Draft for discussion and subject to change.

Report No.

PHILIPPINE DEVELOPMENT REPORT

CREATING MORE AND BETTER JOBS

September 2013

Draft as of 9/11/2013 4:21 PM

World Bank Philippine Office
East Asia and Pacific Region

Document of the World Bank

CURRENCY AND EQUIVALENT UNITS

Exchange Rate Effective September 6, 2013
Currency Unit – Philippine Peso (PHP)
USD 1 = PHP 44.48

FISCAL YEAR

January 1 – December 31

SELECTED ACRONYMS AND ABBREVIATIONS

AEC	Association of Southeast Asian Nations Economic Community
ALMPs	Active Labor Market Programs
APEC	Asia Pacific Economic Cooperation
ASE	Annual Survey of Establishments
ASEAN	Association of Southeast Asian Nations
ASPBI	Annual Survey of Philippine Business and Industry
ASTI	Agricultural Science and Technology Indicators
BAS	Bureau of Agricultural Statistics
BESF	Budget of Expenditures and Sources of Financing
BIR	Bureau of Internal Revenue
BITC	Banking Industry Tripartite Council
BLE	Bureau of Labor Employment
BLES	Bureau of Labor and Employment Statistics
BLGF	Bureau of Local Government Finance
BMSMED	Bureau of Micro, Small, and Medium Enterprise Development
BOC	Bureau of Customs
BOP	Balance of Payments
BPAP	Business Processing Association of the Philippines
BPLS	Business Permits and Licensing System
BPO	Business Process Outsourcing
BSP	Bangko Sentral ng Pilipinas
BTR	Bureau of the Treasury
CAB	Civil Aeronautics Board
CARL	Comprehensive Agrarian Reform Law
CARP	Comprehensive Agrarian Reform Program
CBA	Collective Bargaining Agreement
CCT	Conditional Cash Transfer
CDA	Cooperative Development Authority
CES	Career Executive Service
CHED	Commission on Higher Education
CIA	Central Intelligence Agency
CLOAs	Certificate of Land Ownership Awards
COA	Commission on Audit
CPBI	Census of Philippine Business and Industry
CPBRD	Congressional Policy and Budget Research Department
CPI	Consumer Price Index
CSC	Civil Service Commission
CSOs	Civil society organizations
CSR	Civil Service Reform
CTRP	Comprehensive Tax Reform

	Program
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DFA	Department of Foreign Affairs
DOE	Department of Energy
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOTC	Department of Transportation and Communication
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
EAP	East Asia and Pacific
ECEP	Emergency Community Employment Program
EP	Extreme Poor
EPIRA	Electric Power Industry Reform Act
EPZs	Economic Processing Zones
ERC	Energy Regulatory Commission
ESO	Engineering Services Outsourcing
ETDZs	Economic and Technological Development Zones
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FE	Fixed Effects
FIES	Family Income and Expenditure Survey
FPL	Food Poverty Line
FRS	Fiscal Risks Statement
GAA	General Appropriations Act
GCAT	Global Competitiveness Assessment Tool
GCI	Global Competitiveness Index
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GEM	The Global Entrepreneurship Monitor
GIFMIS	Government Integrated Financial Management Information System
GOCCs	Government-owned and/or -controlled corporations
GSIS	Government Service Insurance System
GVA	Gross value-added
HB	House Bill
HH	Household
ICLS	International Conferences of Labor Statisticians
IFC	International Finance Corporation
IJR	Indonesia Jobs Report
ILO	International Labor Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
IPPs	Independent Power Producers
IRR	Implementing Rules and Regulations
IRRI	International Rice Research Institute
ISS	Informal Sector Survey
IT	Information Technology
ITO	Information Technology Outsourcing
JBIC	Japan Bank for International Cooperation

KPO	Knowledge Process Outsourcing
LabCom	Labor Oversight Commission
LAMP	Land Administration Management Project
LC	Labor Code
LEDAC	Legislative Executive Development Advisory Council
LF	Labor Force
LFS	Labor Force Survey
LGU	Local Government Unit
LRA	Land Registration Authority
LRT	Light Rail Transit
LRTA	Light Rail Transit Authority
LTFRB	Land Transportation Franchising and Regulatory Board
LTO	Land Transportation Office
LWUA	Local Water Utilities Administration
MARINA	Maritime Industry Authority
MFIs	Micro Finance Institutions
MMDA	Metropolitan Manila Development Authority
MP	Moderately Poor
MRT	Metro Rail Transit
MSME	Micro, Small, and Medium Enterprises
MSMED	Micro, Small, and Medium Enterprise Development
MT	Metric Tons
NAPOCOR	National Power Corporation
NCB	National competitive bidding
NCMB	National Conciliation and Mediation Board
NCR	National Capital Region
NCTS	National Center for Transportation Studies
NEDA	National Economic and Development Authority
NFA	National Food Authority
NG	National Government
NHIP	National Health Insurance Program
NHTS-PR	National Household Targeting System for Poverty Reduction
NIA	National Irrigation Administration
NLDC	National Livelihood Development Corporation
NLEX	North Luzon Expressway
NLRC	National Labor Relations Commission
NLTDRA	National Land Textiles and Deeds Registration Administration
NP	Non-poor
NRA	Nominal Rates of Assistance
NRCO	National Reintegration Center for OFWs
NSCB	National Statistical Coordination Board
NSO	National Statistics Office
NWPC	National Wages and Productivity Commission
OECD	Organisation for Economic Co-operation and Development
OFWs	Overseas Filipino Workers
OLS	Ordinary Least Squares
OP	Office of the President
OPIF	Organizational Performance Indicator Framework
OSHC	Occupational Safety and Health Center
OWS	Occupational Wages Survey
OWWA	Overseas Workers Welfare Administration
PAL	Philippine Airlines
PBR	Philippine Business Registry
PD	Presidential Decree
PDAF	Priority Development Assistance Fund
PDP	Philippine Development Plan
PESO	Public Employment Service

	Office
PEZA	Philippine Economic Zone Authority
PFM	Public Financial Management
PHIC	Philippine Health Insurance Corporation
PhilGEPS	Philippine Government Electronic Procurement System
PhilHealth	Philippine Health Insurance Corporation
PL	Poverty Line
PLDT	Philippine Long Distance Telephone Company
PLEP	Philippine Labor and Employment Plan
PMS-OPES	Performance Management System-Office Performance Evaluation System
PNR	Philippine National Railways
POEA	Philippine Overseas Employment Administration
POLO	Philippine Overseas Labor Offices
PPA	Philippine Ports Authority
PPP	Public-Private Partnerships
PRC	Professional Regulatory Commission
PSALM	Power Sector Assets and Liabilities Management Corporation
PSIC	Philippine Standard Industry Classification
R&D	Research and Development
RA	Republic Act
RATE	Run After Tax Evaders
RATS	Run After the Smugglers
RE	Random Effects
RIPS	Revenue Integrity Protection Service
RORO	Roll-on Roll-off
RTWPBs	Regional Tripartite Wages and Productivity Boards
SALNs	Statement of Assets, Liabilities, and Net Worth
SAOBs	Statements of Allotments, Obligations and Balances
SC	Supreme Court
SDBS	Structural and Demographic Business Statistics
SEC	Securities and Exchange Commission
SEIPI	Semiconductors and Electronics Industries of the Philippines, Inc.
SENA	Single Entry Approach
SEPO	Senate Economic Planning Office
SEZs	Special Economic Zones
SLEX	South Luzon Expressway
SMEs	Small and Medium Enterprises
SMVs	Schedule of Market Values
SpeED	Project Speedy and Efficient Delivery of Labor Justice
SSS	Social Security System
SWS	Social Weather Stations
TCP	Tourism Convergence Program
TESDA	Technical Education and Skills Development Authority
TFP	Total Factor Productivity
TIN	Tax Identification Number
TVET	Technical Vocational Education and Training
UAE	United Arab Emirates
UISA	Unemployment Insurance Savings Accounts
VAT	Value-Added Tax
VNP	Vulnerable Non-poor
WB	World Bank
WDI	World Development Indicators
WGI	Worldwide Governance Indicators

PREFACE

This Philippine Development Report (PDR) "Creating More and Better Jobs" is produced by the World Bank in consultation with the government, development partners, and other key stakeholders. Its objective is to support the government's goal of attaining more inclusive growth as elaborated in the Philippine Development Plan (PDP) 2011-2016.

The PDP envisions a Philippines with "high growth that is sustained…that massively creates jobs…and reduces poverty." To achieve this goal, the government intends to i) invest heavily in physical infrastructure, ii) improve governance, iii) enhance human development, and iv) accelerate employment generation.

The PDR tells the story of Philippine development 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 could consider to put the country on an irreversible path of inclusive growth and address the jobs challenge.

Vice President	:	Axel van Trotsenburg, EAPVP
Country Director	:	Motoo Konishi, EACPF
Sector Director	:	Sudhir Shetty, EASPR
Lead Economist	:	Rogier van den Brink, EASPR
Task Team Leader	:	Karl Kendrick Chua, EASPP

ACKNOWLEDGEMENTS

The *Philippine Development Report "Creating More and Better Jobs"* is a report prepared by the World Bank Philippine Country Team. The team consists of the following:

From the Poverty Reduction and Economic Management (PREM) Unit: Karl Kendrick Chua (Senior Country Economist and Task Team Leader), Kai Kaiser (Senior Economist), Soonhwa Yi (Senior Economist), Marianne Juco, Joseph Louie Limkin, and Paul Mariano (Research Analysts), William Christophe Ang, Miro Capili, Kevin Cruz, Carlo Domingo, Joy Hernandez, and Anthony Sabarillo, (Research Assistants). Maria Consuelo Sy and Nenette Santero (Program Assistants), and Rose Buenaventura and Ayleen Ang (Team Assistants) provided very valuable logistic and administrative support.

From the Finance and Private Sector Development (PSD) Unit: Nataliya Mylenko (Senior Private Sector Development Specialist).

From the Human Development (HD) Unit: Nazmul Chaudhury (Country Sector Coordinator), and Yuko Okamura and Rashiel Velarde (Economists).

From the Sustainable Development (SD) Unit: Carolina Figueroa-Geron (Lead Rural Development Specialist), Sergiy Zorya (Senior Economist), and Felizardo Virtucio (Operations Officer).

From the Country Management Unit (CMU): Motoky Hayakawa (Governance Specialist).

From the External Relations Team (EXT): Moira Enerva (Communications Specialist), Maria Krizette Hermoso (Program Assistant), Leonora Gonzales (Senior Communications Oficer), David Llorito (Communications Officer), and Sheila Algabre (Consultation facilitator).

The following consultants prepared the background papers: Fernando Aldaba, Rolando Briones, Leonardo Lanzona Jr., Akira Murata, Rene Ofreneo, Rosechin Olfindo, and Gaelle Pierre.

The report was prepared under the general guidance of Rogier van den Brink (Lead Economist), Motoo Konishi (Country Director), and Sudhir Shetty (Sector Director).

The report benefited from comments from the following World Bank peer reviewers: William Maloney (Lead Economist), Dilip Ratha (Lead Economist), Truman Packard (Lead Economist), Luc Christiaensen (Senior Economist), and David Newhouse (Economist).

The report benefited from advice, comments, and views of various stakeholders in the World Bank, the government, business, academe, and civil society. The team is very grateful for their time and inputs.

In particular, the team wishes to thank the officials and staff of the Office of the President, National Economic and Development Authority, Department of Finance, Department of Budget and Management, and Department of Labor and Employment for useful comments on the draft report. Special thanks go to the officials and staff of the National Statistics Office and the Bureau of Labor and Employment Statistics for providing the data needed by the Report.

For questions and comments on the content of this publication, please contact Karl Kendrick Chua (kchua@worldbank.org). Questions from the media can be addressed to David Llorito (dllorito@worldbank.org). For information about the World Bank and its activities in the Philippines, please visit www.worldbank.org/ph.

KEY DEFINITIONS

The report uses the following operational definitions[1]:

Good or better jobs are jobs that increase real wages for wage workers and jobs that move people out of poverty for non-wage workers.

Informal workers are 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). All other workers are considered **formal workers**.

The **informal sector** is broadly defined to include enterprises that fall below the purview of government regulations. Operationally, the informal sector includes the agriculture and informal services sectors.

The **informal services sector** is operationally defined to include the following subsectors: i) wholesale and retail trade, and ii) transportation, communication, and storage (TCS). Skills required in these sub-sectors are predominantly low with the possible exception of professionals working in these sectors. **Low-skilled workers** are operationally defined to include workers who did not graduate from high school.

The **formal services sector** is operationally defined to include the following subsectors: finance, real-estate and other business activities (which include BPOs), public administration, and other personal services.

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.

Unemployment is defined to include workers who are 15 years old and over as of their last birthday, 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.

[1] Operational definitions, while not precise, make computation easier while broadly capturing the magnitude of interest.

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.

Micro firms are firms with less than 10 employees. **Small firms** are firms with 10 to 99 employees. **Medium firms** are firms with 100 to 199 employees. **Large firms** are firms with 200 or more employees.

Table of Contents

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.

Philippine Development Report 2013
Creating More and Better Jobs

Executive Summary

Development challenge	Response of the government
"The most crucial failure of Philippine development strategy lies in its employment record." (Krugman et al. 1992)	*"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)*

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 unemployed[2] (three million) or underemployed[3] (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 force[4] 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 million[7] 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 class[10] 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 Contract[14] with the Filipino people, government, business, and labor, supported by civil society, need to engage in deeper social dialogue[15] 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 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.

S*ocial 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 neded 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 NLRC[21]) 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) 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 *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.*	**Track 2 - Accelerate ongoing reforms** *This track is about moving current reforms faster and giving more focus on existing initiatives and programs.*	**Track 3 - Laying the foundation for the more difficult reforms** *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.*
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

Regularly update the National Household Targeting System for Poverty Reduction (NHTS-PR) Target systematically all social protection programs using NHTS-PR (e.g., rural poor, UHC, and disaster-related support)	of poverty at national level, and triennial estimation at provincial level Institutionalize public works program	
Investment		
Implement the Tourism Roads and Infrastructure Plan (TRIP) network plan Prioritize key constraint infrastructure projects: 1. NLEX-SLEX connector 2. Shift to dual airport system	Complete the TRIP network plan Improve urban commuter system: 1. Increase number of LRT trains 2. Rationalize public bus transport system Implement Metro Manila Flood Master Plan (e.g., modernize pumping stations, weather resilient infrastructure)	Review and revise public investment planning, execution and monitoring process
Public finance		
Implement government financial management information system, including treasury single account Modernize statistics through the new Philippine Statistics Authority	Improve customs administration to control smuggling, including increasing control over special economic zones Strengthen participatory budgeting at LGU level, following principles and lessons learnt through existing Bottom-Up Budgeting and community driven development programs Implement Open Government across all agencies and adopt Open Data platform	Enact fiscal incentives rationalization bill Enact a national surtax on property (see also “land”) Increase excise tax on petroleum Further raise the excise tax of alcohol and tobacco Start comprehensive tax administration reform program to simplify tax processes, especially for MSME

Part I – The Philippine story

Chapter 1 – Introduction and economic growth

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 unemployed[2] (three million) or underemployed[3] (seven million) in 2012, and to around 1.15 million potential entrants to the labor force[4] 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]

---

[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.

[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).

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 million[7] 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.

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.

Strengths and opportunities

7. **The Philippines has a wide range of assets to draw upon for its development.** One of the greatest assets of the Philippines is its people. Government, business, and academia benefit

[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.

from world-class talent. The huge number of overseas workers and migrants — more than 10 million in 2012 or 25 percent of the active labor force — is a demonstration of the competitiveness of Filipino workers in the global market given their skills, English proficiency, and adaptability.

