside are also insecure. In the remaining areas under land reform coverage, for example, slow implementation creates uncertainty of ownership, both on the side of traditional landowners, and the new landowners, many of whom have yet to receive individual titles to their cultivated parcels. Likewise, private sector investment in some key crops is smothered by politicized decision-making of marketing and regulatory agencies, most prominently in the case of rice, which falls under the purview of the National Food Authority (NFA).

Ultimately, however, the cost of poor governance cannot be simply measured in peso terms. Its more pernicious consequence is the weakening of the civic spirit and the erosion of trust in the rule of law. The country is only now emerging from a recent past marked by public perceptions of impunity and unresponsiveness on the part of the highest officials of the land, where elections are stolen, public funds misappropriated, private interests promoted at public expense, public policy distorted to favor the few, and

**Table 1.4 Strength of Bureaucracy and Input Costs in Selected Countries**

Country	Public Institution Index			Electricity (US\$/Kwh)	Building Construction Cost (US\$/sq. Meter)	Index of Ease of Doing Business (2010 Rank out of 183)
	2004	2009	2010			
Philippines	85	105	113	0.10	1022	144
PR China				0.08	97	89
Malaysia	34	30	43	0.07	282	23
Hong Kong						
Indonesia	76	68	58	0.07	221	122
S. Korea						
Singapore						1
Thailand	37	57	60	0.06	329	12
Vietnam				0.07		93

Sources: World Bank (WB), *Doing Business 2006, 2007 and 2010* ([www.doingbusiness.org](http://www.doingbusiness.org))  
MIGA and WB, *Benchmarking FDI Competitiveness in Asia* (2004)

public officers who aggrandized themselves in the face of people’s suffering – all without visible legal redress, social consequence, or material recompensation. The institutions meant as remedies to such conditions – media, courts, political opposition, and the electoral process – were viewed as feckless, since some of them had either been cowed, co-opted, or corrupted. In such circumstances, it was unsurprising that people felt alienated from the political process and for cynicism to overcome their respect for the law. Growth in short was not inclusive owing to the basic disregard of the people’s will and the failure to render “full and complete justice to all”.

### ... inadequate levels of human development.

Human development, in terms of adequate health, nutrition, and education outcomes, has an intrinsic benefit. But it is also a means to build the human capital of the poor, providing them a means to break out of poverty. Hence, the MDG of universal primary education is consistent with inclusive growth. Unfortunately, by several yardsticks, the country has fallen short of adequate service delivery (Figure 1.4). While the net enrollment rate peaked at 97

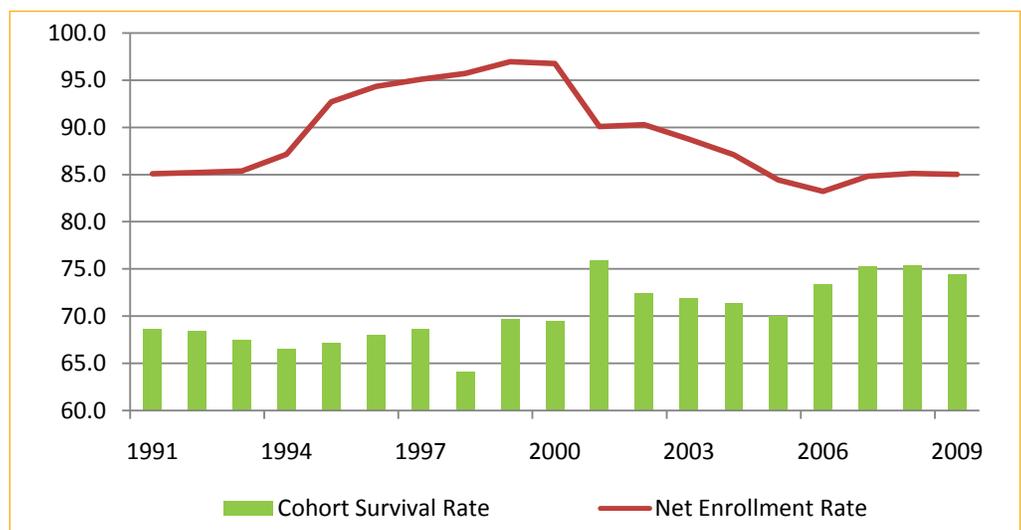
percent in 1999-2000, its drop to 85 percent and below by the late 2000s should be a cause for serious concern. Worse, the cohort survival rate stayed in the 70 percent range throughout the 1990s, only improving somewhat to the 70-75 percent range in the 2000s.

