

Philippine Development Report 2013
Creating More and Better Jobs

Highlights

Key policy challenge: accelerating inclusive growth, the type that creates more and better jobs and reduces poverty.

- More and better jobs need to be created for 10 million Filipinos who were either unemployed (three million) or underemployed (seven million) as of 2012 and for the additional 1.15 million Filipinos who will enter the labor force every year in the next four years. That is a total of 14.6 million jobs.
- Every year in the last decade, only one out of every four new jobseekers gets a good job. Of the 500,000 college graduates every year, around half (240,000) can be absorbed in business process outsourcing and in other formal sector industries, such as manufacturing, finance, and real estate. The other half has the option to find work abroad (and most of them do in a matter of years).
- The remaining 650,000 job seekers are without college degrees and most end up in the informal sector in rural and urban areas. Their jobs are often characterized by low wages and low productivity.
- Higher growth can provide more Filipino workers with good jobs. With sustained GDP growth of seven percent per year and the removal of constraints in fast-growing sectors (e.g., addressing skills shortages so that the BPO industry can accelerate its annual growth from 20 to 30 percent), the formal sector will be able to provide good jobs to around two million people in the next four years or around double the current figure.
- Even so, the majority of Filipino workers will still be left out. By 2016, around 12.4 million Filipinos would still be unemployed, underemployed, or would have to work or create work for themselves in the informal sector.
- Addressing this jobs challenge requires meeting a dual challenge: expanding formal sector employment even faster while rapidly raising the incomes of those informally employed.

With growth accelerating to historic highs, why is the economy still having difficulty in creating more and better jobs?

- This is because the country's long history of policy distortions slowed the growth of agriculture and manufacturing in the last six decades. Instead of rising agricultural productivity paving the way for the development of a vibrant labor-intensive manufacturing sector and subsequently of a high-skill services sector, the converse has taken place in the Philippines. Agricultural productivity has remained depressed, manufacturing has failed to grow sustainably, and a low-productivity, low-skill services sector has emerged as the dominant sector of the economy.
- Lack of competition in key sectors, insecurity of property rights, complex regulations, and severe underinvestment by the government and the private sector has led to this growth pattern, which is not the norm in the East Asia region. This anomalous growth pattern has failed to provide good jobs to majority of Filipinos and has led to a substantial outmigration of many of the country's best and brightest people.

Government, business, and labor need to work together and agree on an agenda on job creation — this is the only way to go forward.

- There is no simple and effortless way to resolving the problem of creating more and better jobs, as this is linked to deep-seated, structural issues in the economy. Only a comprehensive reform agenda implemented across sectors can foster a business environment conducive to private sector job creation by firms of all sizes.
- A unique window of opportunity exists today to accelerate reforms that will help create more and better jobs. The country is benefiting from strong macroeconomic fundamentals, political stability, and a popular government that many see as committed to improving the lives of the people.
- Many stakeholders agree that this window of opportunity marks a critical juncture in the country's history. The foundation needed for the Philippines to achieve more inclusive growth is in place. However, the extractive nature of some of the country's political and economic institutions — that is institutions that concentrate power and opportunity in the hands of a very small subset in society — poses significant challenges to achieving lasting inclusive growth.
- To put the country on an irreversible path of inclusive growth, it is crucial to have a broad reform coalition — that is a multi-sectoral group representing many interests to address diverse options. Without such a broad coalition, reforms made under a strong president can be reversed, as the country's history had shown.

- Government, business, and labor, with the participation of civil society, need to engage in deeper social dialogue and partnership, and agree on an agenda on job creation. At the heart of this agreement should be the promotion of the welfare of *all* workers and businesses, not just the minority of formal wage and salaried workers benefiting from current labor regulations and large conglomerates benefiting from anti-competitive structures.
- This requires the social partners to work in the interest of the collective good — that is creating jobs for *everyone*. This will require short-term sacrifices on all sides, balancing of trade-offs between business and labor, proportional sharing of responsibilities based on ability to shoulder the reform cost, proper sequencing of reforms, and mutual cooperation among the coalition partners that transcends the issues of rights, labor standards, and wages in order to address issues of productivity and competitiveness so that more people can benefit.
- Instead of tackling policy reforms one by one, which would generate powerful opposition from vested interests, government, business, and labor, with the support of civil society, need to try to agree on a package of reforms.
- The Report recommends that the reform coalition agree on the following responsibilities and principles:
 - Government needs to adopt policies that can broaden the reform coalition and give rise to reform beneficiaries who will have a vested interest in continuing the policy.
 - Businesses of all sizes need to embrace the principle of a level playing field and extend their corporate social responsibility to their own employees.
 - Labor groups need to look after the welfare of *all* workers, especially informal sector workers and agriculture workers.
 - Civil society can perform its role as an active agent of change and serve as a watchdog over governance and adherence to coalition principles and objectives.

- The reform coalition can agree on a package of reforms to increase real income and create more opportunities to move up the job ladder. The reform package could contain the following:
 - Government could prioritize programs and reform measures to help reduce food prices (e.g., liberalized food imports and reform of the National Food Authority). At the same time, government could ramp up investments in rural infrastructure and support services so that food prices can fall without farm profits falling. It could commit to providing universal social and health insurance at higher quality and co-finance training and apprenticeships programs, say, for disadvantaged groups and young workers. Finally, it could simplify the tax code and business regulations to promote competition and encourage the growth of entrepreneurship.
 - Businesses could support reform efforts that promote competition to level the playing field, such as making all tax holidays and other fiscal incentives temporary. Businesses also need to fully support freedom of association and collective bargaining, commit to offering more training opportunities for workers, and improve the link between wages and productivity.
 - Labor could agree to recognize valid forms of flexible contracts and reduce calls to hike minimum wages as food prices fall.
 - Civil society could intensify efforts to ensure broad-based participation and support for this agreement.
- Successful implementation of agreements such as the one outlined above could help the country revive agriculture, boost manufacturing, and in the process create more and better jobs.

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Executive Summary

Development challenge	Response of the government
<i>"The most crucial failure of Philippine development strategy lies in its employment record." (Krugman et al. 1992)</i>	<i>"A government that prioritizes jobs that empower the people and provide them with opportunities to rise above poverty" (excerpt from President Aquino's "Social Contract" with the Filipino people)</i>

1. **The central policy challenge facing the Philippines is how to accelerate inclusive growth – the type that creates more and better jobs and reduces poverty.** So far this has proven to be elusive, mainly because of the country's long history of policy distortions that have slowed the growth of agriculture and manufacturing in the last six decades. Instead of rising agricultural productivity paving the way for the development of a vibrant labor-intensive manufacturing sector and subsequently of a high-skill services sector, the converse has taken place in the Philippines. Agricultural productivity has remained depressed, manufacturing has failed to grow sustainably, and a low-productivity, low-skill services sector has emerged as the dominant feature of the economy. Lack of competition in key sectors, insecurity of property rights, complex regulations, and severe underinvestment by the government and the private sector have led to this growth pattern, which is not the norm in the East Asia region. More importantly, this anomalous economic growth pattern has not provided good jobs to the majority of Filipinos and has led to a substantial out-migration of many of its best and brightest people.¹

The jobs challenge

2. **The Philippines faces an enormous jobs challenge.** Good jobs — meaning jobs that raise real wages and bring people out of poverty — need to be provided to around 10 million Filipinos who were either unemployed² (three million) or underemployed³ (seven million) in

¹ For instance, the exodus of Filipino scientists and engineers increased from about 10,000 in 1998 to about 25,000 in 2009 according to the Philippine Overseas Employment Administration.