8. **The Philippines is also endowed with an abundance of natural resources.** The country is considered to be one of the world's most biodiverse countries, and has ample opportunities for expanding world-class tourism by leveraging on its rich natural resources. International tourist arrivals grew significantly from around 1.6 million in 1994 to around 4.3 million in 2012. Moreover, around 38 million domestic tourists are benefiting from air transport liberalization that began in the 1990s. In addition, oil, gas, and geothermal energy potential are substantial. Mineral resources cover about 30 percent of total land area.[9]

9. **The Philippines is situated in the most dynamic economic region in the world.** East Asia has grown significantly faster than all other regions over the past four decades. Prior to the 2008-2009 global slowdown, it was growing at its swiftest pace since recovering from the 1997 Asian Financial Crisis. Even during the recent slowdown, it posted the highest growth rate among the world's regions and was largely shielded from the worst effects of the global financial crisis due to reforms that it implemented after the 1997 crisis. Economic growth in developing East Asia is projected to reach 7.8 percent in 2013. Intraregional trade has expanded sharply, supported particularly by strong demand from China. The Philippines has benefited from this growth. Between 2001 and 2011, China's imports from the Philippines grew eightfold, significantly outpacing other East Asian economies, except Mongolia.[10]

10. **In addition, a vibrant private sector is benefiting from structural reforms that the government has embarked on since the 1980s.** These reforms have underpinned current economic growth and continued macroeconomic stability despite weaknesses in the global economy. These include liberalization of key sectors such as air transport, telecommunications, and power in the early 1990s, followed by financial and regulatory reforms in the wake of the 1997 Asian Financial Crisis and by fiscal consolidation in 2005 (see Box 1.1 for more discussion on fiscal reforms). Furthermore, the country has a strong export sector, a more liberal investment regime, growing transportation and communication infrastructure, and there is entrepreneurial and managerial talent that is globally competitive. The country can sustain high growth in globally dynamic sectors such as electronics and business process outsourcing (BPO).[11] Before the recent global economic slowdown, electronics, consisting mainly of semiconductors and electronic data processors, accounted for over 50 percent of merchandise exports. The BPO industry is growing exponentially. The Philippines now ranks as the top destination for voice support and has a strong potential to compete in knowledge-based and higher value-added products in the coming years.

---

[9] The United States Department of State estimates the value of untapped mineral wealth in the Philippines at about USD 840 billion as of 2010 (retrieved from http://www.state.gov/outofdate/bgn/philippines/150354.htm).
[10] Figures were generated using the UN Comtrade database (http://comtrade.un.org/).
[11] See World Bank (2009b) for more discussion.

Box 1.1 Fiscal consolidation in the last decade led to macroeconomic stability[12]

The mid-1990s saw significant improvements in the country's fiscal position. For the first time in decades, the national government achieved a surplus, albeit small, in 1994 and maintained it in the succeeding three years. Higher revenues reaching more than 17.1 percent of GDP in 1997, a record high, enabled the government to reduce its deficit and increase spending to about 17.5 percent of GDP. At the same time, the debt-to-GDP ratio improved from almost 70 percent in the early 1990s to around 48 percent in 1996.

However, tax effort began to decline rapidly in the aftermath of the Asian Financial Crisis. In addition to weak corporate earnings in the years after the crisis, tax policy changes beginning in 1997-98, notably the granting of very generous but often redundant fiscal incentives and a shift to non-indexed specific taxation for excise products, gradually eroded the tax base. Weaker tax administration was also to blame for the fall in tax effort. From its 15.3 percent of GDP peak in 1997, tax effort gradually fell to 11.8 percent of GDP in 2004, the lowest since 1988.

The fall in tax effort translated into rising deficits and debt, and large spending contraction (Figures 1.1 to 1.4). By 2003, the Philippines was at the brink of a fiscal crisis. The consolidated public sector deficit and debt reached almost 5 and 96 percent of GDP, respectively. The debt of the national government was more than five times its revenue and, by 2004, national government interest payments reached 5.1 percent of GDP. Public debt figures reflected not only past deficits but also the calling of numerous contingent claims on government and bailouts of government-owned and/or -controlled corporations. The rising public debt burden generated a number of adverse consequences, such as reduced spending for social services and infrastructure, an adverse impact on investor confidence and private investment, and increased vulnerability to shocks.

Tax administration measures were initiated in the revenue agencies in 2003 and 2004, which slowed but did not stop the decline in tax effort. In 2004, the national government deficit declined, as civil service wages were frozen and transfers to local government units were limited to 2003 levels, reflecting the re-enactment of the 2003 budget in 2004. However, the deficit of the power sector increased sharply, from 0.2 percent of GDP in 2001 to 1.8 percent of GDP in 2004 and was as pressing as the national government deficits.

After the 2004 elections, the government began to address the fiscal crisis seriously. In August 2004, President Arroyo declared a state of fiscal crisis and asked Congress to enact a number of tax policy reforms that included raising excise tax rates on tobacco and alcohol and a Comprehensive Tax Reform Package. This package included, among others, i) removal of exemptions from value-added tax (VAT) on oil, power, medical, and legal services, ii) an increase in corporate income tax from 32 to 35 percent, before reverting to 30 percent in 2009, and iii) authority for the president to increase the VAT rate from 10 to 12 percent in January

[12] The figures in this box use the new GDP series with base year of 2000.

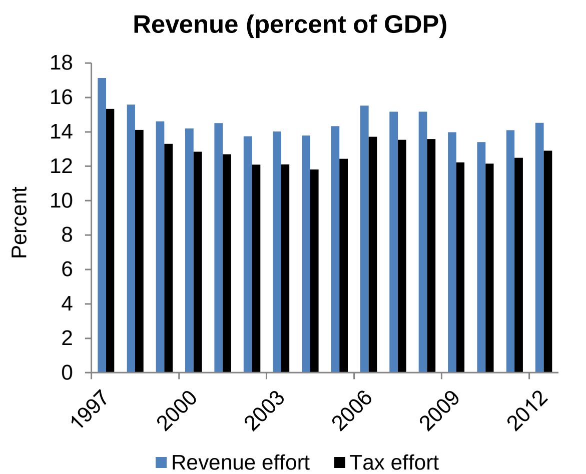
2006 upon satisfaction of certain conditions prescribed by law. Certain excise, franchise, and common carrier taxes were repealed to mitigate the impact of the VAT on retail prices.

The reforms significantly reduced fiscal and macroeconomic vulnerabilities and brought back investor confidence. Primarily as a result of policy reforms, tax effort improved significantly to 13.7 percent of GDP in 2006 from 12.4 percent in 2005. Consequently, the deficit fell to one percent of GDP in 2006 from 2.6 percent the previous year. Interest spreads were halved by 2008 from close to 500 basis points in 2004. Higher tax revenues permitted the government to increase real spending in 2007 for the first time in seven years. The improving fiscal balance, aided by a steep appreciation of the peso, helped trim down the national government debt to 54 percent of GDP by end-2007 and then to 50 percent of GDP in 2011.

However, improvement in the fiscal front was short-lived. In 2007, tax effort fell to 13.5 percent of GDP and marginally improved to 13.6 percent of GDP in 2008. In 2009, permanent tax cuts in the form of higher personal income tax exemption levels, a lower corporate income tax rate, and various exemptions, such as VAT exemption for power transmission and for senior citizens, eroded most of the gains from previous reforms, resulting in a tax effort of 12.1 percent of GDP in 2010. To manage the deficit at around two percent of GDP, the government responded by cutting spending and improving tax administration.

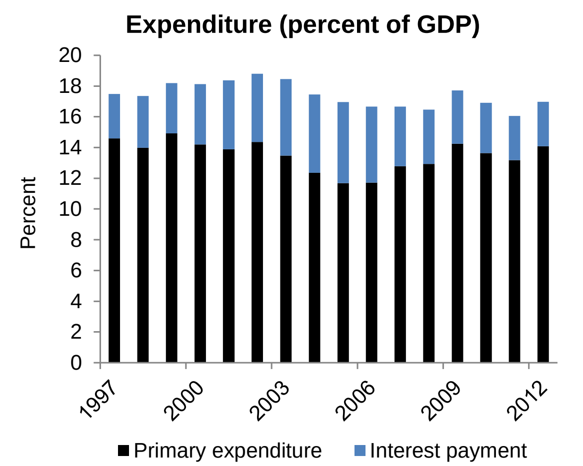
While the reform remains incomplete, given low tax effort, the Arroyo Administration's resolve to put its fiscal house in order was critical in bringing back macroeconomic stability. This reform has continued in the Aquino Administration. With more reforms to increase tax revenues through both policy and administrative measures, the government can better ensure macroeconomic stability and begin to increase spending significantly on infrastructure and social services, in particular education and health, to provide the much-needed public goods and skills upgrading necessary to improve the country's level of competitiveness and create more and better jobs.

Figure 1.1 Although it improved in recent years, tax effort is still lower than in 1997.



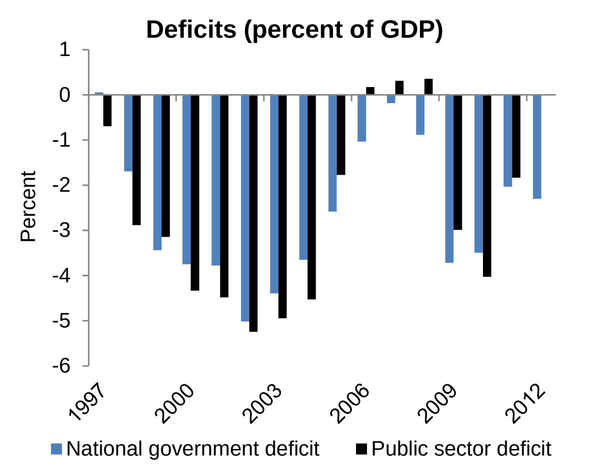
Sources: Bureau of Treasury (BTr), Department of Finance (DOF)

Figure 1.2 Primary expenditures have recovered but still have room for improvement.



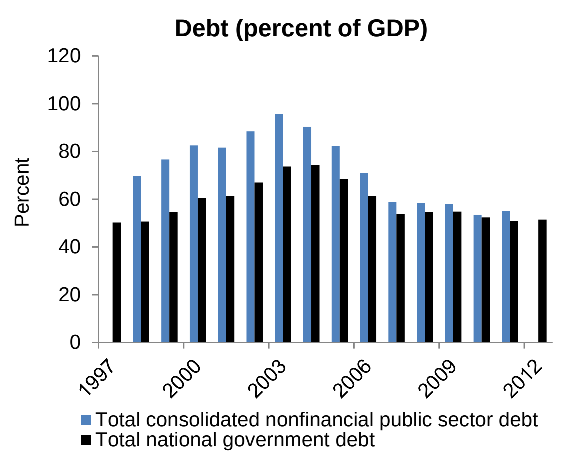
Source: BTr

Figure 1.3 Deficits are now manageable, given increased tax revenues and moderate spending.



Sources: BTr, DOF

Figure 1.4 Debt ratios have fallen with higher growth and fiscal consolidation.



Sources: BTr, DOF
Note: Some annual data are unavailable for 1997 and 2012.

11. **Civil society and the media are actively engaged in promoting good governance.** The level and quality of public debate and journalism is high. Public outcry, as well as civil society initiatives such as Road Watch[13] and Government Watch,[14] have successfully challenged the

[13] Road Watch, or *Bantay* Lansangan, is a civil society project that monitors and advocates reforms in the Philippine road sector. See Affiliated Network for Social Accountability in East Asia and the Pacific (ANSA-EAP) (2010) for more details.

[14] Government Watch (G-Watch) was established in 2000 to help the government improve service delivery by checking reports on corruption and inefficiencies (Leonillo 2010).

public sector and catalyzed reform. The dense network of nongovernmental, civic, and religious organizations, free mass media, and an articulate urban class constitute a potential agent for change that is not readily found in other East Asian societies.

12. **Finally, the country is currently benefiting from political stability and a popular government.** Many see the Aquino administration as committed to improving governance, creating jobs, and reducing poverty. In its first three years, it embarked on several important reforms, notably in public financial management, anti-corruption, and social service delivery. These reforms, together with previous reforms that have brought back macroeconomic stability, have positioned the Philippines well in the international investment arena, as evidenced by recent credit rating upgrades to investment grade and increased private investment commitments.

Weaknesses and challenges

13. **Despite the above strengths, the Philippines has so far not lived up to its potential and is considered a laggard in the region.** Achieving higher growth and creating more and better jobs have been very challenging despite the country's human and physical endowments.[15] From being one of the most promising new republics after the Second World War, with per capita income among the highest in the region, its performance in the six decades that followed fell short of expectations. Philippine growth was consistently among the lowest in the region, and the recent improvements have come from a low base.

14. **Opportunities to raise people's income are limited.** Going forward, there are concerns about the quality of education and healthcare services, and thus the quality of the labor force, as education and health spending have lagged in real per capita terms. Agriculture remains largely backward and unproductive. Manufacturing is stagnant and offers few jobs. Growth of the formal services sector, which includes the fast-growing BPO industry, is being hampered by under-investment in skills and information technology infrastructure. Business and labor regulations are constraining the entry of new firms and expansion of existing firms, thereby limiting job creation. The financial sector is relatively undeveloped and unsophisticated and has not served as a major conduit for more investment and entrepreneurship.[16] While tourism is growing, the price-quality mix is below those of its regional peers and is not benefiting the poor as much as it benefits the rich.[17] Its natural resources are largely untapped because of an uncertain policy environment and inadequate infrastructure.[18]

15. **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 skills shortages (quality-adjusted) in some occupations, such as engineers and nurses. Huge remittance inflows

[15] See World Bank (2009b) for more discussion.
[16] See World Bank (2011b) for more discussion.
[17] See World Bank (2011b) for more discussion.
[18] See Joint Foreign Chambers of the Philippines (2010) for more discussion.

have caused a Dutch Disease, driving up the real exchange rate and making manufacturing exports less competitive.[19]

16. **Currently, macroeconomic instability, the foremost concern of investors in previous decades, is no longer the biggest constraint on investment.** Major fiscal adjustments in 2005, such as the VAT reform, aided by abundant global liquidity, helped reduce public deficits and debt significantly. This averted an impending fiscal crisis in 2005 and restored macroeconomic stability. The stock market, the peso, and international reserves all responded and rose significantly, as did foreign direct investment and portfolio inflows. Interest costs and spreads for government borrowing fell along with inflation. In the first half of 2013, the country's sovereign credit rating was upgraded by Fitch Ratings and Standard & Poor's to investment grade — a testament to the country's strong macroeconomic fundamentals.

17. **With macroeconomic stability back, the challenge ahead is to shift the country's current growth pattern**. The current growth pattern, characterized by weak manufacturing and investment, holds very little promise of higher and sustained growth in the decades to come.[20] Moreover, growth driven by the BPO industry and overseas workers' income remittances has largely benefited the upper deciles of workers. To achieve higher and sustained growth, the economy needs to shift away from consumption toward more investment, both public and private. Sectorally, the economy needs to depend less on services and more on labor-intensive manufacturing and profitable agriculture to improve the welfare of the poor.

18. **This report argues that the country's strengths and opportunities outweigh its weaknesses and challenges, but only if the country seizes the current window of opportunity to work together and implement reforms needed to improve competitiveness, create more and better jobs, and reduce poverty.** This pattern of economic growth, which is broad-based, creates jobs for all, and reduces poverty, is called "inclusive growth." Sustaining it will require deeper structural reforms to i) enhance competition in the economy, in particular agriculture and manufacturing, ii) reduce the cost of doing business, and iii) secure property rights. To complement these reforms, increasing public revenues and improving public financial management are needed to sustainably finance more spending on infrastructure, education, and healthcare.