Most of the population is inadequately protected from shocks to their already meager human capital. While natural disasters can affect any population group, it is the poor who tends to be most vulnerable and least resilient to calamities. With respect to health care, catastrophic illnesses are capable of wiping out livelihoods, assets, and well-being of the poor and lower middle classes. Meanwhile, chronic illnesses (such as tuberculosis) may have less extreme impacts, but may prevent the poor from getting and keeping remunerative work.

The government has devoted considerable resources to deliver social services to those lacking access to health care and education. However, poor households in isolated areas have difficulty in going to health centers

The government has devoted considerable resources to deliver social services to those lacking access to health care and education. However, poor households in isolated areas have difficulty in going to health centers and schools, even when services are offered for free or at highly subsidized rates. Clearly, poor infrastructure provision, aside from being a hindrance to investment and business activity, also prevents physical access to basic services.

**Figure 1.4 Cohort Survival and Net Enrollment Rate, Philippines: 1990 – 2009 (In percent)**



Source: SY 1991-1992 to SY 1998-1999, Department of Education (DepED) Statistical Yearbook; SY 1999-2000 to latest, Basic Education Information System (BEIS); Basic Education Statistics (Factsheet as of December 5, 2008); [www.deped.gov.ph](http://www.deped.gov.ph)

and schools, even when services are offered for free or at highly subsidized rates. Clearly, poor infrastructure provision, aside from being a hindrance to investment and business activity, also prevents physical access to basic services.

Compounding the problem of access is the propensity of poorer households for higher fertility rates, reducing households' assets and per-capita purchasing power. Parents may fail to internalize the intergenerational implications of child-bearing choice. Unfortunately, in the Philippine setting, the State has typically failed in its role in promoting responsible parenthood and reproductive health.

### **...and a poor and degraded state of environment and natural resources.**

The deteriorated state of the country's environment and natural resources is felt most by the poor, who depend on such resources for their livelihood and are most vulnerable to the consequences of its degradation and depletion. Climate change and risks from natural disasters only amplify the association between poverty and environmental degradation.

Because of continuing deforestation, only 45 percent of classified forestlands remain. The deterioration of critical watersheds is likely to affect water supply. The quality of land resources has been reduced by erosion, pollution, and land conversion. Although one of the world's 18 mega-diverse countries, the Philippines' biodiversity resources are also among the most threatened. Coastal and marine resources have been declining as a result of coastal development and unsustainable fishing practices. Major urban areas, on the other hand, remain polluted, as evidenced by poor air and water quality, and by the inability to manage waste properly and adequately.

Better environment and natural resource management could lead to more and better livelihood opportunities that increase the resiliency of the poor. But this remains a challenge that must be fully confronted.

## **How Shall We Achieve Inclusive Growth?**

To recapitulate: failure of inclusive growth in the country is because of growth that is low on average, and because the benefits of such growth largely bypass the country's poor. Low growth is due to low investment and slow technological progress because of inadequate infrastructure, as well as glaring gaps in governance. Narrow growth, meanwhile, is largely attributed to lack of human capital formation among the poor and the failure to transform output growth to job creation. The following lists the strategies and programs that shall be pursued over the Plan period to help achieve inclusive growth.