² Unemployment is defined to include workers who are 15 years old and over, and are reported as: i) without work and currently available for work and seeking work, or ii) without work and currently available for work but not seeking work for the following reasons: a) tired/believe no work is available, b) awaiting results of a job application, c) temporarily ill/disabled, d) bad weather, and e) waiting for rehire/job recall.

2012, and to around 1.15 million potential entrants to the labor force⁴ every year from 2013 to 2016. That is a total of around 14.6 million jobs that need to be created in the next four years. In addition, better jobs need to be provided to another 21 million Filipinos who are informally employed.⁵ All in all, informal workers comprise about 75 percent of total employment.⁶

3. **Every year in the last decade, only about a fourth of the potential entrants to the labor force get good jobs.** Of the 1.15 million potential entrants to the labor force, slightly less than half have college degrees. Of the 500,000 college graduates every year, 240,000 can be absorbed in the formal sector, such as business process outsourcing (BPO) (52,000) and manufacturing (20,000). About 200,000 find jobs abroad, and around 60,000 will be unemployed or exit the labor force. The remaining 650,000 entrants, of which around half have high school degrees, have no other option but to find or create work in the low-skill and low-pay informal sector.

4. **Higher growth can provide more Filipino workers with good jobs.** Under the current high growth scenario and the removal of key binding constraints in fast-growing sectors (e.g., skills constraint so that the BPO industry can accelerate its annual growth from 20 to 30 percent, and power and other constraints so that the manufacturing sector can see a doubling of employment), the formal sector will be able to provide good jobs to around 2.2 million people in the next four years (or 550,000 every year between 2013 and 2016), or around double the current figure.

5. **But the majority of Filipino workers would still be left out.** By 2016, around 12.4 million⁷ Filipinos would still be unemployed, underemployed, or would have to work in the informal sector, where moving up the job ladder is difficult for most people.⁸ Addressing this jobs challenge requires meeting a dual challenge: expanding formal sector employment even faster while rapidly raising the incomes of those informally employed.

³ Underemployment is defined to include all employed persons looking for more work. Visible underemployment includes persons working less than 40 hours per week while invisible underemployment includes persons working 40 hours or more per week.

⁴ The labor force is defined to include persons 15 years old and over, who are either employed or unemployed. Examples of persons who are not included in the labor force are full time housewives, students, and retirees.

⁵ This is operationally defined to include all self-employed workers (excluding employers), unpaid family workers, and wage workers with no written contract, social insurance, or protection from dismissal using the 2008 Informal Sector Survey (ISS) of the National Statistics Office (NSO).

⁶ This estimate is not far from the estimate of the Employers Confederation of the Philippines, which put the number of informal workers at 77 percent of total employment (Ortiz-Luis 2008).

⁷ This is calculated as follows: 10 million + (1.15 million x 4 years) – (0.55 million x 4 years) = 12.4 million.

⁸ The informal sector is not necessarily equivalent to bad jobs. Nor can all jobs in the formal sector be considered good jobs. Moving to a formal sector job is not always the better choice. People can choose to work in the informal sector and can still be better off. Jobs created in the informal sector are as important as jobs generated by big firms. What can be bad about the informal sector is when workers want to move up the job ladder but cannot do so because of structural barriers.

6. **This report tells the Philippine story as seen through the jobs lens.** It analyzes the policy distortions that led to the country's weak employment record, highlights the unique window of opportunity where government, business, labor, and civil society can work together and agree on an agenda on job creation, and outlines a number of recommendations which the reform coalition can consider to put the country on an irreversible path of inclusive growth and address the jobs challenge.

The Philippine development story

7. **The Philippines enjoys a wide range of assets to draw upon for its development.** Government, business, and academia benefit from world-class talent, and the large number of Filipino workers overseas reflects international demand for its highly competitive labor force. Being located in the dynamic East Asia region, the private sector is well-positioned to exploit trade and investment opportunities. The country benefits from political stability, a free press, and an active civil society that has been an important agent for change. It is also currently benefiting from sound macroeconomic policies and a popular government that is many see as committed to improving the lives of the people.

8. **In spite of its strengths, the country has so far not lived up to its potential.** Opportunities to raise people's income are limited. There are concerns about the quality of education and healthcare services, and thus of the quality of the labor force going forward. Agriculture remains largely backward and unproductive. Manufacturing is stagnant and offers very few jobs. Only a small segment of the services sector, notably the BPO industry, is rapidly creating good jobs.

9. **One of the main reasons for the country's subpar performance on inclusive growth, when compared with other countries in the region, is its historically weak economic growth record.** Although the country's average growth record of 4.1 percent in the last three decades is comparable to global performance, it is considerably lower than the 6.5 percent growth of its more dynamic East Asian peers over the same period. In per capita terms, Philippine growth is much lower at around 1.4 percent, given its historically higher population growth rate of 2.7 percent. While there have been a few growth spurts, the country has rarely been able to sustain growth at above five percent for an extended period of time, again in contrast to its neighbors.⁹

⁹ Between 1946 and 2002, the country's growth record was boom-and-bust. Rapid growth during the period of postwar recovery was not sustained in the 1950s, as the country looked inward for its sources of growth. In the 1960s, export promotion led to higher growth but the largely protected domestic economy could not sustain it. The 1970s saw higher growth as a result of large-scale investment in infrastructure, but this debt-driven growth also could not be sustained and in 1983 resulted in the country's worst debt crisis. Growth accelerated in the mid-1990s as the government promoted exports, foreign direct investment, and domestic competition. However, the 1997 Asian Financial Crisis brought the country to its third recession in just 15 years. Finally, between 2003 and

10. **Another reason for the lack of inclusive growth is the country's lack of structural transformation.** Despite a head start in manufacturing compared to its neighbors, the Philippines failed to industrialize fully. Instead, the share of manufacturing to GDP has stagnated at around 25 percent since the 1960s even as other countries steadily increased theirs and eventually surpassed the Philippines before moving on to growth driven by high-skill services. The share of manufacturing employment to total employment hardly rose above 10 percent. In other words, the Philippines “missed” a crucial step in the structural transformation process: the rise of manufacturing and the associated successful job creation in urban areas.

11. **In the absence of a rapidly growing manufacturing sector, the services sector became the catch basin that absorbed excess labor from agriculture.** The services sector has been the largest employer since 1997. However, more than three quarters of the services sector is composed of low-pay or low-skill jobs, such as petty retail trade and public transportation, and as such, there has been no corresponding significant increase in productivity in the services sector.