Lagging economic growth

19. **One of the main reasons for the Philippines' subpar performance on inclusive growth, when compared to the region, is its overall lower growth record.** Between 1960 and 2012, the country's average growth of 4.1 percent was lower than its East Asian peers, which saw growth of around 6.5 percent. In per capita terms, Philippine growth underperformed even more: 1.5

[19] See de Dios et al. (2007) for more discussion on the Philippine Dutch Disease. See Chami et al. (2003) for a discussion on the negative effect of remittances on growth.
[20] See World Bank (2009b) for more discussion.

percent compared to 5.6 percent in other East Asian economies (Table 1.1). This is partly explained by the country's much higher population growth rate of around 2.7 percent from 1960 to 2010.

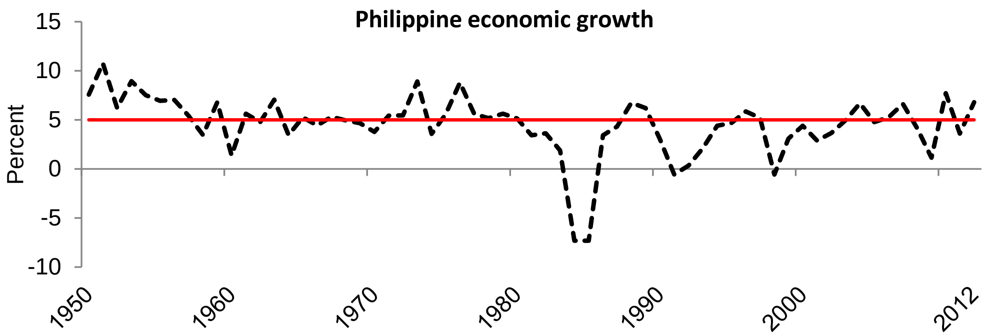
20. **Since its postwar recovery, the Philippines has had difficulty in sustaining growth at above five percent (2.3 percent in per capita terms) for at least five years in a row.** Only two such episodes are recorded, one between 1950 and 1957 and the other between 1975 and 1980 (Figure 1.5). Growth in the first episode was driven by manufacturing based on import substitution, while the second episode was driven by debt-financed investment. Both growth strategies, however, proved to be unsustainable. Though the country tried to develop its manufacturing sector, its inward-looking strategy geared toward the small domestic market did not sustain growth. The debt-financed growth episode culminated in the country's worst debt crisis in 1983.

Table 1.1 GDP per capita growth rates (decade average)

Country	1960s	1970s	1980s	1990s	2000s	2010 - 2011	Average
Philippines	1.8	2.8	-0.7	0.4	2.5	4.0	1.5
Indonesia	1.2	5.2	4.2	3.3	3.8	5.2	3.6
South Korea	5.6	6.3	6.4	5.2	3.9	4.4	5.5
Malaysia	3.5	5.2	3.0	4.5	2.7	4.5	3.8
Thailand	4.6	4.8	5.3	4.2	3.1	3.3	4.3
Vietnam	NA	NA	2.1	5.6	6.0	5.2	5.1
China	0.9	5.3	8.2	8.8	9.6	9.3	6.8
East Asia & Pacific (developing only)	1.6	5.0	5.9	6.8	8.0	8.2	5.6
East Asia & Pacific (all income levels)	6.9	3.0	2.8	1.9	2.7	4.3	3.4
World	3.6	2.1	1.2	1.2	1.3	2.3	1.9

Sources: World Development Indicators (WDI)
Note: Data series in 1960s starts in 1961.Data for Vietnam starts in 1985.

Figure 1.5 Philippine economic growth was seldom sustained at above five percent.

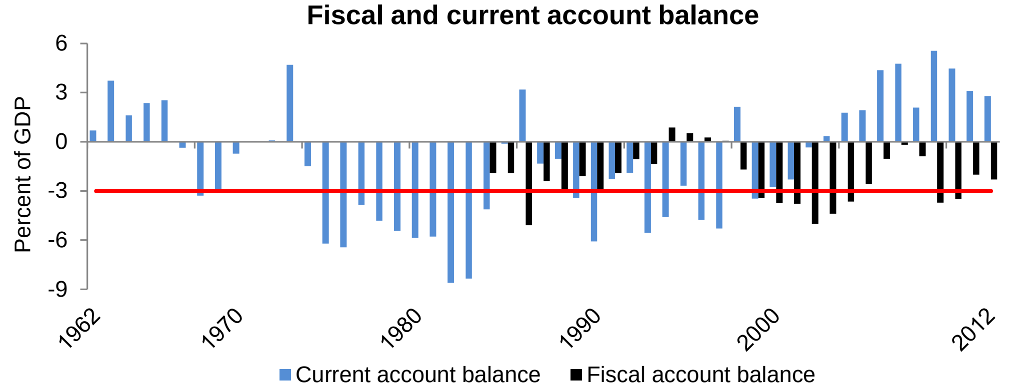


Source: National Statistical Coordination Board (NSCB)
Note: The red line indicates 5-percent growth.

21. **Lack of export growth, an overvalued exchange rate,[21] and a perennially low tax effort repeatedly resulted in unsustainable balance of payments (BOP) and fiscal deficits that derailed growth** (Figure 1.6). Between 1946 and 1985, one fiscal and three BOP crises undermined sustained economic growth. The country's worst economic crisis during this period, the 1983-85 external debt crisis, pushed the economy into two years of deep recession. Real GDP growth fell by more than seven percent in 1984 and 1985, and real per capita income fell dramatically by 23 percent from around PHP 48,400 in 1983 to PHP 39,700 in 1985, a level last seen in 1975. With slower growth in the succeeding years, it took the country 20 years to regain its 1983 real income level (Figure 1.7). In the case of Thailand and Indonesia, both recovered within six years following the Asian Financial Crisis (their only major crisis), given their much stronger economies.

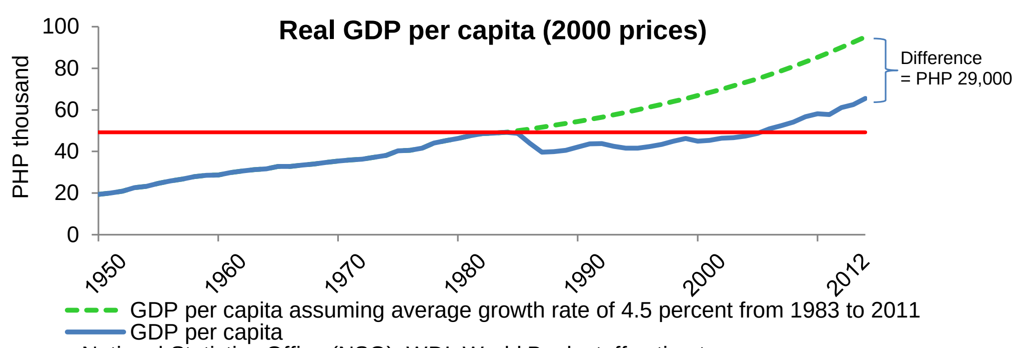
[21] The historical overvaluation of the peso was a manifestation of protectionist policies that favored import substitution over the development of export agriculture and manufacturing. It was also a key reason for the country's poor growth record. In the 1990s, the peso moved to a managed-float regime, with interventions limited to smoothing out volatility. The appreciation of the peso since 2005 largely reflects the large inflows of remittances (equivalent to about 10 percent of GDP). This is currently causing a Dutch Disease problem.

Figure 1.6 Fiscal and current account deficits were recurring occurrences in the Philippines.



Sources: WDI, Department of Budget and Management (DBM)
Notes: The red line is at -3 percent. Current account balance and fiscal account balance have a series break in 1977 and in 1990, respectively.

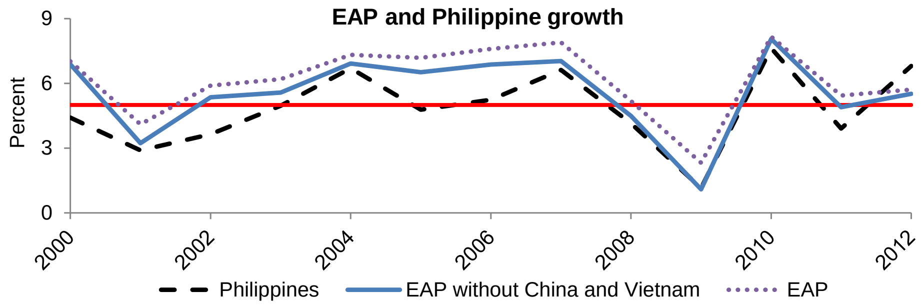
Figure 1.7 Slower growth in real GDP translated to slower increase in real GDP per capita.



Sources: National Statistics Office (NSO), WDI, World Bank staff estimates
Note: The red line indicates the level of real GDP per capita in 1982, the year before the crisis.

22. **In the last decade, Philippine economic performance improved.** Between 2003 and 2007, real GDP grew by at least 4.9 percent annually, marking the first time in more than two decades that the economy grew close to five percent for five consecutive years. Notwithstanding this improvement, Philippine economic growth is still noticeably lower than in other developing East Asian economies, which grew by an average of about eight percent in the same period (Table 1.1 and Figure 1.8). Thailand and Indonesia, which were badly hit by the 1997 crisis, had recovered by the year 2000 and were growing above five percent in the years before the 2008 slowdown. China grew by an average of nine percent per year in the last three decades.

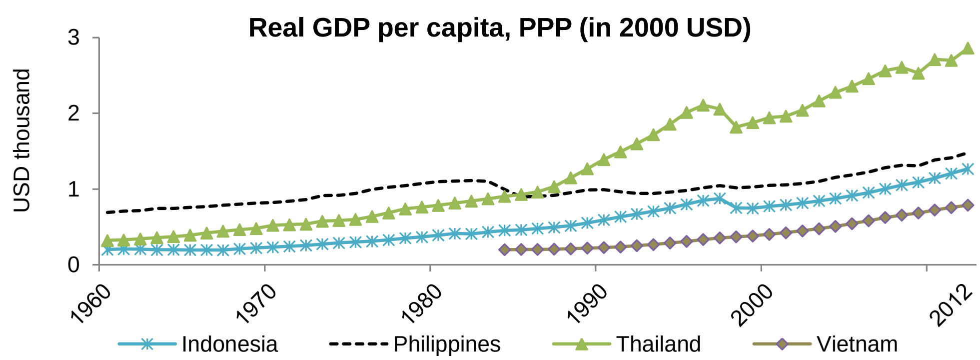
Figure 1.8 In the last decade, Philippine growth accelerated but it still lagged behind East Asia, not including China and Vietnam.



Source: WDI, East Asia and Pacific (EAP) Economic Update April 2013
Note: The red line indicates 5-percent growth.

23. **As a result of the country's weak growth record, per capita income has lagged.** The Philippines, once richer in per capita income terms than China, Thailand, Malaysia, Indonesia, and Vietnam, has been overtaken by a wide margin by the first three countries, is currently at par with Indonesia, and is likely to be overtaken by Vietnam in the next three years if growth (in per capita PPP terms) trends continue (Figure 1.9). To catch up with its fast-growing neighbors, the Philippines would need to sustain its current growth trend for at least two decades in order to double its historical per capita growth rate to 2.8 percent and reduce the number of years needed to double real per capita income from 50 to 25 years.

Figure 1.9 Philippine real GDP per capita trails behind its high-performing neighbors.



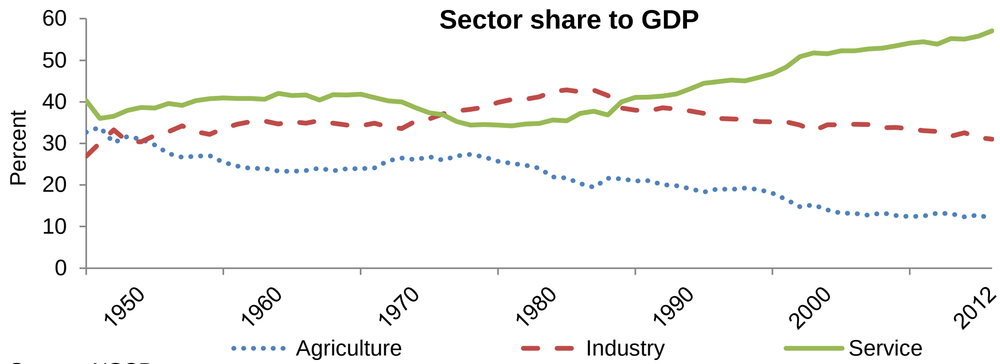
Source: WDI

24. **By the end of the 20th century, the Philippine economy had transformed itself into a services-driven economy** (Figure 1.10). Except for a few export-oriented crops, the agriculture sector had largely remained backward and unproductive. Over the past six decades, its share of GDP fell from 30 percent to less than 10 percent. The share of manufacturing to GDP peaked at 30 percent in the early 1970s and gradually declined to about 20 percent of GDP in 2012 (Figure 1.11).[22] In place of agriculture and manufacturing, the services sector has dominated growth

[22]Between 1970 and 1983, the industry sector appeared to be taking off. Its share to GDP increased from about 32 to 39 percent. However, a closer inspection of the subsectors in industry reveals that this take-off was driven by

since 1985. In 1998, its share to GDP breached the 50-percent mark, and it continues to grow toward 60 percent of GDP. The great majority of services, however, consist of activities with low productivity.

Figure 1.10 The services sector has become the main driver of the economy since 1985.



Source: NSCB

Lack of structural transformation

25. **At first glance, the Philippines' pattern of growth seems akin to the normal pattern of structural transformation:** a first phase in which manufacturing grows, replacing agriculture as the dominant sector, followed by a second phase in which the services sector takes over as the engine of growth.

26. **However, this report argues that the Philippines' seemingly normal growth pattern is actually far from normal.** This is because more than 80 percent of services sector employment is comprised of informal or low-skilled workers[23] rather than well-paid and high-skilled workers. In addition, the informal services sector[24] contributes only about 20 percent to GDP (Figure 1.12). The picture that emerges is of a labor force that escapes an unproductive agricultural sector in depressed rural areas and looks for better-paying jobs in urban areas, only to find that such jobs are nonexistent. This unemployed and underemployed labor force then ends up in self-employment or informal employment in low-income services.

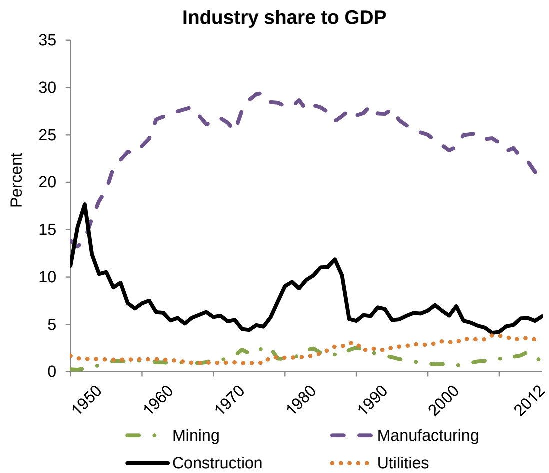
---

construction and not by manufacturing (Figure 1.11). In the 1970s, the Marcos administration embarked on a massive infrastructure program, mostly funded by foreign borrowings. While this significantly improved connectivity across regions, its impact on manufacturing was limited. In fact, during the same period, the share of manufacturing to GDP began to fall.