### **Through massive investment in physical infrastructure ...**

The country urgently needs to make up its massive infrastructure backlog. Investment in infrastructure follows the plan detailed in Chapter 5, which prioritizes the creation of integrated and multimodal national transport and logistics system. The system shall connect underserved but otherwise productive areas and communities to markets and social services. Under this system, rural areas, where most of poor reside, shall receive renewed attention. Property-rights issues in agriculture shall be finally resolved signalling a rebirth of interest in agricultural production that will make infrastructure-investments in that sector, such as irrigation, more effective, helping raise farmers' income, improve food security, and enlarge agriculture's contribution to the economy.

Hindered by a record of perennially large budget deficits, government shall generate funds for infrastructure investment through better tax collection and more rational budget allocation – hence the fiscal and budgetary reforms discussed in Chapter

The deteriorated state of the country's environment and natural resources is felt most by the poor, who depend on such resources for their livelihood and are most vulnerable to the consequences of its degradation and depletion. Climate change and risks from natural disasters only amplify the association between poverty and environmental degradation.

A big part of the solution to the governance problem however lies outside government itself and involves the active participation of private business, civil society and the media in governance, monitoring, and feedback. This gives “voice” to people, enables civil society and the media to become partners of government, and makes the government more responsive to the needs of citizens.

2. Realistically, however, government funds may not suffice, given its need to immediately attend to social development and poverty-alleviation. For this reason, government shall rely on the public-private partnership (PPP) scheme to implement the bulk of its infrastructure program. This scheme encourages the large-sector of private business, including major Filipino conglomerates and large and reputable foreign partners, to participate in financing, construction, and operation of key infrastructure projects. Such a program seeks deliberately to utilize the huge savings and capital resources in the private sector and to provide market-friendly channels for these to support national priorities.

The provision of vital infrastructure and the expansion of logistics chains, combined with a change in the governance regime, is bound to elicit a strong positive response across all classes of entrepreneurs and financiers. Immediately benefited by this will be those industries in which the country already has a demonstrated global advantage but whose expansion is still fettered by certain infrastructure inadequacies, such as power and transport. Included here are the further expansion of ICT-related activities such as business-process outsourcing, (in which the country is now the world’s largest employer), different branches of tourism, electronics, sustainable mining, housing and construction, and agribusiness and agroprocessing industries (Chapter 3). This list of industries is only bound to expand as distributional bottlenecks across regions are cleared and the country’s inherent advantages finally are revealed. At the same time, government has prepared specific programs to assist micro, small, and medium enterprises (MSMEs) at the enterprise-level and to encourage the formation of industry clusters to foster interfirm linkages.

## ...through transparent and responsive governance

Underpinning inclusive growth must be a bedrock of sound institutions that promote transparency, accountability, the rule of law, and effective and impartial performance of the regulatory function of government, as discussed in Chapter 7.

To move towards responsive governance, systems that promote objective decision-making, professionalism, transparency, and accountability, shall be instituted and mainstreamed. Thorough reforms in the budgeting process, in public procurement, and in the awarding of major contracts are needed to restore public confidence in government institutions and practices. In budget-planning, a key reform shall be the adoption of zero-based budgeting (ZBB), under which budgets of government departments and agencies are comprehensively scrutinized and justified in complete detail, from a zero base, not just incrementally. Budget releases will also henceforth be aligned with the number of active personnel and the actual progress of programs and projects to avoid such abuses as “conversion” and other kinds of fund diversion.

In public procurement, full use shall be made of electronic bidding and procurement to minimize discretion, achieve arm’s-length transparency, and attain cost-efficiency. Terms of reference shall be based on comprehensive technical specifications prior to bidding and contracting to facilitate close comparability across alternatives and to prevent arbitrary ex-post “variation orders”. Clear terms and transparent rules are vital to the success of big-ticket infrastructure projects such as the PPP. The publication and enforcement of blacklists of contractors and individuals suspected of rigging bids and showing substandard performance shall be undertaken to show the government’s

determination to clean up procurement and bidding.

The rationalization of government functions, pay, and personnel shall be continued and extended to cover not only the bureaucracy itself but also government-owned and -controlled corporations (GOCCs) and government financial institutions (GFIs).