12. **This pattern of growth has resulted in a much lower pace and quality of job creation relative to the country's potential, as well as those of other countries at similar levels of development.** Unemployment and underemployment rates have remained stubbornly high at around 8 and 20 percent, respectively. Males, workers with higher educational attainment, and the youth have the highest incidences of unemployment, while the poor have the highest incidence of underemployment. Average real household income in 2009 was lower than in 1997. Informality is also very high. Around 75 percent of workers do not have written contracts, social insurances, or access to severance pays. These informally employed workers face varying degrees of vulnerabilities to income or price shocks.

13. **The lack of good jobs among low-income earners has contributed to slower progress in reducing poverty and inequality.** Between 2003 and 2012, poverty incidence hardly declined. In 2009, some 23 million Filipinos, or 26.5 percent of the population, lived below the official poverty line, while 41.5 percent of the population was living below the USD 2 a day poverty line. Preliminary estimates from the National Statistical Coordination Board (NSCB) show that poverty incidence in the first half of 2012 was unchanged from 2009. The middle class¹⁰ is relatively small at around 15 percent of the population, of which about a third resides or works abroad. This slow progress in reducing poverty, despite higher growth in the same period, points to deeper structural problems, which manifest themselves in a pattern of economic growth that makes poverty reduction stubbornly difficult. Moreover, inequality has worsened in the last three decades, indicating a growth pattern that does not benefit the poor as much as it benefits the rich.

2012, the country generated higher per capita growth of above three percent, however, this has yet to translate into significant job creation and poverty reduction. Growth has largely benefited the top 20 percent of Filipinos.

¹⁰ Households with wage and entrepreneurial income of at least PHP 30,000 (or about USD 700) after tax are considered to be middle class and up.

14. **With limited domestic job opportunities, about 10 million Filipinos and their families have left the country for better opportunities abroad.** The huge outmigration of many of the country's best and brightest is as much an outcome of the lack of adequate employment opportunities at home as it is a demonstration of the global competitiveness of Filipinos. This huge outmigration has led to skill shortages (quality-adjusted) in some occupations, such as engineers and nurses. Huge remittance inflows have caused a Dutch Disease problem, driving up the real exchange rate and making manufacturing and services exports less competitive.

What went wrong in the Philippines?

15. **The country's lack of structural transformation is explained by persistent policy distortions that have slowed the growth of agriculture and manufacturing in the last six decades.** In agriculture, these include protectionist policies, such as the rice self-sufficiency policy, large subsidies for inputs, and distortions in institutions that prevent broad and secure access to land by small landholders. The latter is evident in high degree of landlessness, which has not been brought down significantly by decades of agrarian reform. Quite ironically, agrarian reform has created significant uncertainties among beneficiary smallholders, as well as large farmers, who are potential targets for land redistribution. Insecure property rights have undermined private investment incentives and, combined with low public investment, has reduced agricultural productivity and increased food prices. High prices of food and agriculture inputs (e.g., corn and sugar) have in turn contributed to high statutory minimum wages and high production costs in downstream agribusiness, manufacturing, and services. These have raised the cost of living, reduced employment, and dampened real income.

16. **In manufacturing, many industries stagnated or declined.** Since the 1930s, protectionist policies (i.e., an overvalued peso, high tariff walls, preferential loans and tax incentives to cronies), uncompetitive practices, and a small consumer base, have contributed to the decline of Philippine manufacturing. With the exception of food manufacturing and electronics, the rest of the manufacturing subsectors either stagnated or declined. The bulk of manufacturing value-added has come from capital-intensive industries such as electronics while labor-intensive manufacturing such as garments, footwear, and furniture continued to decline.

17. **Decades of underinvestment also contributed to the slow growth of agriculture and manufacturing.** From close to 30 percent of GDP in the 1970s, investment in physical capital declined to about 20 percent of GDP in the last decade. In the public sector, low tax effort and weak public investment management limited public infrastructure spending to less than 2.5 percent of GDP annually. Maintenance of existing infrastructure was likewise constrained. The relatively long foreign investment negative list has limited foreign direct investment growth that could have contributed to job creation. Investment in human capital also suffered major setbacks. The country's public education and health systems remain underfunded and have held back the development of the country's labor force.

18. **The private sector's reluctance to invest and create jobs also reflects the country's weak investment climate.** Among the investment climate constraints, corruption has been viewed as the biggest concern, followed by infrastructure deficiencies, and inefficient government bureaucracy. Costly business and labor regulations have also contributed to weak investment and job creation.

19. **Among business regulations, the most problematic issues are in starting, operating, and closing a business, paying taxes, and accessing finance.** Philippine business regulations are complex and are among the costliest in the East Asia region. Cumbersome regulations and procedures in starting and operating a business deter new firm entry and business expansion. Complying with tax regulations is costly given their complexity. Firm entry and expansion are also constrained by limited access to finance. This issue weighs heavily for micro, small, and medium enterprises (MSMEs).

20. **Although Philippine labor regulations are not the biggest constraints to growth and employment generation, they have nevertheless imposed substantial costs to some firms and have contributed to the decline of the manufacturing sector.** Among labor regulations, firms find the complex legal framework, high minimum wages, high *de facto* cost of dismissal, the legalistic dispute settlement system, and restrictions in the use of flexible contracts as major constraints to business expansion. There is evidence that the country's more rigid labor regulations relative to its neighbors have led to the closure of many labor-intensive firms or have hindered their expansion, leaving many Filipinos with much fewer job options.

A window of opportunity to create more and better jobs

21. **Today, a window of opportunity exists to accelerate reforms that will create more and better jobs.** The country is benefiting from strong macroeconomic fundamentals, political stability, and a popular government that many see as committed to improving the lives of the people. It also stands to benefit from the global and regional economic rebalancing and the strong growth prospects of a dynamic East Asia region. In addition, sectors that had previously been dominated by monopolies, such as telecommunication and air transport, are now demonstrably benefiting from past reform efforts that opened them up to competition.

22. **The Aquino Government has demonstrated that it is not afraid to tackle vested interests in areas that had previously been too sensitive to reform.** Several reforms have successfully started, notably in public financial management, tax policy and administration, anti-corruption, and social service delivery. The government now needs to maximize the chances that the country will follow a more inclusive growth path and meet the jobs challenge by accelerating reforms to protect property rights, promote more competition, and simplify regulations to trigger more private investments by firms of all sizes, while sustainably ramping up public investments in infrastructure, education, and health.

Working together towards a jobs agenda

“There is no simple, clever, or painless solution... even an adequate solution will demand sacrifice... [that] should be fairly apportioned... [G]overnment should aim for a solution that is not only effective but also just [to] foster solidarity and understanding of the national predicament... [T]he measures proposed by government must be seen to result from a judicious weighing of alternatives, a coherent program, and to have been guided by economic principles and a concern for equitable burden sharing” (de Dios et al. 2004).¹¹

23. **Many stakeholders agree that the current window of opportunity marks a critical juncture in the country’s history.** As discussed in the previous section, the foundations needed for the country to achieve more inclusive growth are in place. However, the extractive nature of some of the country’s political and economic institutions, which Acemoglu and Robinson, in their book “Why Nations Fail,”¹² define as institutions that undermine incentives and block opportunities in order to create wealth and opportunities for a narrow subset of the population (i.e., the elite), poses significant challenges to achieving lasting inclusive growth.