[23] Low-skilled workers are operationally defined to include workers who did not graduate from high school.

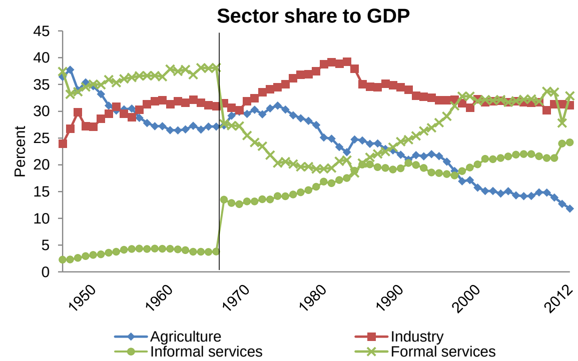
[24] The informal services sector is operationally defined to include the following subsectors: i) wholesale and retail trade, and ii) transportation, communication, and storage (TCS). Around 85 percent of TCS workers work in the informal TCS sector, which excludes the whole communications sub-sector, corporate executives, general managers who finished at least high school, supervisors, physicists, engineers, and other professionals. The informal services sector accounts for over half of services sector employment.

Figure 1.11 Manufacturing has been declining since the 1970s.



Source: NSCB

Figure 1.12 A large portion of services value-added comes from the informal subsectors.



Source: NSCB

Notes: Informal services is operationally defined to include the following subsectors: i) wholesale and retail trade, and ii) transportation, communication, and storage (TCS). Formal services include i) finance, ii) other dwellings & real estate, iii) private services, and iv) government services. Comparison of informal and formal services share to GDP in 1946-1966 cannot be linked to 1967-2010 because trade was lumped with finance during the former period. Figures are based on the 1985 GDP series because data on services sector breakdown are unavailable in the 2000 GDP series.

27. **Many studies and observers have argued that this anomalous pattern is the result of policy distortions that have stunted the growth of agriculture and manufacturing.**[25] These include, first, a failure to complete the agrarian reform process and to liberalize key agricultural markets while investing in agricultural research and extension, more narrowly, and rural development, more broadly; second, the continued pursuit of protectionist policies in agriculture and manufacturing, even after it became clear that these were not generating growth, causing a seminal decline in the competitiveness of Philippine agriculture and manufacturing; and third, a failure to mobilize sufficient revenues to finance the necessary investment in human and physical capital needed to support a normal structural transformation process. The combined impact of these policy failures is an economy which has failed to produce the quantity and quality of jobs necessary to reduce poverty. In other words, it has failed to create a more inclusive growth pattern.

28. **The key to breaking this pattern is to pursue an economic reform agenda that both completes the agricultural development phase and supports a revival of labor-intensive manufacturing for exports.** This strategy is doubly challenging. Not only does it collapse two phases into one but also — given the existing high domestic wage levels, the competitive global environment, and global technological change that makes manufacturing less labor-intensive — Philippine laborers are unlikely to be able to enter export manufacturing at the low-wage end.[26] Manufacturing exports will need to grow at somewhat higher levels of value-added. For instance, given high statutory minimum wages, labor-intensive and low-cost garment exports will not be profitable, but higher-value added garments exports that require higher skills (e.g.,

[25] See, for instance, Balisacan and Hill (2003b) for a more in-depth discussion of the policy distortions in the Philippines.
[26] See, for example, Rodrik (2012) on why technological change has made it harder for developing countries to expand their manufacturing sectors.

artistic and intricate designs) might be able to enter the international niche markets profitably. Similarly, with adequate investment in infrastructure and skills, the Philippines can move up the value-chain in electronics manufacturing and BPO and other IT-enabled services.

The reasons for economic underperformance

29. **The first major reason for the country's economic underperformance stems from the low levels of investment in human and physical capital alongside the lack of technological change**. A simple growth decomposition analysis covering the period 1961 to 2000 shows that the contribution of physical capital to Philippine growth is only 0.9 percentage point (ppt) compared to an average of 2.4 ppt in East Asia (Table 1.2). The contribution of human capital at 0.4 ppt is comparable to the regional average of 0.5 ppt but this figure does not capture large differences in the quality of the labor force.

Table 1.2 Total factor productivity (TFP) of East Asian countries

	Growth in output per worker	Contribution to growth of		
		Physical capital	Human capital	TFP
Philippines	1.0	0.9	0.4	-0.3
East Asia	4.4	2.4	0.5	1.4
China	4.8	1.7	0.4	2.6
Indonesia	3.0	1.8	0.5	0.6
Korea	4.8	2.8	0.7	1.2
Malaysia	3.6	2.2	0.6	0.8
Singapore	5.0	3.0	0.5	1.5
Taiwan	5.8	3.0	0.6	2.1
Thailand	4.1	2.5	0.4	1.2

Source: World Bank (WB) staff estimates using data from 1961 to 2000

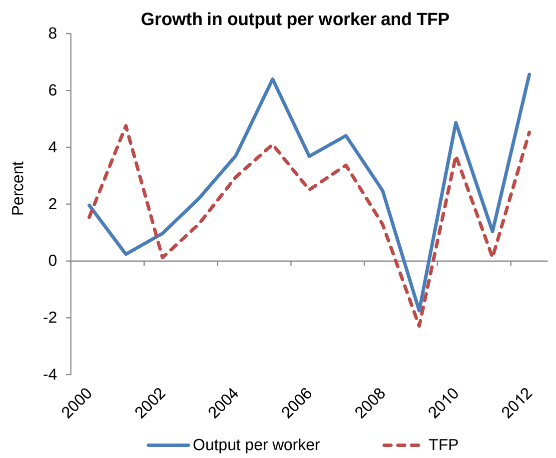
30. **More glaringly, the Philippines is the only country in the region where total factor productivity (TFP) contributed negatively to growth.**[27] Compared with the East Asian average of 1.4 ppt, the average contribution of TFP to growth was -0.3 ppt from 1961 and 2000. This negative contribution can be explained by the Philippines' inward-looking strategy from the 1950s to the 1970s and the lack of foreign direct investments in the succeeding decades, which would have been a source of technological and institutional change. The negative TFP trend was reversed in the past decade but it still lagged behind real output per worker growth in all years except in 2001 (Figure 1.13).

31. **In the past four decades, the overall investment trend was largely stagnant or falling.** From close to 30 percent of GDP in the 1970s, investments declined to about 20 percent of GDP in 2012 (Figure 1.14). Both durable equipment and construction saw significant declines. The

[27] TFP is a measure of technological and institutional change.

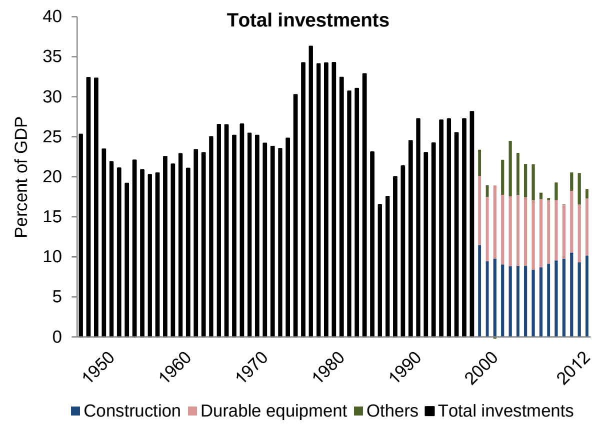
country's historically weak investment climate as manifested by its unstable macro-economy, governance weaknesses, and lack of infrastructure, explains this low level of investment.[28]

Figure 1.13 Philippine TFP growth has been lower than output-per-worker growth.



Source: NSCB, WB staff estimates

Figure 1.14 Investments declined and are slow to pick up.



Source: WB staff estimates using NSCB data
Note: "Others" include breeding stock and orchard development, changes in inventories, and intellectual property products.
Breakdown of investments prior to 1998 is not available in the revised series.

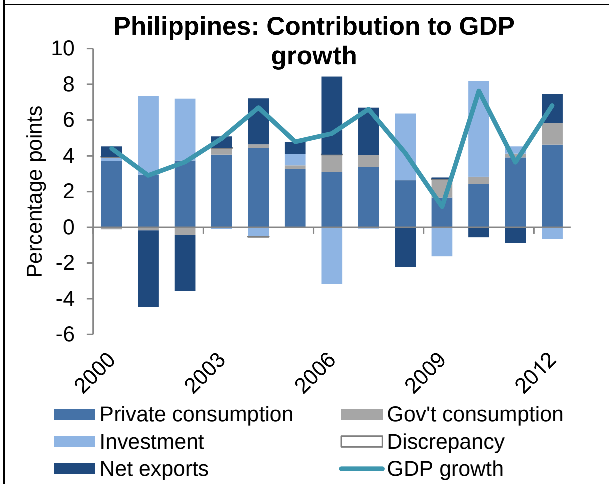
32. **In the public sector, low tax effort and weak public investment management limited national government spending on infrastructure to an average of less than two percent of GDP annually.** This in turn made the country far less competitive. In addition, public investment was unevenly distributed and was biased against rural areas and lagging regions.[29] The country's dire state of infrastructure was a major reason why it was bypassed in the late 1980s by large Japanese firms relocating outside Japan following the Plaza and Louvre Accords.[30] Even now, Philippine power rates are among the highest in the region and are a major constraint for capital-intensive manufacturing firms, many of which are exporters. In response, the government had to subsidize power rates in export processing zones. Weak transport infrastructure and high cost of cargo handling and shipping have translated into high logistics costs, further making the country less competitive.[31]

33. **Instead of investment, growth was driven by consumption** (Figure 1.15)**.** Household consumption typically exceeded 70 percent of GDP (Figure 1.16). More than 40 percent of household consumption was spent on food, eight percent on transport and only four and three

[28] The structural shift of the economy towards services over the past 15 years has reduced the need for acquiring durable equipment. However, other components of investment, in particular construction spending, have not increased as much despite lower borrowing costs, improved macroeconomic fundamentals, and the large infrastructure gap.
[29] See World Bank (2011c) for more discussion.
[30] In the 1985 Plaza Accord, the United States, Japan, West Germany, the United Kingdom, and France agreed to depreciate the US dollar against the Japanese yen. Concerns about the overvalued yen, which appreciated by more than 20 percent, led to the 1987 Louvre Accord, which reversed the Plaza Accord.
[31] See Joint Foreign Chambers of the Philippines (2010) for more discussion.

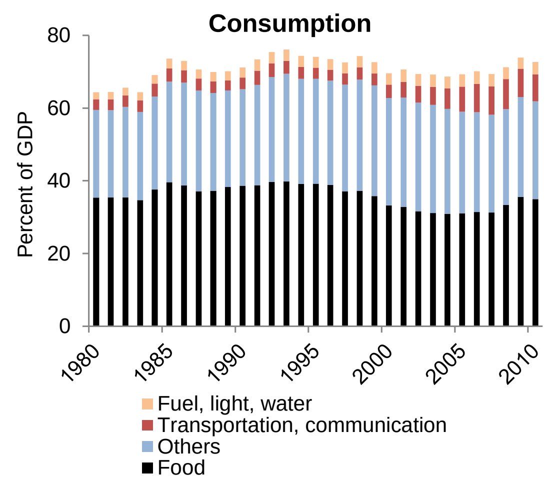
percent on education and healthcare, respectively. Government consumption accounted for 10 percent of GDP but more than two-thirds of it was earmarked for nondiscretionary spending, such as salaries and interest payments, leaving only a small amount for social services and infrastructure. Since 2005, strong remittance inflows reaching 10 percent of GDP (Figure 1.17) have fueled household consumption growth to as high as seven percent. The share of remittances going to investment, however, went up only recently.

Figure 1.15 Economic growth has been driven by consumption spending.



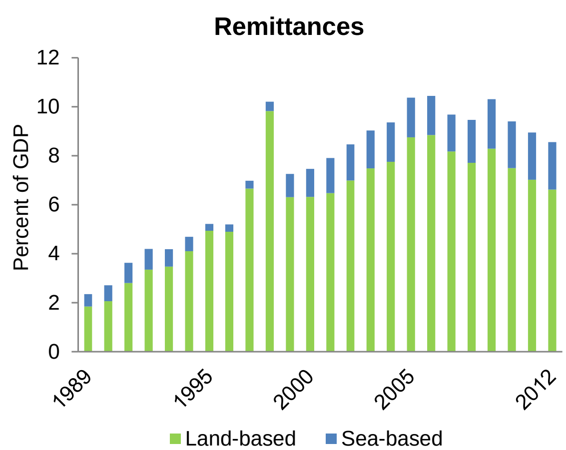
Source: NSCB, WB staff estimates

Figure 1.16 Consumption spending in turn is driven by food spending given low average household income.



Source: NSCB

Figure 1.17 Strong remittance inflows have sustained consumption spending and hence growth.



Source: Bangko Sentral ng Pilipinas (BSP)

34. **Another area of underinvestment is education.** As mandated by the 1987 Constitution, the biggest share of the national government budget goes to basic education. However, because of perennially low revenues, the level of basic education spending was much lower

than in neighboring countries. Thailand, Malaysia, and Indonesia spent seven, five, and one percent of GDP more than the Philippines did, respectively. In real per-student terms, the country's spending on basic education was either stagnant or declining, as school-age population grew more rapidly than the resources available for education. Using 2000 prices, this amounted to only around PHP 5,500 (USD 110) per student per year.[32] Overall, public schools need more teachers (by 132,564), classrooms (by 97,130), toilets (by 163,008), and educational materials.[33]

35. **Apart from the low level of spending, the quality of education is also an issue.** Before 2013, the Philippines fell behind almost all countries in the world in terms of the number of years of basic education — 10 years as compared to 12 years in almost all other countries.[34] The average achievement level remained poor for mathematics and science. The average test score of Filipino eighth graders was 378 in mathematics as against the average of 466 in participating countries in the 2003 Trends in International Math and Science Study, and 377 in science as against the international average of 473. Among eighth graders, while enrollment is a high of 91 percent of all 14-year-olds, less than 40 percent have some knowledge of whole numbers, decimals, operations, and basic graphs, compared with 50 percent in Indonesia, 70 percent in Thailand, and 80 percent in Malaysia.[35] The quality of tertiary and vocational education is also an issue.[36] Many colleges and universities continue to fall below international standards, and many of their students are not prepared for skilled work as evidenced by low passing rates in professional examinations and low acceptance rates in several industries, such as BPOs.

36. **A second major reason for the country's lackluster growth record is the weak performance of its agriculture and manufacturing sectors.** This is rooted in the lack of market competition, policy distortions, and underinvestment.[37] While some competition has been promoted in the services sector (see Box 1.2 for an overview), large segments of the economy are still protected and the general public pays for this in terms of higher prices, lower real wages, and lack of gainful employment.

---

[32] This low level of per capita spending also reflects the country's fast-growing population, which makes it very hard for public resources to catch up. With education and health services spread too thinly, many poor but deserving Filipino students are deprived of the skills necessary to make them globally competitive.

[33] These figures are based on Department of Education (DepEd) data as cited in World Bank (2011a).

[34] Most Filipinos are graduates of the 10-year public education system and are not fully prepared for higher education. To bridge this gap, tertiary schools have to offer additional courses in basic subjects such as Math and English. The consequence of this is that many college students have less time to concentrate on their majors, making them less prepared for high-skill jobs and less competitive compared to their peers in other countries.

[35] Sources include the United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute of Statistics, World Bank Edstats, and Mullis et al. (2008).

[36] Apart from getting a small budget, vocational schooling is generally a less regarded and less preferred mode of education, as many perceive it to be of lesser quality and prestige compared to a college degree. There is therefore a bias toward getting a college degree as against getting a vocational degree. This inherent bias is one reason why the country has been unable to meet industry demand for technical jobs.