The anticorruption drive shall also be strengthened with the passage of the Freedom of Information Act and the Whistleblowers' Act, as well as the revitalization of the Run-After-Tax-Evaders (RATE), Run-After-the-Smugglers (RATS), and Revenue Integrity Protection Service (RIPS) programs. Close collaboration, coordination, and information-exchange among various agencies shall form the basis for the build-up of cases against public officials and private persons involved in plunder, corruption, tax evasion, and other crimes involving the misappropriation of public resources. Strong cases, especially those involving well-known instances of plunder and grand corruption, shall be pursued uncompromisingly, showing neither fear nor favor and in line with "true and complete justice for all". As an indispensable first step, however, the personnel of agencies that directly involved in anticorruption efforts, especially the office of the Ombudsman, the Department of Justice (DOJ), and the revenue agencies, must be reinvigorated and rededicated.

A big part of the solution to the governance problem however lies outside government itself and involves the active participation of private business, civil society and the media in governance, monitoring, and feedback. This gives "voice" to people, enables civil society and the media to become partners of government, and makes the government more responsive to the needs of citizens. Among other steps shall be the adoption of

client-satisfaction surveys at all levels of government. Monitoring and surveillance by the media, civil society, and an engaged citizenry shall underpin the campaign against corruption. This shall be facilitated by formal citizens' representation in budgeting and procurement processes, the disclosure of the allocation and expenditure of funds of various agencies, the involvement of civil society in the anticorruption effort, and the provision of channels for ordinary citizens to report directly and anonymously to competent authorities on anomalies in government functions and the state of public-service provision.

Ultimately, however, good governance must be founded on a cohesive society and people's trust in government. For this reason, government will endeavor to be transparent, communicate its intentions clearly, and seek consensus on social directions. The means of development communication and their convergence with traditional and new mass and social media shall be used for these higher purposes.

Improving governance and strengthening weak institutions in the country carry tremendous potential for bringing down the cost and risks of doing business. This is evident in public sector projects themselves. The PPP initiatives of government will not succeed unless private partners are assured of unbiased bid evaluations and award decisions based on competent authority. In the same manner, legitimate proponents of build-and-transfer schemes will be in short supply if their predecessors must face the ordeal of official harassment and regulatory risk. Strengthening governance, therefore, also implies addressing the weak rule of law, legal uncertainty, and high costs and delays of the legal system in the country, which have historically discouraged legitimate investments in the economy and instead fomented corruption. At the same time, there is a simple need to streamline and harmonize procedures within and across government offices.

A strong competition policy would promote a more open environment for investment,

innovation, and appropriate pricing. This may be done by strengthening regulatory agencies and making them less susceptible to regulatory capture, lobbying, and rent-seeking. The linchpin of competition policy shall be an omnibus Competition and Anti-Trust code that operationalizes constitutional provisions against monopolistic practices, as well as provides a transparent and predictable framework for standards and procedures for all regulatory authorities.

### **Human development is key...**

Together with physical investment, investment in the country's human resources is key to sustained and broad-based growth. This requires equitable access to basic social services, as well as stronger social safety nets and social protection against shocks. Concrete objectives and programs are spelled out in Chapter 8. Reaffirmed here are the country's commitments to the MDG, of which the terminal point (2015) is the penultimate year of this planning period.

The major priority reforms in education have been spelled out in the Basic Education Sector Reform Agenda (BESRA). Implementation of the agenda involves: school-based management; enhanced learning efficiency, such as through the K+12 system; quality assurance and accountability; and complementary learning interventions, e.g. alternative learning systems, early childhood education, and so on.

The state shall ensure equitable access to basic health care for all. This requires strengthening the National Health Insurance Program (NHIP). PhilHealth operations shall be oriented towards increasing the benefit delivery ratio at the national and regional level. Investments in public health programs shall aim to reduce maternal and child mortality, mortality and morbidity from tuberculosis, dengue, and malaria, as well as prevent the spread of HIV-AIDS. Upgrades of public health care facilities shall be undertaken under the government budget as well as through private-public sector partnerships.