24. **To put the country on an irreversible path of inclusive growth, a broad reform coalition — that is, a multi-sectoral group composed of many interests that address diverse options — is crucial.**¹³ To ensure that reforms are sustained, a broad coalition is needed, because first, the coalition must adopt a strategy for winning which appeals to a wide segment of society (i.e., an inclusive strategy), and second, because the presence of a broad coalition makes it difficult for one sub-group (e.g., the elite) to dominate and create a new extractive regime. Without a broad coalition, reforms made under a strong president can be reversed, as the country’s history had shown. In practice, such a coalition is hard to sustain because some stakeholders may be much more organized than others (e.g., tobacco lobby, political dynasties). However, in the absence of a crisis to rally stakeholders around a common goal, the success of the Aquino Administration in generating confidence and economic growth, and the obvious advantages for everyone to see such growth continue beyond this administration, suggest that a basis for a broad-based coalition is present. Strategically forging this reform coalition should be a high priority of the government and its partners.

¹¹ de Dios et al.’s (2004) landmark paper on the need for fiscal reforms is a reminder of the need to work together to achieve this grand objective.

¹² See Acemoglu and Robinson (2012) for more discussion on extractive and inclusive economic and political institutions.

¹³ This follows the recommendation of the World Development Report on Jobs (World Bank 2012), which recommends the need for an engagement strategy involving a deeper analysis of the options and buy-in by key stakeholders when constraints on job creation can neither be removed nor offset easily.

25. **To support President Aquino’s Social Contract¹⁴ with the Filipino people, government, business, and labor, supported by civil society, need to engage in deeper social dialogue¹⁵ and partnership, and agree on an agenda on job creation.** As the dominant member of the tripartite system, it is important for the government to make the first move of reaching out to all workers and businesses to signal that it is serious and fully committed to change.

26. **At the heart of this agreement should be the promotion of the welfare of *all* workers, not just the minority of formal wage and salaried workers benefiting from current labor regulations and anti-competitive structures.** To arrive at a true partnership, a necessary first step would be to broaden the membership of the current tripartite system to include workers who are largely left out of the consultation and policymaking process — the rural and informal sector workers who comprise the majority of workers and who have been negatively affected by the country’s extractive institutions. By expanding the tripartite representation to reflect the composition of the entire labor force, the President’s Social Contract can be better supported.

27. **A win-win agreement to create more and better jobs needs to balance trade-offs between labor and business.** Achieving this requires the social partners to work in the interest of the collective good — that is, jobs for *everyone*. This will require a careful balancing of trade-offs,¹⁶ proportional sharing of responsibilities based on the ability to shoulder the reform cost, short-term sacrifices on all sides, and mutual cooperation among the social partners that transcends the issues of rights, labor standards, and wages, to issues of productivity and competitiveness so that more people can benefit.

28. **Given the diverse nature of the reform coalition, it is important for the coalition to first agree on the key principles of reform.** These principles could include fairness, economic openness, efficiency, and simplicity. Based on these principles, the coalition could then agree on how each tripartite member would broadly contribute to job creation.¹⁷ The report recommends that the tripartite members agree on the following responsibilities:

¹⁴ The Social Contract is elaborated in the Philippine Development Plan (PDP), Philippine Labor and Employment Plan (PLEP), and the President’s 22-Point Labor and Employment Agenda. The overarching goal of the 22-Point Agenda is to invest in human resources to make Filipinos more competitive and employable while promoting industrial peace based on social justice.

¹⁵ This is not to say that social dialogue is not happening. There are good examples of industry-level social dialogue. For example, the Banking Industry Tripartite Council (BITC) adopted in December 2011 a voluntary code of good practices, which gives importance to social dialogue. Social dialogue in the banking industry includes informing, consulting, and holding dialogues with affected employees and unions on any proposed program of outsourcing, including discussions on alternative adjustment measures. The BITC model can be replicated in other industries and the country as a whole.

¹⁶ Balancing trade-offs is important. For example, the Magna Carta for Women (Republic Act 9710) may protect and benefit women who are currently employed, but in the long run this may lead to lower employment of women, as employers need to pay women more in benefits and can decide to hire more men when faced with a pool of male and female applicants who are all equally qualified.

¹⁷ At the outset, the coalition need not choose specific sectors to reform, as tackling even a few entrenched sectors can take a long time and can easily drain the energy and capital for reform (as the sin tax debate showed). As

Government

29. **For its part of the agreement, the government needs to enact policies that can broaden and strengthen the reform coalition and create reform beneficiaries who will have a vested interest in continuing the policy.** These policies could include i) reducing food prices, ii) reducing the cost of doing business, iii) improving delivery of government services, and iv) empowering citizens to hold the government accountable. Reforms to reduce food prices could include a) reforming the National Food Authority, b) liberalizing food imports, and c) investing more in rural infrastructure so that food prices can fall without farm profits falling. Reforms to reduce the cost of doing business could include a) accelerating investments in infrastructure and social services, in particular health, education and social protection, b) committing to an accelerated implementation of plans that have been on the table for years, such as simplifying business regulations, and c) enhancing competition to level the playing field, raise quality, and lower prices. Reforms to improve the delivery of government services could include a) internal reforms such as civil service and organizational reforms, b) reform of inter-governmental fiscal relations, and c) electoral reforms. Reforms to empower citizens to hold the government accountable could include scaling up Bottom-Up Budgeting, community-driven development, conditional cash transfer, Open Data, and Open Government programs. Finally, the government would also need to lead by example, especially with regard to labor policies.

Business

30. **As a community, businesses of all sizes need to embrace the principle of a level playing field for all, in the interest of accelerating inclusive growth.** This means actively supporting the government's reforms to reduce barriers to entry and maximize competition, particularly in sectors currently dominated by monopolies and oligopolies. This also means that business associations, chambers, and professional groups should help the government ensure compliance of its members with basic duties such as paying correct taxes and adhering to other business and labor regulations.

31. **In addition, businesses need to extend their corporate social responsibility to their own employees, especially with regard to core labor standards.** These include ensuring that workers' rights, such as freedom of association, compliance with minimum labor standards, and fair and equitable treatment of employees, are protected, guaranteed, and fully supported in work premises. To promote mutual trust and understanding, employers would need to make the first move to engage employees in meaningful dialogue on various labor issues. Businesses would also need to enhance transparency in their operations. Some unions recognize businesses' need to be flexible to remain competitive and are willing to cooperate with management especially if management is fully open and transparent about its true financial

reform momentum grows with a larger coalition and with incremental successes, the coalition can then choose to tackle specific entrenched sectors.

conditions. To improve workers' productivity, industry associations need to work more closely with their members, the government, labor organizations, the academe, and civil society organizations to provide training, upgrade skills, and improve job matching, especially for workers in the informal sector.¹⁸ Finally, linking workers' pay to productivity would send a strong signal that employers value the contribution of their workers.

32. When firms make big sacrifices and reach out to their employees, workers would be in a better position to understand management's need for more flexible work arrangements. These arrangements would enable firms to adapt quickly to changing business needs, remain competitive, and ensure that future employment prospects of workers are not constrained by firms' inability to expand due to less flexible labor regulations.