[37] Part II of the report elaborates on these issues. See Balisacan and Hill (2003b) and Sicat (2002) for more discussion.

Box 1.2 Unleashing growth by increasing competition

In the past, economic policies largely favored a small elite group, which limited market competition, raised prices, and reduced investment and employment. The agriculture, manufacturing, utility, and transport sectors were all controlled by monopolies or oligopolies at varying points in history.[38] Goods and services in these sectors commanded higher prices and were often provided at lower quality, while their output was reduced from what it could have been had there been more competition. In telecommunications, for example, people in the 1980s waited for up to a decade to get a phone line.[39]

However, during the first Aquino (1986 to 1992) and Ramos (1992 to 1998) Administrations, several industries were opened up for competition (e.g., the financial, air transport, oil, power, and telecommunications industries). Growth and job creation which followed their liberalization demonstrated the economic potential that the monopolies and oligopolies had previously suppressed. Without these key reforms, higher economic growth and strong job creation in some industries since 2000 would have been difficult to achieve. Part III of this report makes the case for implementing the remaining liberalization reform agenda to help create more and better jobs.

37. **Agriculture failed to modernize and diversify.** This was the result of low public and private investments, protectionist policies such as the rice self-sufficiency policy, and distortions in institutions that prevented broad and secure access to land by small landholders. The latter is evident in high rates of landlessness, which have not been brought down substantially by decades of agrarian reform. Quite ironically, the program has created significant uncertainty among beneficiary smallholders, as well as large farmers, whose lands are potential targets for redistribution. Insecure property rights have undermined private investment incentives and, combined with low public investment, have reduced agricultural productivity and increased food prices.[40] High prices of food and agriculture inputs (e.g., sugar) led to high statutory minimum wages and production costs in downstream agribusiness, manufacturing, and services, unnecessarily raising the cost of living, reducing employment, and dampening real income.

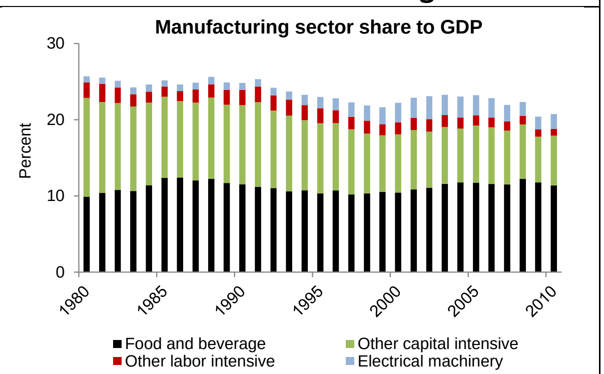
38. **The manufacturing sector stagnated or declined** (Figure 1.18). Since the 1930s, protectionist policies, such as an overvalued peso and high tariff walls, preferential lending, a generous tax incentives regime, and uncompetitive practices combined with low infrastructure investments and a small consumer base, contributed to the decline of Philippine manufacturing.

[38] See de Dios and Hutchcroft (2003) for more discussion.
[39] See Joint Foreign Chambers of the Philippines (2010) for more discussion.
[40] For example, Philippine rice is about twice as expensive compared to Thailand. The government's previous monopoly on the importation of rice, and the imposition of quantitative import restrictions derived from this monopoly, have raised food prices, thereby hurting the urban poor and harming net rice consumers in the rural areas, many of whom are poor farmers (ironically the group which the government ostensibly sought to protect).

With the exception of food manufacturing and electronics (mostly assembly of imported parts), which grew significantly between 2000 and 2008,[41] the rest of the manufacturing subsectors either stagnated or declined. Given its focus on parts assembly, even electronics made little contribution to total value-added (around 10 percent of exports revenues despite taking up more than 50 percent of merchandise exports). About 50 percent of manufacturing value-added came from the food and beverage industries, which accounted for some 50 percent of manufacturing value-added. Growth in these industries was largely driven by population growth. Other capital-intensive industries, such as petroleum and chemicals, accounted for 30 percent of manufacturing value-added. Labor-intensive manufacturing (such as garments, footwear, and furniture) continued to decline and accounted for only some six percent of manufacturing value-added and less than 10 percent of merchandise exports. Consequently, with a weak manufacturing sector, excess agriculture workers were absorbed in the low-skill services sector, which now accounts for some 50 percent of jobs in the services sector.

39. **The ultimate consequence of these investment and policy deficits is the country's underdevelopment, which is most evident in its weak employment record.** Chapter 2 gives an overview of the Philippine labor market, which is characterized by high unemployment and underemployment, low real income, and high degrees of informality.

Figure 1.18 The manufacturing sector has been driven by food and capital-intensive industries. Labor-intensive manufacturing constitutes a small and declining share.



Source: NSCB
Notes: "Other capital intensive" refers to tobacco, textiles, wood & cork, paper, publishing & printing, rubber, chemicals, petroleum & oil, basic metals, metals, machinery except electrical, non-metallic minerals, transport equipment, and miscellaneous manufactures.
"Other labor intensive" refers to footwear & wearing apparel, furniture & fixtures, and leather.

[41] Much of the growth in electronics, which is capital-intensive, happened in a period when the peso was not overvalued (in fact, undervalued because of fiscal and political tensions). The minimum wage is hardly binding in this industry, where most workers have college or vocational degrees and receive higher than minimum wage pay. However, the industry's competitiveness is being eroded by rising formal sector wages (pushed up by minimum wages) and by a stronger peso. Tax incentives and power cost discounts also explain its seeming competitiveness.

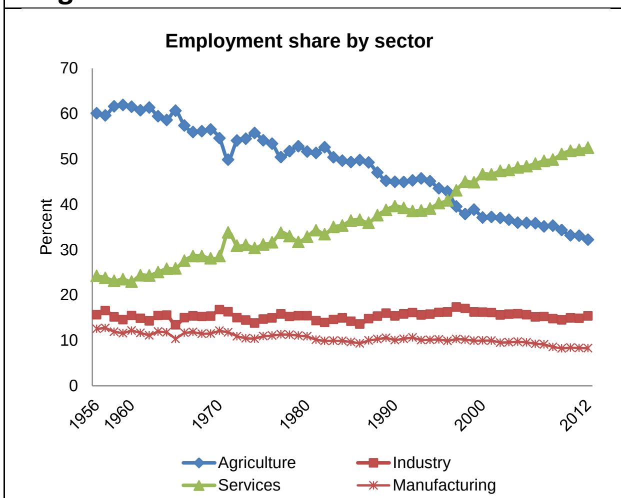
Chapter 2 - Employment

Sectoral patterns of employment

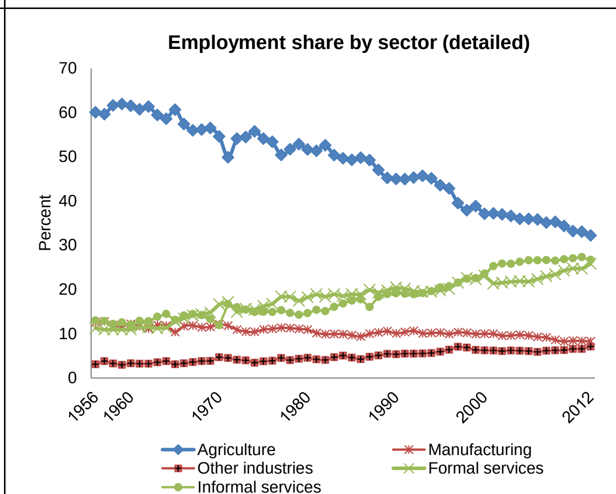
40. **Since the 1970s, employment has been moving from agriculture to services.** The employment shares of agriculture and industry have been declining since the 1970s, with the balance being absorbed by services, the catch-basin of excess labor supply (Figure 2.1). In 2012, agriculture and industry accounted for some 33 and 15 percent of employment, respectively. On the other hand, the share of employment in services has been rising since 1970 and the sector overtook agriculture in 1997 to become the economy's largest employer. It now comprises about 52 percent of total employment compared to 43 percent in 1997, and around 30 percent in 1970.

41. **The informal services sector[42] comprises the bulk of services employment.** Jobs in informal services are low-wage and low-skill in nature, and include informal retailers and public transportation operators. If agriculture employment, which is generally characterized as low-wage and low-skill, is added to informal services employment, then about 60 percent of employment in the Philippines is low-wage and low-skill (Figure 2.2).

Figure 2.1 Employment has shifted from agriculture to services, as industry remains stagnant.	Figure 2.2 Majority of workers are in agriculture and informal services sector.



Source: Labor Force Survey (LFS)



Source: LFS

42. **Within the industry sector, manufacturing's share to total employment has been declining** (Figure 2.3). Manufacturing employment seldom exceeded three million jobs (or a mere eight percent of employment), a number that has hardly changed in the past 15 years**.** In 2011, the bulk of manufacturing employment was found in five industries: food and beverage

[42] The informal services sector is operationally defined to include the following subsectors: i) wholesale and retail trade, and ii) transportation, communication, and storage (TCS).

(2.1 percent of total employment), electronics (1.2 percent), wearing apparel (1.1 percent), wood and wood products (1 percent), and textiles (0.4 percent) (Figure 2.4). Manufacturing is concentrated in only three regions: the National Capital Region (NCR) and the adjacent regions of Central Luzon and Calabarzon. However, none of these regions have manufacturing employment that accounts for more than 17 percent of total regional employment.

Figure 2.3 Manufacturing employment continues to decline.

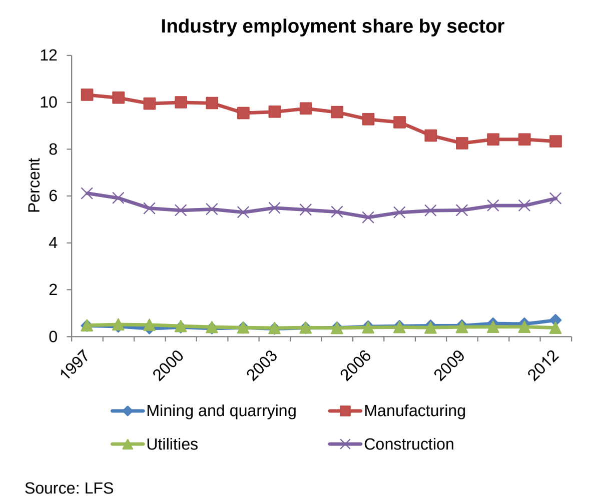
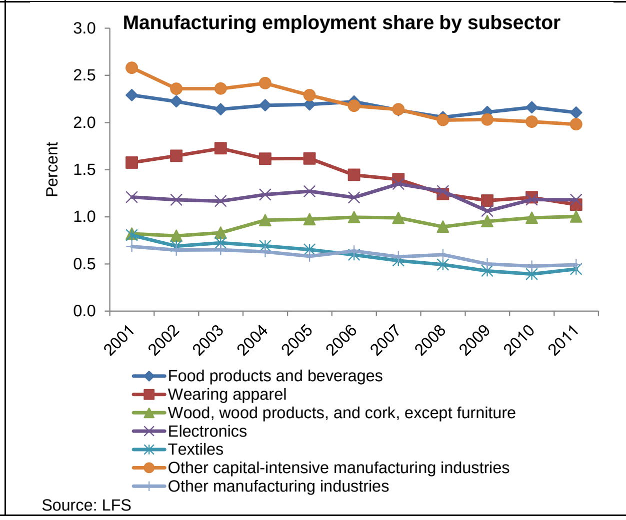


Figure 2.4 Within manufacturing, labor-intensive industries have been seeing faster declines.



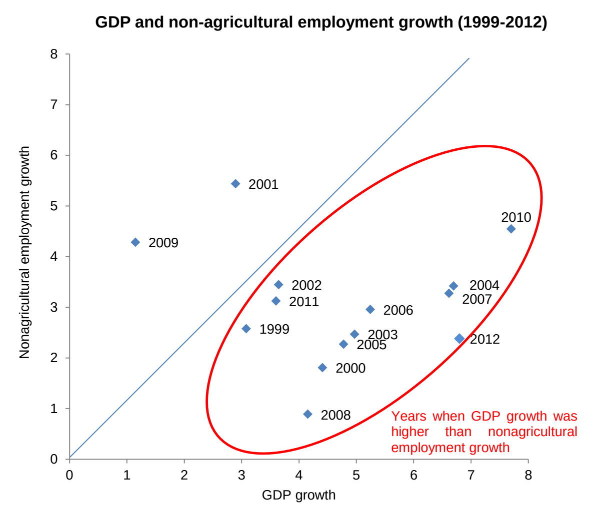
Slow job creation

43. **Although GDP growth was higher in the past decade, employment did not grow commensurately.** Non-agricultural employment growth was lower than GDP growth in all years from 1999 to 2012, except in 2001 and 2009 (Figure 2.5). In the manufacturing sector, positive sector growth was sometimes accompanied by a contraction in employment. This "jobless growth" phenomenon is observed in four out of 14 years, from 1999 to 2012 (Figure 2.6) and can be explained by either a shift in inputs from labor to capital, given the lower relative price of capital, or by reluctance of businesses to expand even when the economy has recovered from a slowdown, given the high cost of doing business and concerns about the investment climate. Displaced manufacturing workers were largely absorbed in the informal services sector, mostly as micro-entrepreneurs, or have temporarily left the labor force.

44. **Across most sectors, employment growth was largely inelastic to GDP growth.** Between 1956 and 1996, the elasticity of employment to GDP growth ranged from 0.59 to 0.82 (Table 2.1). Between 1997 and 2010, the elasticity was even lower at 0.54. This broadly indicates that a 10-percent growth in real GDP results in only a 5.4-percent growth in employment. In agriculture and industry, the elasticity was even lower at around 0.3. Manufacturing had the lowest elasticity at 0.18 (Table 2.2). It also had the lowest average

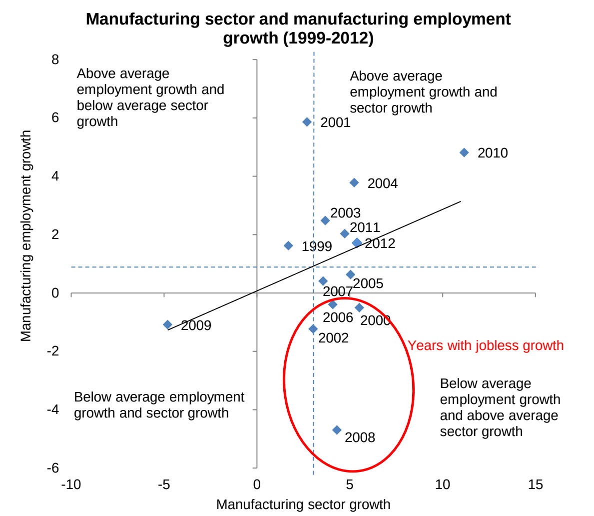
annual employment growth at only 0.9 percent (Figure 2.7). These trends are consistent with jobless growth story in manufacturing.

Figure 2.5 From 1999 to 2012, nonagricultural employment growth was significantly slower than GDP growth.