Two major strategies towards asset and human capital formation for the poor is community-driven development and conditional cash transfers. The former shall be pursued through the Kapit-bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS), a program for implementing small-scale projects by barangays following their own plans, priorities, and processes, with funding support and in-kind support from the national and local governments. The KALAHI-CIDSS has demonstrated its effectiveness in generating net economic returns, finding a cost-effective formula for providing village infrastructure, responding to community demands, and sustaining community operations and maintenance (Araral and Holmemo, 2007).

The latter social protection measures are primarily implemented through the Pantawid Pamilyang Pilipino Program (4Ps). At the heart of the 4Ps is the conditional cash transfer (CCT) program, which provides direct cash transfers to the poor on condition that: (a) their children continue to attend school; and (b) the family makes use of preventive health care and nutrition services. The cash transfer is, thus, linked to the poor's investment in their own human capital (education and health), which explains the program's demonstrated effectiveness in reducing poverty both immediately (through the cash transfer itself) and in the long run (through human capital formation). The provision of CCT targets the truly deserving, while boosting demand for education and health services from poor households. In the design of these and other future social protection programs, the government shall always ensure that such programs remain accessible and attuned to the needs of vulnerable groups, particularly children of both sexes, women, the elderly, and the disabled.

### **... together with employment generation, for both wage- and self-employed**

Emphasizing employment generation means opening the widest legitimate channels for all forms of employment, whether in the form of formal wage- or self-employment, whether in firms, homes, or local communities, whether at home or abroad. Work arrangements mutually agreed upon shall also be introduced. Employment generation can also be pursued indirectly by supporting those activities that exploit the country's comparative advantage in more labor-intensive activities, typically involving products and services that are more competitive in the world market.

Exports have learning-by-doing and dynamic comparative advantage aspects. Through active trade policy, exporters learn through time, and their skill sets have evolved and become entrenched into more technologically intensive and higher skills processes. Exports can become an important means of obtaining technological know-how and in turn generate positive spill over effects to other sectors in the economy. This redounds to faster accumulation and innovation, and therefore accelerated growth.

Wider self-employment opportunities shall be afforded by providing credit-access to the poor through microcredit, integrated in a business-service package that includes market matching, technical assistance, and community organizing where necessary. Government will direct wholesale finance institutions – such as the People's Credit and Finance Corporation (PCFC), the Land Bank of the Philippines (LBP), and the Small Business Corporation (SBC) – that deal with microfinance institutions to coordinate with Department of Trade and Industry (DTI), Department of Tourism (DOT) and viable microfinance institutions (MFIs) to develop market-based innovative financing schemes to

support microenterprises. Government will collaborate with MFIs to use microfinance as a tool for inclusive growth by expanding access by microenterprises and poor households to credit, savings, and other financial services. Innovative market-based financing schemes in support of microenterprises will support government's goal of providing productive employment opportunities to a broad cross-section of the population. Other channels for rapid employment generation shall be opened through programs of community-driven development (CDD), which are linked to poverty-relief, and labor-intensive infrastructure projects of local governments. In providing opportunities for formal or self-employment or access to credit, government shall take particular cognizance of the special needs of women, whose potentially large social contributions to social and economic development are stunted by their domestic and other social circumstances.

### **... but complementary strategies will be essential for success**

The plan's broad thrusts are massive infrastructure development, higher governance standards, human development and human capital formation, direct poverty-relief, and employment-generation. But such initiatives cannot succeed if complementary strategies do not support and enhance their impact.