Labor

33. Labor groups can respond by recognizing valid forms of flexible work contracts and reducing calls to hike minimum wages as food prices fall to facilitate the creation of more jobs. These would allow businesses to adapt better to the changing environment, remain competitive, hire more workers during expansion years, and retain qualified workers during slowdowns. At the same time, these would encourage entrepreneurs to set up new businesses and spur job creation to benefit the majority of workers who are without good and stable jobs. Moreover, millions of workers who face job insecurity from the use of the rotating five-month contract stand to see better job security with longer-term contracts. While some organized labor might be affected by this transition, this trade-off needs to be weighed against the potential benefits that could accrue to the majority of workers in the informal sector. In the end, this would help secure long-term employability for everyone and not only for workers in the organized sectors. To minimize costs to those who will be affected, government effort to improve social protection is critical.

223. Successful implementation of an agreement such as the one discussed above can help the Philippines restart its structural transformation by reviving agriculture, supporting manufacturing, and creating better jobs in services. In the process, more productive jobs would come in place of less productive jobs. This "creative destruction" where productive jobs replace less productive jobs would allow the country to move from the current low-level equilibrium of high growth but high poverty and weak employment, to a high-level equilibrium of high, sustained, and more inclusive growth, with more and better job creation, and faster poverty reduction.

¹⁸ There is ongoing dialogue between employer groups, the government, and schools, but the large mismatch between available skills and available jobs indicates that more can be done to ensure that students have the right skills demanded by businesses when they graduate. A good example to follow is the BPO industry's provision of training (e.g., English language proficiency and critical thinking training) to its workers and prospective hires. In addition, the industry provides scholarships and job opportunities to deserving students. This training program has been instrumental in ensuring skills upgrading and employability of around 800,000 young Filipinos working in the BPO industry today.

The reform agenda for job creation

34. **There is no simple and effortless solution for creating more and better jobs, as this is linked to resolving deep-seated structural issues in the economy. Only a comprehensive reform agenda that is owned and supported by a broad coalition can foster a business environment conducive to private sector job creation by firms of all sizes.** Built on the principles of fairness, economic openness, comparative advantage, efficiency, and simplicity, a comprehensive reform agenda to support the revival of agriculture and manufacturing and to make business and labor regulations, including social protection, more conducive to job creation is proposed for consideration by the reform coalition. To support these reforms, government commitment to increase investments in health, education, and infrastructure through reforms in public finance is essential.¹⁹

Agriculture and rural development

35. **The development of the rural sector is a crucial first step for the country to provide more and better jobs for the poor.** Three quarters of the poor are found in rural areas, and agriculture employs most of the poor. This means that agriculture can play a key role in efficiently reducing poverty. In turn, productivity improvements in agriculture can help the country expand its manufacturing sector through lower minimum wages (as transmitted by lower food prices) and input costs. The key recommendations are as follows:

- **Investment and productivity can be improved by securing long-term individual property rights.** In rural areas, this means ensuring that farms of all sizes have clear property rights (e.g., individual titles instead of collective titles) so that they have better incentives to invest. In urban areas, this means simplifying and decentralizing the lengthy and onerous procedures of acquiring land, which continue to prevent the majority of the population from obtaining secure rights to their property. Securing property rights requires: i) developing a zoning plan for all types of land (i.e., agricultural, industrial, urban, conservation, etc.), and ii) beginning the process of systematically and administratively adjudicating the property rights of various claimants by going from plot to plot and determining in a transparent and participatory way who owns the plot, and immediately issuing a title administratively. With secure property rights to land, small family farms can see more gainful employment, raise household income, and use their own savings, including sweat equity, to increase farm investment and improve productivity. Through strong local multiplier effects of family farms, the

¹⁹ Many of these recommendations have not changed over the last 25 years. This report stock-takes, synthesizes, and connects previous recommendations from over 20 years of World Bank analytical work, and also adds new recommendations on labor and social protection, and selected sectors.

growth of this sector can then serve as an impetus for the growth of and job creation in the non-farm sector.

- **Farm productivity and household income can be enhanced by increasing investment in agricultural public goods and support services instead of subsidizing farm inputs.** In the last three years, although rice has remained a strong focus of public expenditure, the government has avoided large-scale input subsidies (e.g., crop subsidies, mechanization, and postharvest equipment) that benefit only a few farmers and instead has increased the budget allocation to public goods and services supporting productivity enhancement, such as irrigation, farm-to-market roads, bridges, electrification, market access and information, extension services, and research and development, which can benefit all farmers. This positive shift needs to be sustained and institutionalized. With sustained focus on delivering quality public goods, production and marketing costs would fall, allowing farmers to raise their income even as retail prices fall. Moreover, the focus on public goods can help promote a more diversified and productive agriculture sector that would allow the country to reduce dependence on traditional crops, such as rice, corn, coconut, and sugarcane.
- **Liberalization initiatives can be pursued in the area of marketing and logistics to further reduce food and input prices, and encourage more economic activity and job creation.** In the rice sector, for example, the government would need to allow full importation of rice by the private sector, shift from a quota to a tariff system, and reduce the import tariff gradually while refocusing the National Food Authority to respond to natural calamities and food emergencies. Reducing import tariffs on corn, sugar, flour, and poultry, and other highly protected food products would also benefit the majority of Filipinos in terms of lower food prices. To reduce logistics costs, competition in domestic shipping and ports should be enhanced, with the Philippine Ports Authority divesting itself of its port operations and focusing on its regulatory mandate.
- **Clusters and value-chain development approach can be used in delivering public goods and support services to connect smallholders and agribusiness.** Agriculture has significant vertical linkages with downstream manufacturing. Shifting the developmental approach from production to a cluster and value-chain approach can therefore promote a more diversified agriculture, improve farm income, and create more rural jobs.

Support to manufacturing

36. **The manufacturing sector can be reinvigorated by increasing competition in the economy and investing more in infrastructure.** Having more contestable markets can spur investment from both domestic and foreign sources, bring down the cost of manufacturing inputs and logistics, provide workers in agriculture and informal services with better jobs in manufacturing, and increase real household income through lower consumer prices. The key recommendations are as follows:

- **First, an explicit competition policy is needed to combat ongoing and potential anti-competitive practices that are not sanctioned under the existing legal framework.** The principle of fair competition needs to be at the heart of this policy. This can be achieved in two steps. In the short-term, the principles and key provisions for a fair competition policy can be established through an executive order (EO). In the medium-term, an explicit anti-trust law should be enacted. To enforce this policy, a strong and independent competition (or anti-monopoly) authority is needed. This office would need to have statutory independence, be adequately funded and fiscally autonomous, and be led by senior executives who are appointed for fixed terms. The government's resolve to enhance competition by creating the Office for Competition in the Department of Justice to investigate monopolistic behavior is a step in the right direction. Strengthening this office through legislation would have to be pursued.
- **Priority should be given to enhancing competition in key sectors of the economy where there is huge potential for reducing poverty and creating jobs for the poor and vulnerable (directly or indirectly). These are ports, shipping, water utility, power, and air transport.** Enhancing competition in ports and shipping is essential in lowering food and input prices, improving producers' access to markets, and raising the incomes of farmers in less developed regions, such as in Mindanao. Enhancing competition in the water utility sector would help improve access to clean and affordable water, thereby improving health outcomes and raising worker productivity especially in rural areas. Enhancing competition in the power and air transport sectors would help spur the growth of manufacturing and tourism.
- **In addition to promoting domestic competition, more foreign participation would facilitate technology transfer and innovation, create more jobs, and raise productivity of workers.** This entails i) amending the economic provisions of the 1987 Constitution by removing the explicit rigidity imposed on natural resources, public utilities, mass media, educational institutions, and the practice of professions, and giving the prerogative to impose such restrictions to Congress, as is the case in the other sectors, and ii) allowing more foreign ownership in key sectors such as telecommunications, shipping, financial services, and media sectors. These sectors are likely to have the largest gains from competition, capital, technology, and improved governance.
- **In tandem with liberalization, regulatory capacity needs to be strengthened.** The independence and competence of important regulatory bodies and the justice system need to be ensured, and political and judicial interference in regulatory decisions, such as the reversal of decisions, need to be limited. These can be achieved by i) clearly defining the role of regulatory bodies including provisions to limit conflict of interest, ii) ensuring some degree of fiscal autonomy and adequate expertise to avoid politicization of decisions and allow them to execute their mandates freely, iii) reducing discretionary powers of regulators through the establishment of clear and rule-based procedures and policies, and iv) conducting regular regulatory assessments.

Business regulations

37. **Simplifying rules and regulations in business registration and licensing, entry and exit, paying taxes, and access to finance are needed to encourage rapid growth of businesses of all sizes and encourage movement of small firms to the formal sector and in the process increase their productivity and market access.** The copious amount of red tape not only hinders investment and entrepreneurship, they also provide fertile ground for rent-seeking and corruption, which are detrimental to businesses. Priority should be given to addressing the top three concerns in the Doing Business Report: i) starting, operating, and closing a business, ii) paying taxes, and iii) accessing finance.

- **Starting a business can be simplified by harmonizing and streamlining procedures.** The Philippines' business regulatory system currently requires 16 procedures to start a business. The government needs to consider reducing these procedures to around nine, which would put the Philippines at par with regional comparator countries. This could include i) harmonizing and streamlining procedures among national government agencies and local government units (LGUs) to avoid overlaps and redundancies, ii) removing steps that can be verified by government offices at the back end, and iii) reducing requirements whose purposes are not fully justified. Full implementation of the Philippine Business Registry and the Business Permit and Licensing System would also facilitate business startup. Improving transparency of business regulations can provide better understanding, especially among incipient firms, of the different registration, licensing, and taxation processes, and can help reduce transaction costs.
- **Moving toward a simplified tax regime for micro and small businesses is warranted to reduce compliance costs and encourage movement of firms to the formal sector.** The administrative complexity of complying with tax obligations is among the top complaints voiced by MSMEs and a frequent excuse for remaining in the informal sector. The simplified system could include the following: i) using simplified tax forms, registration requirements, and payment processes, ii) reducing requirements for bookkeeping and financial reporting, iii) integrating the tax filing and payment systems of the national and local government units so that taxpayers need to file and pay only once, and iv) combining the value-added tax (VAT), percentage tax, and income tax into a single business tax on turnover for small and micro firms.
- **Access to finance, especially for MSMEs, can be improved** by i) ensuring that the public credit bureau commences operation soon, ii) replacing the mandated system of lending to MSMEs with a system of credit guarantees, iii) strengthening the collateral system by completing the cadastral titling of all lands in the country and establishing a central registry for land titles, iv) improving the legal and regulatory framework for secured transactions to increase financing secured by movable property (such as receivables and inventory) as alternative to real property, and v) enhancing the role of cooperatives.

Labor regulations

38. **There is scope for making labor market regulations more responsive to job creation, especially for small and labor-intensive firms.** Labor market regulations need to be crafted to achieve a fair balance between i) businesses' need to be competitive and workers' right to adequate protection, and ii) the need to provide jobs to the majority of unemployed or underemployed workers in the informal sector and the need to safeguard workers in the formal sector from abuse. With these objectives and tradeoffs in mind, the following recommendations are proposed:

- **Simplifying and rationalizing labor regulations are necessary first steps to improve enforcement and compliance and to increase coverage, protection, and equitable application of the law.** The Department of Labor and Employment (DOLE) has begun a comprehensive review of the Labor Code. It would be useful for the review to consider: i) consolidating all labor regulations, including department orders and court jurisprudences, into one volume, ii) ensuring consistency across regulations, iii) simplifying rules to reduce compliance cost for businesses and labor groups, and iv) updating obsolete laws to reflect changing economic conditions. The regulatory capacity of DOLE and its attached agencies would also need to be strengthened to ensure that the intended coverage and protection of labor regulations are not eroded by noncompliance.
- **There is a need to define and enforce *valid* forms of flexible work contracts and the conditions for their use with due regard to the protection of workers.** When necessary, for example during a recession or when demand is volatile, employers would benefit from the use of flexible contracts, such as subcontracting and outsourcing non-core business lines, and temporary reduction in wages and benefits to remain competitive and retain qualified workers. The use of flexible work contracts can open up employment opportunities to millions of informal sector workers when businesses expand and hire more workers to meet their business exigencies. Flexible contracts that exceed the six-month rule can even improve job security for millions of workers working under various short-term contracts, such as the rotating five-month contracts.
- **Rationalizing the labor dispute settlement system would reduce business and employee uncertainties, and encourage business expansion, job creation, and skills accumulation.** Among cases that require formal proceedings, the goal should be to reduce legalism and excessive requirements, in order to speed up the pace of dispute resolution. Among cases that can be resolved outside the court, priority should be given to promoting alternative forms of dispute settlement. The number of potential disputes could be reduced by educating workers and employers on core labor regulations and on the observance of due process when terminating employees.
- **Procedural barriers that hinder freedom of association and collective bargaining need to be reduced, and alternative forms of organization for informal workers need to be**

promoted. Procedures and conditions are necessary to safeguard against spurious labor groups, but they should not hinder legitimate groups from fully exercising their fundamental rights. For informal sector workers, alternative forms of organization should be promoted and government can play an important role by improving and rationalizing its various assistance programs for informal workers.

Social protection

39. **Some workers will be affected by the process of “creative destruction,” where more productive jobs replace less productive jobs.** This can be mitigated by having in place an adequate program of social protection to ensure that job losses do not unduly affect workers’ ability to retain skills and find employment in the future. An effective social safety net system can also encourage risk-taking, which would promote entrepreneurship and job creation. The following recommendations are proposed, some of which are already in place but would benefit from further strengthening.