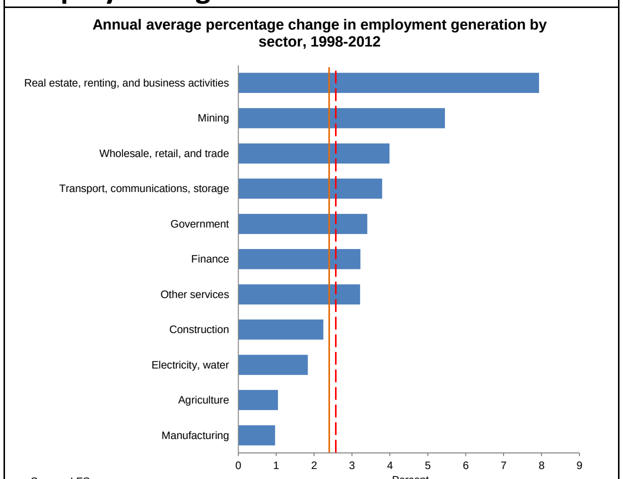
Sources: LFS, NSCB

Figure 2.6 In manufacturing, jobless growth is observed in 4 out of 14 years.



Sources: LFS (manufacturing employment data), WDI (manufacturing sector growth data)
Note: Employment growth is calculated using annual averages of quarterly data from LFS.

Figure 2.7 Manufacturing has the lowest employment generation record.



Source: LFS
Note: The dashed line represents growth in the working age population.
The other line represents overall employment growth.

Table 2.1 Growth-employment elasticity by period (1956 to 2010)

	Sector employment elasticity to GDP				Sector employment elasticity to sector value-added			
	1956 to 1969	1970 to 1985	1986 to 1996	1997 to 2010	1956 to 1969	1970 to 1985	1986 to 1996	1997 to 2010
Economy-wide	0.59	0.64	0.82	0.54				
Agriculture	0.46	0.65	0.43	0.30	0.52	0.97	0.81	0.42
Industry	0.55	0.63	1.26	0.29	0.50	0.48	1.16	0.34
Service	0.97	0.95	1.19	0.80	0.97	1.01	1.00	0.66

Source: WB staff estimates using LFS and NSCB data
Note: All estimates are significant at the 95-percent confidence level.

Table 2.2 Growth-employment elasticity by subsector (1997 to 2010)

Industry	Sector employment elasticity to GDP	Sector employment elasticity to sector value-added
Economy-wide	0.52	
Agriculture	0.28	0.42
Industrial	0.35	0.23
Mining &quarrying	1.34	0.38
Manufacturing	0.18	0.58
Construction	0.28	0.42
Electricity, gas and water	0.54	0.40
Services	0.76	0.65
Formal services	1.01	0.89
Informal services	0.71	0.58
Transportation, communication &storage	0.68	0.47
Trade	0.82	0.73
Finance	0.72	0.50
Real estate, renting and business activities	1.90	1.47
Government services	0.65	1.05
Other services	0.60	0.59

Source: WB staff estimates using LFS and NSCB data
Note: All estimates are significant at the 90-percent confidence level.

45. **The sectors with the highest employment elasticity are mostly in services.** However, most Filipinos are employed in informal sectors, which have not responded buoyantly to higher economic growth. Only the real estate, renting, and business activities subsector, which includes the fast-growing BPO industry, is highly elastic with respect to GDP growth. The elasticity is about 1.9 when using total GDP and 1.47 when using its sector value-added. The elastic nature of employment to GDP in this sector, combined with its high growth in the past decade, implies that growth since 1997 has been biased toward the top income deciles of Filipinos who are generally more educated and have the appropriate skill set that is necessary in this subsector.[43]

[43] See World Bank (2010d) for more discussion.

Demographic trends that amplify the employment challenge

46. **The country's high population growth rate has added further pressure to the domestic labor market.** The 2010 census revealed that the country's population reached 92.3 million. This figure is almost double that in 1980 (48.1 million) (Figure 2.8). Population growth between 2000 and 2010, at 1.9 percent, is the highest in East Asia and is still more than half the country's population growth rate in the 1960s. In contrast, countries such as Thailand and Indonesia were able to reduce their population growth rates from three to one percent and from 2.5 to 1.2 percent, respectively, in the same period.[44] At a projected annual average growth rate of 1.7 percent between 2010 and 2020, the Philippine population is expected to breach the 100 million mark in 2014 and the 110 million mark in 2020.[45] Under the current trend of slower economic growth relative to its neighbors, the high population growth rate will continue to pull down real income, as surplus labor outpaces formal job creation.

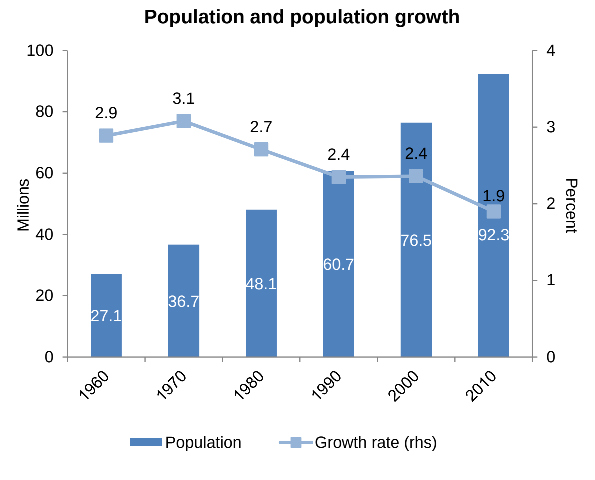
47. **The dependency ratio[46] is also high at 63 percent of the population, among the highest in the region** (Figure 2.9), **putting significant pressure on public and household incomes to fund human capital accumulation.** Every year, around 1.8 million Filipinos are born and about as many preschoolers enter kindergarten. At present, some 19 million students attend public schools. The rapid growth in the number of newborns and school-age children has put significant pressure on the public health and education system. It has also put significant pressure on household income. To achieve its Millennium Development Goals (MDG) targets and provide education and healthcare services with higher quality, the government would have to increase social spending by around five percent of GDP initially and sustain it by an annual increase of about 10 percent. With a high dependency ratio (Figure 2.10), every member of the fully employed sector, which accounts for less than 30 percent of the population, would have to support an average of 2.8 family members who are outside the labor force, without a job, or without an adequate job. With falling real income, this feat is becoming much more difficult to accomplish.

Key labor market trends

48. **Labor force growth has consistently outpaced employment growth, and this gap has remained large.** Low economic growth and even lower growth in job creation, combined with fast population growth, have resulted in poor labor market outcomes. The gap between the labor force and employment, as shares of the population, remains large at around four ppt, indicating that Filipinos are having a more difficult time finding work (Figure 2.11). On average, of the 1.15 million potential entrants to the labor force, only 240,000 workers find jobs in manufacturing and formal services sector. The rest find jobs in the informal services sector.

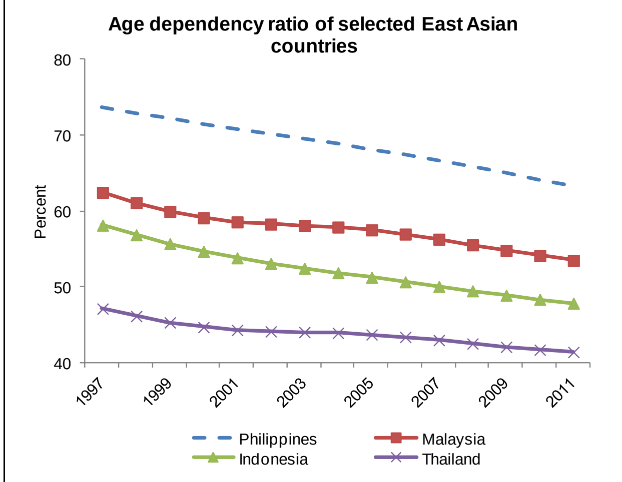
[44] Figures are based on data from the World Development Indicators (WDI) database of the World Bank.
[45] Population projections are from the United Nations, Department of Economic and Social Affairs, Population Division (2013) (World Population Prospects: The 2012 Revision, CD-ROM Edition).
[46] The dependency ratio is the share of people below 15 and above 65 years of age to total population.

Figure 2.8 Philippine population is still growing fast.



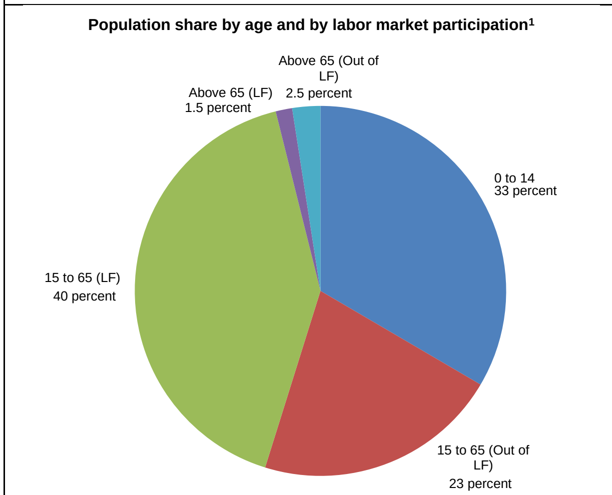
Source: NSCB

Figure 2.9 Philippine dependency ratio is among the highest in the region.



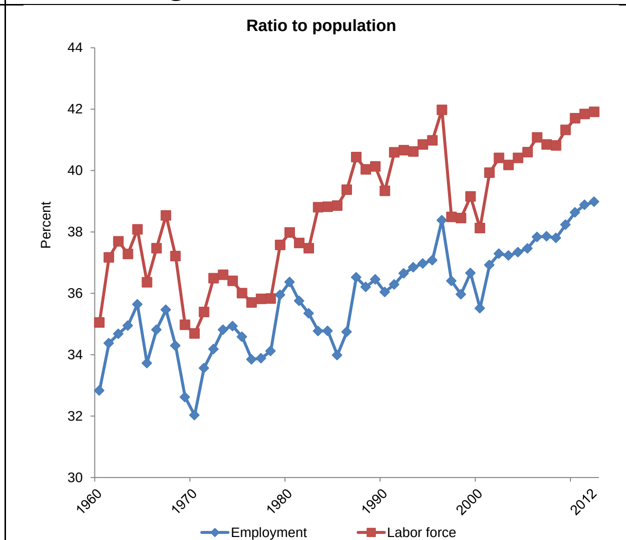
Source: WDI

Figure 2.10 Six out of ten Filipinos are outside the labor force.



Source: LFS 2012
Note: 1. "LF" Stands for labor force. Persons aged 0 to 14 years old do not belong to the working age population and thus have no indicated labor market participation.

Figure 2.11 The gap between the labor force and employment as shares of population remains large.



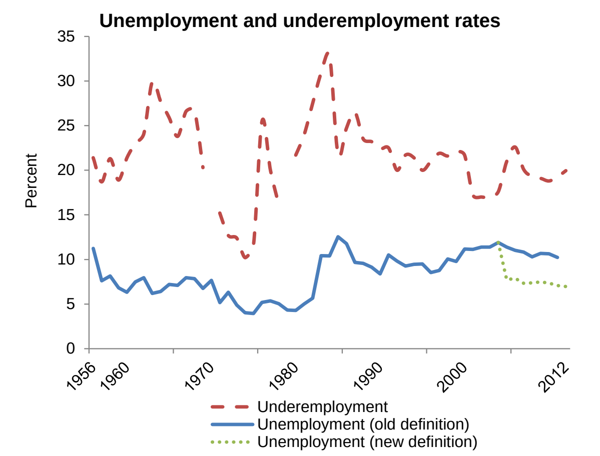
Source: LFS

49. **As a result, unemployment and underemployment have remained structurally high and the deployment of Filipinos overseas masks the true extent of these numbers.** Between 1983 and 2011, the rate of unemployment, using the old definition,[47] was above 10 percent,

[47] The National Statistics Office (NSO), largely following the International Labour Organization (ILO) definition, defines the unemployed as people between 15 and 65 years old who are i) without work, ii) currently available for work, and iii) seeking work. Starting April 2005, the new unemployment definition was adopted as per Resolution No. 15 of the National Statistical Coordination Board, dated October 20, 2004. The new definition defines the unemployed as people who are 15 years old and over as of their last birthday 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

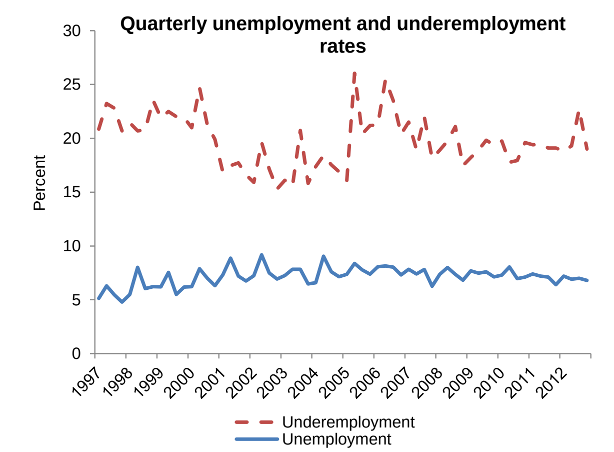
while the rate of underemployment[48] fluctuated around 20 percent (Figure 2.12). The combined rate of around 30 percent[49] is a clear indication of the structural weaknesses in the labor market, where almost one out of three workers cannot find adequate jobs, even during periods of higher growth. Between 2000 and 2011, the unemployment rate, using the new definition, seldom fell below seven percent (Figure 2.13), while the number of workers without jobs almost doubled between 1997 and 2010 from 1.5 to 2.9 million.

Figure 2.12 Unemployment and underemployment have been structurally high since the 1950s (using various definitions).



Source: LFS, WB staff estimates for the 2005 to 2010 old series

Figure 2.13 Recent unemployment and underemployment are still high (using the new definition).



Source: LFS

50. **Unemployment is characteristic of the youth, those with higher levels of education, and the richer quartile of workers.** The youth (aged 15 to 24) account for about 50 percent of total unemployment. About 16 percent of this age group is unemployed. Many of them are highly educated (Figure 2.14). More than 50 percent of its members are at least high school graduates and about 30 percent have college degrees or have college schooling (Figure 2.15). Unemployment in the next age group (age 25 to 34) is also high at eight percent. Unemployment of older workers is lowest at around three percent. Unemployment among college students and graduates ranges from 10 to 11 percent (Figure 2.16), suggesting a weak match between job demand and skills or a higher reservation wage, as many graduates wait for job opportunities abroad or receive remittances from family members abroad (around 12 percent of Philippine household income is derived from remittances, according to the Family

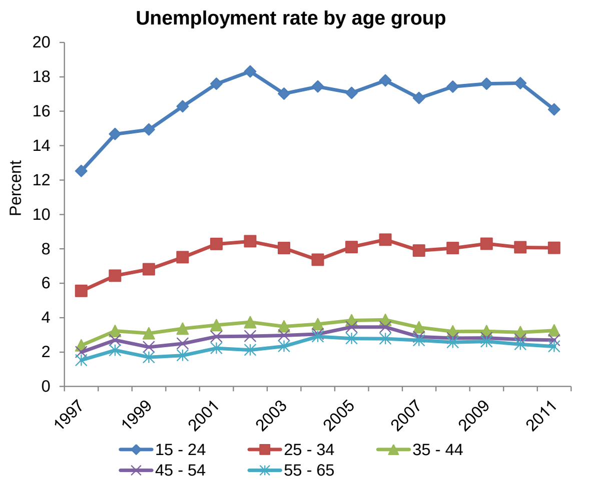
seeking work for the following reasons: a) tired/believe no work is available, b) awaiting results of a job application, c) temporarily ill/disabled, d) bad weather, and e) waiting for rehire/job recall.

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

[49] Thirty percent is only an approximation, as the unemployment rate and underemployment rate are not additive, given different denominators. Using labor force as denominator for underemployment gives us 18 percent. The total rate of unemployment and underemployment is around 28 percent.