These strategies can prosper only in a macroeconomic regime of low inflation and sustainable fiscal balances (Chapter 2). Inflation directly and immediately erodes the public's purchasing power and particularly affects the poor and fixed-income earners, thus putting poverty goals in peril. On the other hand, uncontrolled government debts and deficits endanger the goals of growth and employment by raising borrowing costs for public and private sectors alike, putting a brake on all forms of investment. Government shall, therefore, institute fiscal reforms to permanently place the revenue system on an even keel, primarily through comprehensive coverage of taxpayers and uniform coverage of commodities and activities, higher standards of performance and integrity among tax administrators, and

prompt rate adjustments, as allowed by law, applied to tax and nontax revenue sources alike. Expenditures shall be kept within the bounds set by macroeconomic targets, among others, by cutting back on wasteful programs and deprioritizing unfunded mandates, exercising tighter internal controls, and continuing the rationalization of the size of government, including GFIs and GOCCs. Many of these reforms can become imperatives of fiscal behavior through the enactment of a fiscal responsibility law. Monetary policy, on the other hand, will continue to emphasize low and stable inflation, with the Bangko Sentral ready to use its tools to prevent the emergence of asset bubbles, whether domestic or foreign. In accord with the changing strength of the country's external position, foreign exchange regulations shall be adjusted to facilitate payments for trade and investment and, in line with the policies of other countries, to maintain the economy's competitiveness.

Ensuring ecological integrity and mitigating the effects of climate change is essential for success on several fronts. Natural disasters and calamities can nullify hard-won gains by damaging physical infrastructure, directly endangering human lives and health, and destroying livelihoods, particularly among the poor and vulnerable. The dismal state of the environment and natural resources is a major reason that rural communities, who depend on them as primary sources of livelihood, perennially find themselves at the bottom rung of the development ladder. The country's location makes it inherently vulnerable to potentially destructive natural events. This is aggravated by the pressure of a growing human population on environmental resources and habitable environments as well as the anticipated effects of global climate change. It shall be an urgent task (Chapter 10), therefore, to devise and adopt measures that will improve the state of environment and natural resources, enhance the resilience of natural systems, and improve the ability of communities to cope with environmental hazards, including climate-related risks. Priorities include the conservation, protection, and rehabilitation of the country's natural resources, urban

renewal, measures to reduce waste and pollution, and heightened capacities for disaster-preparedness and response.

Although it is the Plan's main thrust to raise participation and standards in basic education, there is no denying the important role of higher education and science and technology in the country's effort to attract high-quality and high-productivity activities, such as the greater value-added parts of business-process outsourcing (BPO), tourism, and some branches of industry. Through a rationalization of the roles of higher-education institutions and a finer delineation of their roles (Chapter 8), the turnout of a critical mass of scientists, engineers, and other technical personnel shall be pursued to allow the country to climb the value-added ladder in sectors where it possesses global competitive potential.

The end of armed conflict and the attainment of lasting peace is vital to breaking the vicious cycle of conflict and underdevelopment in affected areas that have otherwise huge potential for social and economic development. Towards this end, the government shall pursue different tracks to complete and implement negotiated settlements with various armed groups under a comprehensive peace process. At the same time resources shall be marshaled to raise the capacity of the armed forces and the police in dealing decisively with criminal groups (Chapter 9). Relations with foreign nations shall be actively cultivated to support sovereignty, regional peace and security, and economic cooperation based on equitable and mutual benefit. Paramount consideration shall be paid to ensure the welfare and protection of the millions of Filipinos working overseas.

## How Shall We Monitor Progress Towards Inclusive Growth?

Accountability requires government to make known its plans in order to afford its citizens the chance to test its assumptions and monitor progress quantitatively and in detail whenever possible. Towards that end, the Plan commits itself to quantitatively and observable targets and milestones. More detailed targets are presented in the succeeding chapters, but the most important ones are listed below:

### **Growth in output and employment through higher investments...**

A growth in real GDP averaging 7-8 percent per year under the Plan period shall be a major objective. This figure implies a tripling of per capita income to about US\$5,000 in two decades. This is a higher growth trajectory than the past decade's and shall be attained through a higher contribution of physical capital to GDP growth, as well as through increases in total factor productivity. Through massive investments in transport, water, energy, and other infrastructure, and through good governance, the contribution of physical capital to GDP growth is targeted to increase. This is possible under current conditions through a significant but still attainable increase in the share of investment to GDP. Sustaining growth in later years, however, will require even higher investment ratios reaching 22 percent by 2016. It is expected that the investments in infrastructure and in education and health, improvement in governance, and the supporting strategies (such as research and development and science and technology policies), are expected to boost total factor productivity's contribution to GDP growth.