- **An empirically-informed social dialogue on minimum wage setting is essential to improve the current system.** Three issues could be discussed in the social dialogue: i) whether or not to adopt a simplified minimum wage system (e.g., one or a few minimum wage rates rather than the current 200 plus wage rates across the country) that would be strictly enforced without exemptions, ii) at what level minimum wages should be set for it to be more effective in protecting the poor, and iii) how the minimum wage would apply to non-wage workers who are largely paid on a piece rate basis. Based on the evidence presented, the social dialogue could consider two options: One option would be to i) simplify the minimum wage regime by limiting the number of minimum wage rates to at most two per region (i.e., agriculture and non-agriculture), ii) lower the rate to better align it with the minimum living threshold, and iii) remove all exemptions. This option would increase the coverage of the minimum wage, especially among informal sector workers, and make it a more effective anti-poverty tool. Another option would be to retain the simplified wage regime as in the first option but allow for limited exemptions if minimum wage levels cannot be reduced. With complementary reforms to promote collective bargaining, the minimum wage rate could be adjusted less frequently, say, every three years, instead of every year.
- **To enhance income protection for the poor, the government could make public works a regular social protection program.** Worldwide, public works, when properly designed, are effective in providing income support to the poor. In the Philippines, public works program beneficiaries can be selected using the National Household Targeting System for Poverty Reduction (NHTS-PR). Furthermore, public works could be managed at the community level in a more effective manner by closely collaborating with community driven development and Bottom-Up Budgeting projects.
- **Moving toward universal social insurance and health care coverage for *all* workers can enhance social protection.** Among wage and salaried workers, the government would

need to enforce the law on mandatory social insurance and health coverage. To improve compliance among small firms, the government could explore the possibility of harmonizing the registration and collection of taxes, and Social Security System (SSS) and Philhealth (Philippine Health Insurance Corporation) premium contributions to reduce compliance cost. Among self-employed and other informal workers, there is a need to reduce the financial and administrative burden when availing of existing social protection schemes to facilitate enrollment of the poor and vulnerable. For low-income households, coverage could be expanded and targeting improved by using the NHTS-PR. As subsidies may increase the fiscal burden, the fiscal cost of such a program would need to be estimated and managed.

- **Enhancing training programs can improve *ex ante* risk mitigation.** Improving the Technical Vocational Education and Training (TVET) System and job-matching programs can mitigate *ex-ante* risk for workers and address unemployment. Job-related social protection programs, such as scholarships for TVET programs (e.g., cash for training program), can be better targeted to poorer and more vulnerable workers by using the NHTS-PR. In addition, job and skills matching can be improved by deepening partnerships with firms and enhancing job intermediation services, such as those provided by the various Public Employment Service Offices (PESOs), and by strengthening engagement and collaboration with LGUs to help PESOs become fully operational and functional.

Infrastructure, education, and health

40. **To complement the proposed structural reforms, the government would need to invest more in education, health, and infrastructure to create an environment conducive to increasing productivity and competitiveness.** A high-case scenario calls for spending an additional 2.5 percent of GDP in infrastructure and an additional five percent of GDP in social services, for a total of 7.5 percent of GDP over the next decade. This would bring the national government spending level to around 25 percent of GDP, which is more in line with the spending patterns of the country's neighbors, and facilitate the creation of good jobs by the private sector. The priorities per area are as follows:

- **On infrastructure, investments would need to focus on projects that have strong employment, income, and poverty impacts.** These “inclusive infrastructure” include fast-tracking pipeline and ongoing project in ports, the arterial road and expressway system, the urban commuter system, mass housing, and agriculture infrastructure as discussed earlier.²⁰ In tandem with increasing investment spending levels, improving infrastructure management is also essential.

²⁰ Details are discussed in the main text.

- **On basic education, priority would have to be given to achieving universal primary education and expanding secondary net enrollment by increasing actual spending for basic education and improving the quality of education.** Actual spending levels can be increased by providing a bigger budgetary allocation to the Department of Education and improving agency absorptive capacity. The quality of education can be improved by enhancing curriculum and teaching methodology (e.g., use of vernacular in primary education) and improving the procurement of teaching inputs, such as classrooms, teachers, and learning materials. Over the medium term, with a bigger budget and improved institutional capacity, efforts can be focused on ensuring the successful implementation of the K to 12 Program.
- **On health, priority would have to be given to scaling up health interventions to meet public health and poverty alleviation goals, and expanding the coverage and improving the fiscal and institutional sustainability of public health insurance.** The government is moving toward universal healthcare coverage, beginning with the poor, to be followed by the informal sector workers, using the well-established NHTS-PR. This reform is a very good start and needs to be sustained. Continuous improvement in the coverage and quality of healthcare can help reduce total out-of-pocket costs and ensure that the most important asset of most Filipinos, their labor, is not compromised when they get sick, allowing them to continue accumulating skills to improve their future employability.

Public finance

41. **To finance higher spending on infrastructure, education, and health, complementary reforms are needed in public financial management (PFM), taxation, and statistics.** Increasing investment in physical and human capital require policies to strengthen PFM and increase tax revenues efficiently and equitably. Enhancing official statistics is needed to improve evidence-based policymaking. Successful PFM reforms, including strengthening the demand side for better PFM (by promoting Open Data, Open Government, and accelerating participatory budgeting such as Bottom-Up Budgeting and community-driven development), and evaluating their development impact would allow the public to see more tangible improvements in governance and convince them that their taxes are being spent wisely. These crucial reforms would help make a better case for tax policy reforms. Successful implementation of public sector reforms would allow the country to increase public investment and pro-poor spending to create an environment that is conducive to attracting more investments and creating better jobs.

Tax policy and administration

42. **To support the required increase in public investments, additional tax revenues of around eight percent of GDP would be needed in the medium term.** This seems to be attainable, considering the current strong leadership in government, the substantial gains in tax effort in 2012 largely on account of tax administration, and the country's past experience of

successful tax administration. On tax policy, the following priority legislations are recommended:

- Rationalize tax incentives to plug systemic leakages in the tax system, level the playing field, and raise revenues. Particular attention is needed in reducing tax incentives for domestic firms, given the high rate of redundancy.
- Levy a national surtax on real properties to improve the equity of the tax system. This reform should include updating property values to reflect market prices. The impact of higher property tax can be partly offset by lowering the rate of the capital gains tax and transfer tax and abolishing the estate tax, which in practice is very difficult to collect.
- Over the medium term, a comprehensive tax reform program is needed to simplify and improve the efficiency and equity of the tax system toward a more broad-based and low-rate tax regime.

43. On tax administration, measures to improve tax compliance and reduce revenue corruption could include:

- Reengineering and simplifying procedures and processes required of micro and small enterprises, followed by full automation of all tax processes to facilitate taxpayer compliance and improve governance.
- Strengthening real-time monitoring of revenue performance at disaggregated levels to minimize tax leakages.
- Issuing an executive order mandating all government agencies and selected private sector groups (e.g., electric and phone companies, and professional associations) to provide third-party data to the BIR and BOC to improve tax audits.
- Further enhancing the integrity of revenue officials by, for example, requiring the public posting of net worth of top revenue officials on official websites (following the example of DOLE and the NLRC²¹) to send a strong signal to the public that the revenue agencies are committed to good governance.