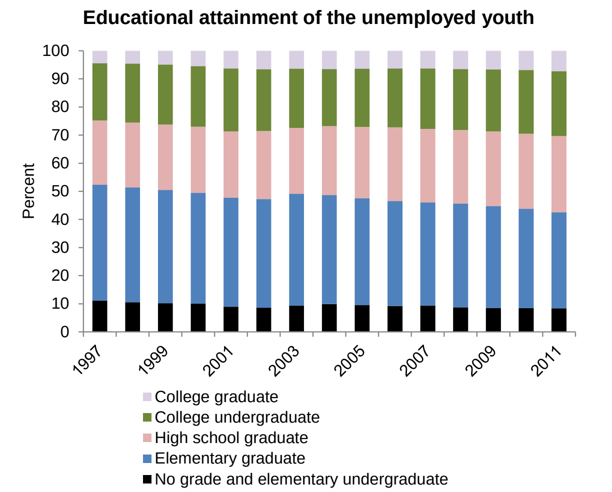
Income and Expenditure Survey [FIES] 2009). Across income groups, the unemployment rate is lowest among the poorest quartile at around three percent (i.e., the poor cannot afford to be unemployed), and highest among the richer quartiles at around 10 percent (Figure 2.17). Box 2.1 discusses labor force outcomes for females.

Figure 2.14 Unemployment is highest among the youth…



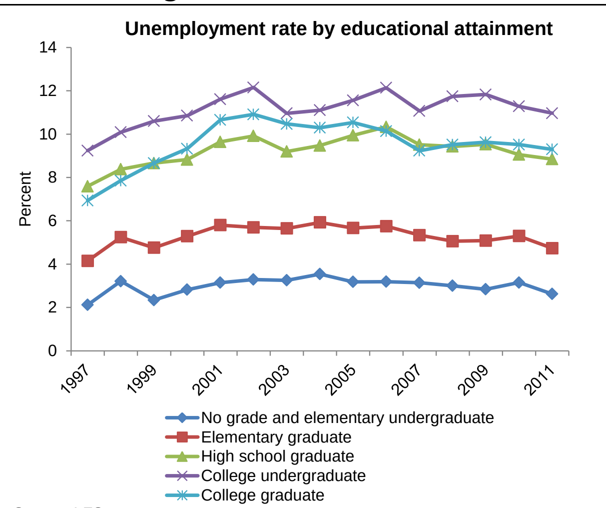
Source: LFS

Figure 2.15 …even if many of the youth are highly educated.



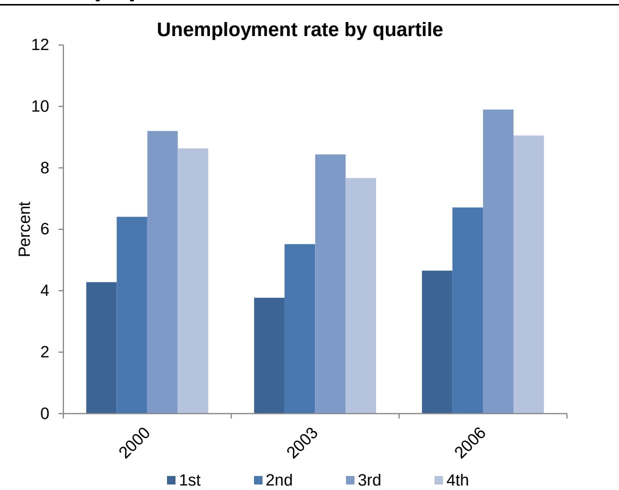
Source: LFS

Figure 2.16 Unemployment is highest among those with higher educational attainment…



Source: LFS

Figure 2.17 … and among the richer quartile of the population.



Source: WB staff estimates using LFS and FIES data

Box 2.1 Women in the labor force

More women entered the labor force between 2000 and 2010 and female unemployment was lower than male unemployment. Between 2000 and 2010, the labor force participation of women increased from around 45 to 48 percent. However, the gender gap in labor force participation remained high at 30 ppt, albeit declining. The unemployment rate among women is around seven percent, compared to around eight percent among men (Table 2.3).

Women were largely employed in the services sector, and underemployment among women was much lower than among men. In 2010, 68 percent of women were employed in services, compared to 41 percent of men. Underemployment was much lower for women at 14.7 percent, compared to 21.3 percent for men. Women earned slightly higher than men in 2010 (i.e., daily wage of PHP 312 for women compared to PHP 305 for men). However, women were slightly more vulnerable, as they had a lower share of wage or salaried jobs.

Table 2.3 Male and female labor outcomes (percent)

Labor Outcome	2000		2010	
	Male	Female	Male	Female
Labor force participation	76.1	45.3	75.9	48.3
Employment share				
Agriculture	45.0	23.8	40.4	21.7
Industry	18.0	13.3	18.2	9.9
Services	37.0	62.9	41.1	68.0
Unemployment	6.8	7.0	7.6	6.9
Underemployment	24.0	17.8	21.3	14.7
Vunerable employment	49.3	49.2	44.4	46.8
Average wage[1]	217. 2	225.8	304.6	312.3

Source: LFS

Note: 1. Average wage data are for 2001, the year LFS started collecting wage data.

51. **While unemployment is worrisome, underemployment and falling real income are more pressing problems which should worry policymakers more.** In developing countries like the Philippines, measuring welfare using the unemployment rate is insufficient as majority of the people have low incomes and thus cannot afford to be unemployed for long periods. They either create their own jobs or agree to work with less or without pay.

52. **Like unemployment, the underemployment rate is also structurally high at around 19 percent.** This translates to one in every five workers who are not satisfied with their work or income levels and are looking for more work to meet their living requirements. The poorest quartile of workers has underemployment rates as high as 33 percent. Among the underemployed, 62 percent (or 12 percent of total employed) are visibly underemployed and 38 percent (or 8 percent of total employed) are invisibly underemployed (Figure 2.18). Visible

underemployment[50] points to the lack of gainful employment, which can be a consequence of labor market rigidities, the high cost of doing business, or weak investment climate, while invisible underemployment could indicate, among others, a mismatch between job demand and available skills. For instance, only around 10 percent of science graduates and postgraduates find jobs in the manufacturing sector, while almost half end up working in trade, real estate, and other services subsectors that are less related to their fields of study (Table 2.4). Engineering majors also follow similar trends. The large number of workers ending up in retail trade — the typical catch basin for workers who cannot find gainful employment — is a major indicator of the structural weaknesses in the labor market. Across sex, age, education, and income groups, males, prime-age workers, less educated workers, and the poor have higher underemployment rates (Figures 2.19 to 2.21).

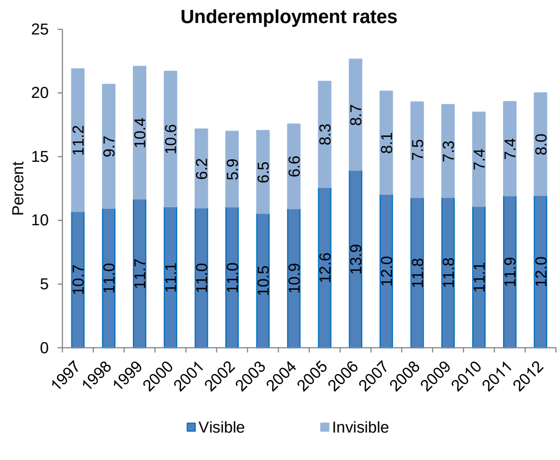
Table 2.4 Mismatch in education and work sector among college graduates (percent of total employment by field of education and by sector, 2001-2011)

Field	Rank (Top employment sectors)		
	1	2	3
General programs	Public administration 23.0	Wholesale and retail trade 19.5	Education 18.2
Education	Education 63.8	Wholesale and retail trade 11.0	Public administration 7.8
Humanities, religion and theology	Others 30.4	Education 14.8	Wholesale and retail trade 13.2
Social and behavior science, business, and law	Wholesale and retail trade 24.9	Public administration 18.0	Finance 11.6
Natural science, pure science, computer science	Wholesale and retail trade 21.5	Real estate and other related business activities 12.1 Public administration 10.8	Manufacturing 10.3
Medicine and health sciences; Trade, craft & industry/architecture	Medical and social work 18.6 Wholesale and retail trade 16.7	Real estate and other related business activities 12.4 Public administration 8.6	Manufacturing 9.1 Construction 7.0
Agriculture, forestry and fisheries; Home economics	Public administration 23.4	Wholesale and retail trade 20.3	Agriculture 17.0
Services and trade	Medical and social work 20.5	Wholesale and retail trade 16.2	Public administration 12.1
Mass communication and other programs	Public administration 26.6	Wholesale and retail trade 15.9	Transportation and communication 10.8

Source: WB staff estimates using LFS data

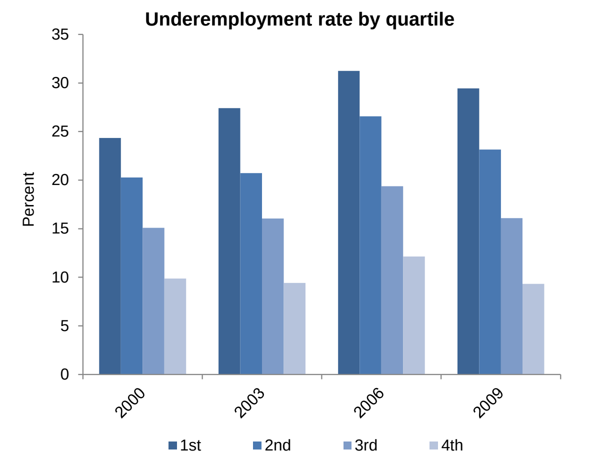
50 The rate of underemployment can be much higher if all part-time workers are included, even if they are not looking for more work. About 32 percent of part-time workers are visibly underemployed while the rest are not looking for more work. The bulk of these workers are supported by remittances from overseas.

Figure 2.18 Visible underemployment accounts for about 60 percent of total underemployment.



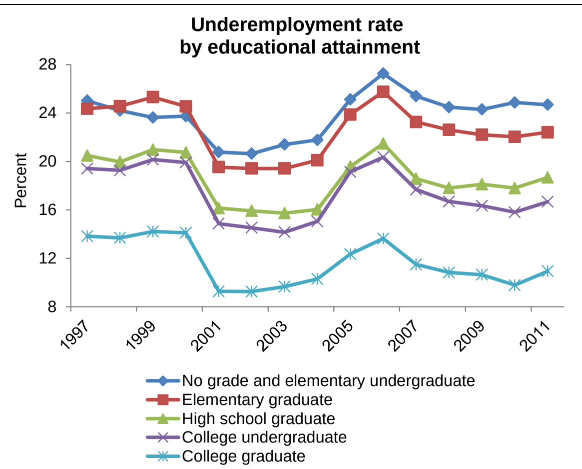
Source: LFS

Figure 2.19 Underemployment is much higher among the poor.



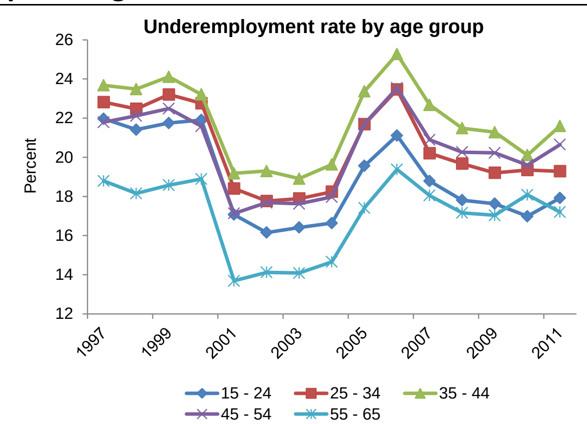
Source: WB staff estimates using LFS and FIES data

Figure 2.20 Underemployment is higher for less educated workers.



Source: LFS

Figure 2.21 Underemployment is higher for prime-age workers.



Source: LFS

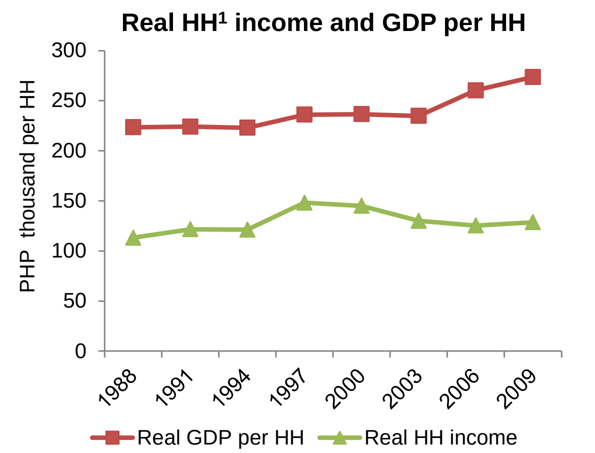
53. **With a fast-growing labor force and an economy that does not provide enough jobs, average real household income has declined.** Between 1997 and 2009, real household income, as measured by the FIES, fell by 13.1 percent, compared with a 25-percent growth in real per household GDP (Figure 2.22).[51] The decline in household income is driven by the decline in entrepreneurial (non-wage) income and informal sector wages[52] (Figure 2.23) despite some

[51] NSO defines household income as the sum of income from work and entrepreneurial activities of household members, income from other sources, total value of goods received as gifts, and imputed value of owned/rent-free house and/or lot.

[52] There are two sources of wage data. The household-level Labor Force Survey (LFS) is normally used to capture overall wage rates, while the enterprise-level Occupational Wages Survey (OWS) is normally used to capture formal sector wage rates. Informal sector wage rates are taken from the following sectors: agriculture, wholesale and retail trade, and transportation, communication, and storage.

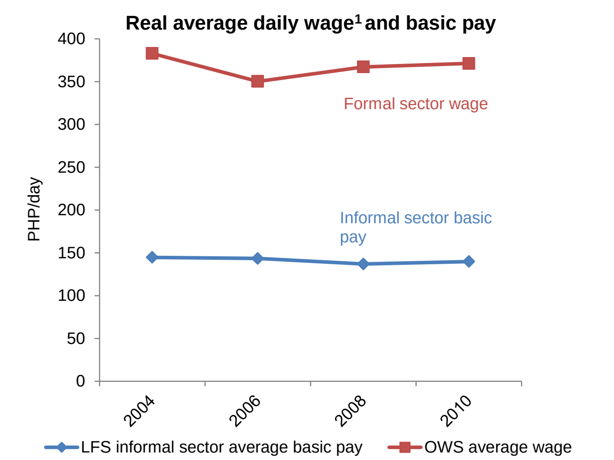
increases in formal sector wages (Figure 2.24). The increase in formal sector wages is partly explained by increasing statutory minimum wages, which have been increasing almost every year despite lower productivity growth (Figure 2.25).

Figure 2.22 Real household income in 2009 is still lower than in 1997 despite rising real per capita GDP.



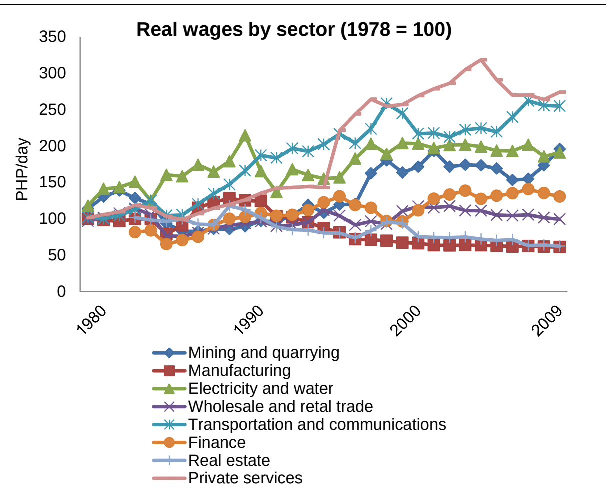
Source: FIES, NSCB
Note: 1. HH stands for "household."