This annual growth target will generate an average of some one million (1,000,000) net employment annually, and these will be found primarily in industry and services, even as the agricultural sector may continue to be a net shedder of jobs. The completion of agrarian reform, a resolution of property rights issues in agriculture and implementation of major infrastructure shall enable agriculture and agro-processing to come into their own again and begin to reabsorb labor. If the labor force grows at 2.75 percent annually, the unemployment rate should hover at 6.8 -7.2 percent during the Plan period, although it should be noted these numbers do not factor in possible reversals in overseas migration trends as more domestic jobs are created.

### **... should lead to poverty incidence being cut by half**

As productive employment raises incomes, cash-transfer programs are sustained and access to health and education improved, the incidence of poverty among the population should decline from 33.1 percent in 1991 to 16.6 percent by 2015 or less, in line with the country's MDG commitment. Inequality can also be expected to decline over the medium term as access to development opportunities are equalized across geographic areas and across the different income and social spectrum.

## **A window of opportunity**

Since more than two decades past, the Philippines has never faced a better chance than today of finally breaking out of its perennial condition of poverty, inequity, and lagging human development.

In economic terms, the country's external payments and international credit position have not been healthier in decades for various reasons. Thanks to overseas remittances, surpluses on current account have been run consistently since 2003. After decades of trade reform, the industrial structure is now fairly undistorted by subsidies and heavy protection. The currency is stable and perhaps

even too strong and inflation has been low to moderate for more than a decade. Lastly, the country is emerging relatively unscathed from the worst global economic downturn since the 1930s.

Even politically, there have been positive developments: the country has managed a peaceful constitutional transition through a popularly elected government; financial and political sovereignty vis-à-vis creditor and other nations has never been greater; civil liberties and political rights continue to be asserted and exercised even in the face of brutal assaults; agrarian reform, the country's most ambitious attempt at asset reform, is due to be completed; and efforts to resolve armed conflicts finally and peacefully are under way.

To be sure, immediate problems and obstacles remain, chief of which are the country's lagging rate of investment, the government's continuing fiscal constraints and heavy debt burden, the country's poor quality of infrastructure, and stagnating levels of human capital. But many of these phenomena have existed long before and are in the nature of consequences rather than causes. Undeniable is the fact that some hopeful conditions have emerged, and that economic and political opportunities now exist for a real change – a break-away from the cycle of mass poverty, social division, and political conflict that have been the hallmarks of the country's recent history.

To be sure, immediate problems and obstacles remain, chief of which are the country's lagging rate of investment, the government's continuing fiscal constraints and heavy debt burden, the country's poor quality of infrastructure, and stagnating levels of human capital. But many of these phenomena have existed long before and are in the nature of consequences rather than causes. Undeniable is the fact that some hopeful conditions have emerged, and that economic and political opportunities now exist for a real change – a break-away from the cycle of mass poverty, social division, and political conflict that have been the hallmarks of the country's recent history.

The true paradox is why the nation has been unable to step forward even under improving conditions.

This Plan is built on the conviction that such obstacles can be cleared and the above historic task accomplished in this lifetime through the prudent marshalling of available resources, the participation and support by all sectors, and through government and citizens living out and practising the country's best civic ideals. Without the wise application of resources, social cohesion, and good governance, little can come of even the best-laid plans, and

another window of opportunity will have closed for this generation of Filipinos.

Nor should it be forgotten that today's chances were purchased by past sacrifices: by overseas workers who endured separation from their families; by laborers and farmers who experienced wrenching structural changes; by the middle class and other taxpayers who shouldered the debt burdens of the past; by government personnel who soldiered on professionally despite the rot surrounding them; and by the brave and vigilant citizenry who never lost faith in constitutional values, democratic processes, and the possibility of an honest government.

Such sacrifices can be repaid only by demonstrable success in our time. Neither the past nor future generations will forgive the present if it fails in its pursuit of inclusive growth.