²¹ See, for example, data posted on the websites of DOLE ([http://www.dole.gov.ph/fndr/bong/files/2010%20SALN%20OF%20OFFICIALS%20\(WEBSISTE\)%207-15-11.pdf](http://www.dole.gov.ph/fndr/bong/files/2010%20SALN%20OF%20OFFICIALS%20(WEBSISTE)%207-15-11.pdf)) and NLRC (<http://nlrc.dole.gov.ph/?q=node/91>).

- Enhancing internal and external audits (i.e., by the Commission on Audit) of BIR and BOC activities, in particular the adherence of the BIR and BOC to their own audit rules, to improve transparency and accountability of tax administration.²²
- Institutionalizing the recording and public reporting of key performance indicators to allow the public to track the performance of the BIR and BOC.
- In BOC, strengthening efforts to curb smuggling by inspecting all outward movements of goods from special economic zones.

Public financial management (PFM)

- **Ongoing reforms to improve PFM would need to be further strengthened and institutionalized.** The government has embarked on several reforms to institutionalize evaluation of government programs and budget items (e.g., CCT, lump sum funds), improve agencies' absorptive capacities, and enhance transparency and accountability of the budget process, such as public posting of budget reports and harmonizing the budget chart of accounts across agencies. These reforms need to be further strengthened and institutionalized.

Statistics

- **In the immediate term, priority can be given to improving household statistics to help the country resolve its poverty and jobs problems faster.** The current set of household surveys can be re-engineered into a more harmonized set in order to provide more timely and useful poverty and employment data. The goal should be to produce provincial estimates of employment and poverty and to reduce the processing time by at least 50 percent.
- **This can be followed by ensuring that the new Philippine Statistics Authority (PSA) would have enough resources to meet the growing demand for quality statistics.** First, the Philippine Statistical Development Program would need to be updated to show clear priorities. This could be followed by formulating a sector medium-term expenditure framework to provide policymakers with information on how much quality statistics would cost. These two foundational reforms would help the statistical system make a stronger case for more resources to meet the growing demand for better, timely, and more useful statistics.

A three-tracked implementation

²² An existing executive order (EO 38 of 1998) authorizes COA to audit the BIR's compliance with its own audit rules. This law needs to be enforced.

44. In sequencing the reform program, a three-track approach can be considered to produce early results and build momentum for the more difficult reforms.

- **The first track involves decisively implementing key reforms.** Reforms in this track can be, in principle, supported by a reasonably broad coalition, and generally do not need legislative change. They may require an executive order.
- **The second track involves accelerating the present reform agenda** of improving governance, increasing investments, and improving social service delivery. Continued successful implementation of these reforms can provide the momentum and public support for implementing the politically more difficult reforms.
- **The third track involves seizing the window of opportunity to lay the foundation for the more difficult reforms that would reverse decades of policies that have undermined the economy's capacity to generate more and better jobs.** Past attempts at these reforms were rather difficult because they tried to open the economy to competition and new ideas and therefore ran into powerful vested interests that favored the status quo. For the country to create more and better jobs, the status quo must change. While these reforms will take time to bear fruit and even surpass the horizon of the current administration, it is important that they begin today with a sense of urgency, through a formal policy pronouncement.

Priority reforms by track

Track 1 - Decisively implement the following reforms	Track 2 - Accelerate ongoing reforms	Track 3 - Laying the foundation for the more difficult reforms
<i>Reforms in this track can be, in principle, supported by a reasonably broad coalition, and generally do not need legislative change. They may require an executive order.</i>	<i>This track is about moving current reforms faster and giving more focus on existing initiatives and programs.</i>	<i>These reforms are difficult and will take time to be completed. They will need legislative changes. However, decisive action can be taken now to start the process.</i>
Agriculture		
Fully transfer importation of rice and other commodities to private sector by abolishing import licenses	Increase spending on agricultural infrastructure (e.g., farm-to-market roads, irrigation) and improve delivery of services (extension services, R&D)	Replace rice import quota with a uniform tariff and gradually reduce tariff over the medium term Reform NFA by removing its marketing function and

		focusing its mandate on regulation and emergency stocking
Land (crosscutting)		
Update schedule of market values at LGU level annually, beginning with highly urbanized cities (see also “national surtax on property”) Adopt and strictly enforce zoning regulations in a systematic and consistent way	Implement land reform program using a more community-driven and decentralized approach Accelerate the systematic and administrative adjudication of property rights in rural and urban land, plot by plot	Improve land administration by passing an effective Land Administration Reform Act and National Land Use Act
Support to manufacturing		
Enhance competition in ports and shipping, including reviewing mandate of PPA and relaxing cabotage provisions Reduce Foreign Investment Negative List Enhance competition in the water utility sector to improve health outcomes and worker productivity	In power, fast-track implementation of the power retail market and increase competition in power generation to reduce power rates Further liberalize air transport (open skies)	Formulate an overarching competition policy, including enacting an anti-trust law and creating an independent competition authority Amend economic provisions of the constitution to increase foreign participation and FDI Reduce tariffs on key agriculture and manufacturing inputs such as cement and chemicals
Business regulations		
Improve MSME finance – operate credit bureau, support cooperatives development, move from mandated credit to credit guarantees	Fully implement the online PBR and BPLS possibly through an incentive program to fast-track implementation at the LGU level	Review and simplify business regulations MSME finance – implement lending based on movable assets
Labor and social protection		
Expand TESDA-industry partnerships for training programs Rationalize dispute settlement system	Expand universal social and health insurance Extend CCT to high school Commence annual estimation	Define and enforce valid forms of flexible contracts, including an expanded apprenticeship program Reform Labor Code

<p>Regularly update the National Household Targeting System for Poverty Reduction (NHTS-PR)</p> <p>Target systematically all social protection programs using NHTS-PR (e.g., rural poor, UHC, and disaster-related support)</p>	<p>of poverty at national level, and triennial estimation at provincial level</p> <p>Institutionalize public works program</p>	
Investment		
<p>Implement the Tourism Roads and Infrastructure Plan (TRIP) network plan</p> <p>Prioritize key constraint infrastructure projects:</p> <ol style="list-style-type: none"> 1. NLEX-SLEX connector 2. Shift to dual airport system 	<p>Complete the TRIP network plan</p> <p>Improve urban commuter system:</p> <ol style="list-style-type: none"> 1. Increase number of LRT trains 2. Rationalize public bus transport system <p>Implement Metro Manila Flood Master Plan (e.g., modernize pumping stations, weather resilient infrastructure)</p>	<p>Review and revise public investment planning, execution and monitoring process</p>
Public finance		
<p>Implement government financial management information system, including treasury single account</p> <p>Modernize statistics through the new Philippine Statistics Authority</p>	<p>Improve customs administration to control smuggling, including increasing control over special economic zones</p> <p>Strengthen participatory budgeting at LGU level, following principles and lessons learnt through existing Bottom-Up Budgeting and community driven development programs</p> <p>Implement Open Government across all agencies and adopt Open Data platform</p>	<p>Enact fiscal incentives rationalization bill</p> <p>Enact a national surtax on property (see also “land”)</p> <p>Increase excise tax on petroleum</p> <p>Further raise the excise tax of alcohol and tobacco</p> <p>Start comprehensive tax administration reform program to simplify tax processes, especially for MSME</p>