Figure 2.23 Relative to 2006, formal sector wage increased but informal sector wages decreased in real terms.



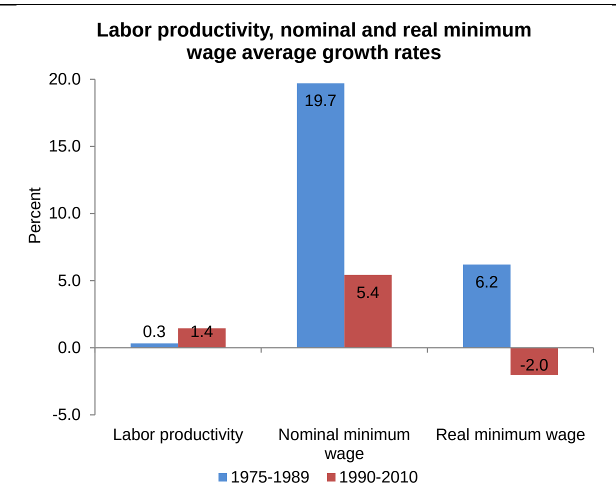
Source: WB staff estimates using LFS data, Occupational Wages Survey (OWS)
Note: 1. Wages include basic pay and regular/guaranteed cash allowances.

Figure 2.24 Real wages in the formal sector have been generally rising.



Source: OWS

Figure 2.25 Minimum wages have increased more than productivity.



Source: WB staff estimates using LFS, NSCB, and NWPC data

Box 2.2 Conflict areas and labor market outcomes

Armed conflict is a major issue in the Philippines. In 2010, conflict provinces, defined as provinces with conflict relating to Muslim rebels or New People's Army (NPA) communist rebels, covered 32 percent of the Philippines' total land area and 23 percent of the population. Poverty incidence is higher in conflict provinces (42 percent) than in non-conflict provinces (22 percent). Around 36 percent of poor Filipinos, or 8.4 million, reside in conflict provinces.

Conflict provinces have generally worse labor market outcomes than non-conflict provinces. In 2011, conflict provinces as a group had a lower unemployment rate than non-conflict provinces (five percent vs. eight percent) but had a higher underemployment rate (23 percent vs. 17 percent) (Table 2.5). Employment in conflict provinces is concentrated in agriculture. The fraction of self-employed and unpaid laborers is higher in conflict than in non-conflict provinces. Overall, conflict provinces have lower real wages than non-conflict provinces (PHP 145 vs. PHP 191).

Among conflict provinces, outcomes are mixed. NPA-affected provinces exhibit lower real wages and higher unemployment and underemployment rates than Muslim rebellion-affected provinces. NPA-affected provinces also have higher shares of non-permanent workers. However, they have a higher proportion of workers earning wages as opposed to being unpaid (49 compared to 33 percent for wage and 15 compared to 20 percent for unpaid). Industrial work is also higher (12 compared to 7 percent).

These statistics suggest that recurring episodes of conflict (six decades in the case of NPA conflict), even if not reported in the headlines, can also have significant negative impacts on the quality of jobs.

Table 2.5 Employment indicators in conflict and non-conflict provinces in 2011 (In percent of total, PHP for basic pay)

Indicators	Philippines[1]	Non-conflict provinces[2]	Conflict provinces[2]	Muslim provinces[3]	NPA provinces[4]
Labor force	100	100	100	100	100
Employed	93	92	95	97	94
Unemployed	7	8	5	3	6
Underemployed	18	17	23	17	25
Visibly (share to underemployed)	62	60	66	72	65
Invisibly (share to underemployed)	38	40	34	28	35
Employed	100	100	100	100	100
By sector					
Agriculture	33	29	47	57	42
Industry	15	16	10	7	12
Services	52	55	43	37	46
By class of worker					
Wage and salary	55	58	44	33	49
Self-employed	30	27	37	44	33
Employer	4	4	3	2	3
Unpaid	12	11	16	20	15
By nature of employment					
Permanent	79	80	77	82	75
Short term	18	18	21	16	23
Different employer	2	2	2	2	2
Real mean basic pay[5] (PHP, 2000 prices)	183	191	145	148	145

Source: WB staff estimates using LFS data (the average of four quarterly rounds in 2011) from NSO

Notes: 1. The Philippines comprises 80 provinces.

2. Conflict provinces are those with either Muslim or NPA-related conflict. Non-conflict provinces cover the rest.
3. Provinces with Muslim-related conflicts are the following:
Basilan, Lanao del Norte, Lanao del Sur, Maguindanao, North Cotabato, Sulu, Tawi-Tawi, and Zamboanga del Sur
4. Provinces with NPA-related conflicts are the following:
Agusan Norte, Agusan del Sur, Albay, Camarines Norte, Camarines Sur, Catanduanes, Davao del Norte, Eastern Samar, Masbate, Negros Occidental, Northern Samar, Samar (Western), Sorsogon, Surigao del Norte, Surigao del Sur, and Compostela Valley
5. The regional consumer price index (CPI) is used to deflate province-level basic pay.
6. Differences are statistically significant based on conducted t and z tests.

Slow labor mobility

54. **An analysis of a panel of workers indicates weak employment prospects for many Filipinos** (see Box 2.3 for the methodology)**.** Many Filipinos had difficulty in staying employed, in moving up the job ladder, and in switching between sectors from 2003 to 2010.

55. **Many workers had difficulty staying employed and finding better jobs.** Only 30 percent of workers stayed employed for all 11 quarters, while 25 percent of workers never found employment (Table 2.6). Another 25 percent remained unemployed or out of the labor force for at least five consecutive quarters. On average, 41 percent of unemployed workers remained unemployed, while 12 percent exited the labor force in the next period (Table 2.7). Among

those who found work, only 35 percent found gainful employment, while 11 percent found a job but would like to work for more hours. Among the underemployed, only about half found gainful employment in the next period, while the remaining half stayed underemployed, became unemployed, or exited the labor force.

56. **Moving up the job ladder was difficult.** Own-account workers, and wage and salaried workers, tended to stay in their current employment class (Table 2.8)**.** About 20 percent of unpaid workers improved their lot and graduated to own-account status, while about 13 percent graduated to become wage and salaried workers. However, around 15 percent of wage and salaried workers moved back to own-account or unpaid family worker status. These classes of workers tend to be more vulnerable given the volatile nature of their income source. While some of these vulnerable workers graduated to become wage and salaried workers, a majority remained vulnerable or ended up being vulnerable again after some quarters.

57. **Switching from one sector to another is uncommon.** Workers tended to remain in their sectors of origin (Table 2.9)**.** About 91 percent of workers in agriculture and 85 percent of workers in informal services did so from 2003 to 2010. Only 3.2 percent of agriculture workers and 3.9 percent of informal services workers graduated to manufacturing or other industrial sectors and stayed there for all 11 quarters. The reverse was even more pronounced, as 7.5 percent of workers moved from manufacturing to agriculture and 9.5 percent of workers moved from manufacturing to informal services, both consistent with the decline of the manufacturing sector.

Conclusion

58. **As a result of the country's weak employment record, poverty and inequality are slow to improve, informality is prevalent, and outmigration has become the norm for millions of qualified workers.** The vast majority of workers have remained trapped in low-wage and low-productivity jobs in the informal sector, with limited opportunities to move up the job ladder. Those with the lowest skill set and have very little assets are impoverished, as evidenced by the high rates of poverty. High-skilled workers tend to benefit from economic growth through gainful employment, but this is often not enough for many of the country's best and brightest.[53] With few opportunities in the domestic labor market and the attraction of higher wages and better jobs overseas, many high-skilled workers have left the country. This outmigration has raised additional challenges relating to skills shortages and job mismatches at home, and vulnerability to remittance shocks and Dutch Disease. Chapter 3 discusses the outcome of this low-growth-and-low-employment equilibrium for the poor and low-income workers while Chapter 4 discusses migration as one of the major outlets for those with the relevant skill set to find employment overseas.

[53] See World Bank (2010d) for more discussion.

Table 2.6 Number of quarters of being employed

	Length of employment (number of quarters)												
	0	1	2	3	4	5	6	7	8	9	10	11	**Total**
Number of respondents	2,068	456	330	340	351	310	304	334	373	404	639	2,448	**8,357**
Percent of respondents	24.8	5.5	4.0	4.1	4.2	3.7	3.6	4.0	4.5	4.8	7.7	29.3	**100**

Source: WB staff estimates using LFS panel data

Table 2.7 Transition matrix by labor force status

	Current quarter						
	Employed						
Previous quarter	**Total**	Gainfully employed	Under-employed	**Unemployed**	**Out of labor force**	**Total (percent)**	**Number of respondents**
Employed	89.6	70.8	18.8	1.6	8.8	100	4,407
Gainfully employed	89.2	75.5	13.7	1.5	9.3	100	3474
Underemployed	91.1	53.6	37.5	2.0	6.9	100	934
Unemployed	46.5	35.4	11.3	41.2	12.3	100	158
Out of labor force	23.4	18.9	4.5	2.7	73.9	100	1,801

Source: WB staff estimates using LFS panel data

Table 2.8 Transition matrix by class of worker

	Current quarter				
Previous quarter	**Wage/ salary**	**Own-account**	**Unpaid**	**Total (percent)**	**Number of respondents**
Wage/ salary	84.9	12.8	2.3	100	1,699
Own-account	11.0	85.5	3.5	100	1,900
Unpaid	13.0	19.6	67.4	100	336

Source: WB staff estimates using LFS panel data

Table 2.9 Transition matrix by sector

	Current quarter						
Previous quarter	**Agriculture**	**Manufacturing**	**Other industrial sectors**	**Formal services**	**Informal services**	**Total (percent)**	**Number of respondents**
Agriculture	91.1	1.2	2.0	1.3	4.4	100	1851
Manufacturing	7.5	77.6	2.8	2.6	9.5	100	277
Other industrial sectors	16.6	3.1	70.6	2.8	7.0	100	206
Formal services	4.0	1.5	1.3	86.7	6.5	100	530
Informal services	7.1	2.4	1.5	3.7	85.2	100	1055

Source: WB staff estimates using LFS panel data

Box 2.3 Labor Force Survey panel data methodology

The analysis of employment transition is conducted using a panel dataset from the Labor Force Survey (LFS). The panel dataset consists of the same individuals who were interviewed across 11 quarters from 2003 to 2010. The quarters forming the panel are summarized in Table 2.10. Labor outcomes by employment status, sector of employment, class of worker, and nature of employment are analyzed.

The panel dataset is based on the sample households from Rotation Group 2 Replicate 4. In order to correctly identify and match individuals across time, the following variables were combined to create unique identifiers: region, province, municipality, *barangay* (village), enumeration area, household sequence number, household control number, and member line number, with checks for age and sex. This ID generation scheme produced a panel of 8,357 individual household members.

Table 2.10 LFS panel data period of coverage

	Year											Total quarters
	2003		2004		2006	2007		2008	2009	2010		
Month	July	October	January	July	July	January	July	July	July	January	July	**11**

Source: LFS

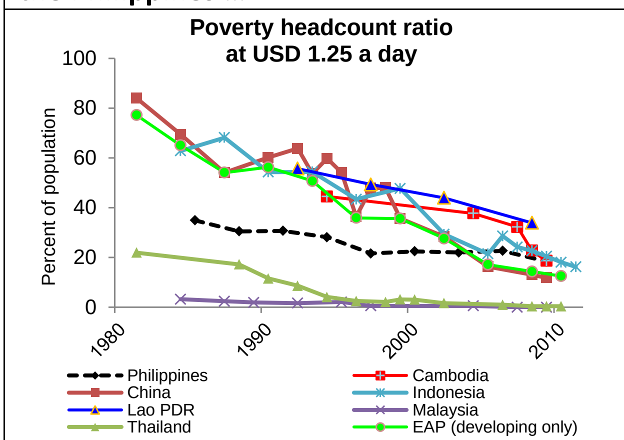
Chapter 3 – Poverty, inequality, and informality

Slow progress in reducing poverty

59. **A major consequence of the country's weak employment record is its much slower progress in reducing poverty compared to the rest of the region.** In the past two decades, the Philippines reduced extreme poverty based on the USD 1.25-a-day poverty line from 30.7 percent of the population in 1991 to 18.4 percent in 2009. Among the countries in East Asia, this pace is the slowest. It is slower than the pace achieved by Indonesia and China, both of which started at twice the poverty rate of the Philippines in the early 1990s (Figures 3.1 and 3.2). In China's case, poverty incidence declined by 60 percent since 1980.

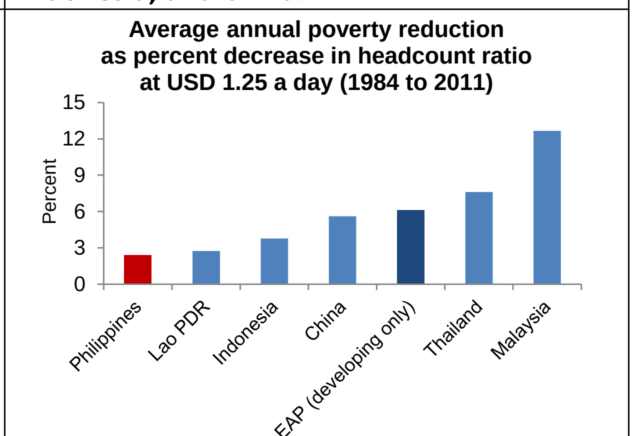
60. **Moreover, the Philippines still has one of the highest levels of inequality among countries in the region, with a Gini coefficient of around 0.43 in 2009.**[54] In contrast, other countries in the region either started from lower Gini levels, which increased over time with income growth (e.g., Cambodia, Vietnam), or managed to lower their Gini level over time (e.g., Malaysia, Thailand) (Figure 3.3). The country's high level of inequality is also manifested by the high ratio of Filipino billionaires' net worth to GDP, which is the highest among lower middle income countries in the region (Table 3.1).

Figure 3.1 Poverty reduction is slowest in the Philippines …



Source: WDI
Note: EAP stands for East Asia and Pacific countries. Some countries have missing values during certain years.

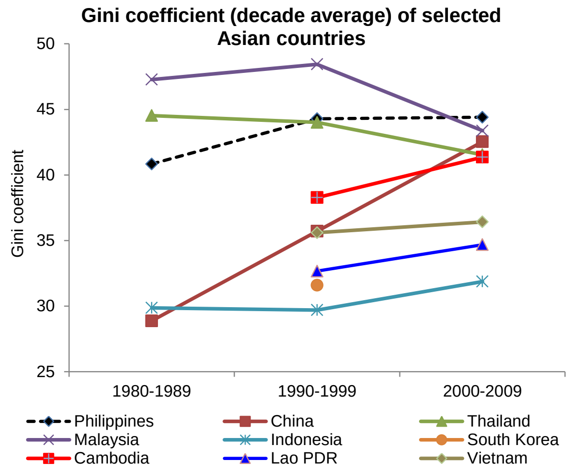
Figure 3.2 … slower than the pace of Laos, Indonesia, and China.



Source: WDI
Note: Some countries have missing values during certain years.

[54] Problems with the household surveys, such as high rate of non-response among the rich, suggest that inequality could actually be higher in the Philippines. If the imputed income of the top 40 Filipino billionaires is added to the household survey, the Gini coefficient increases by 2.8 points.

Figure 3.3 Inequality in the Philippines remains high.



Source: WDI
Note: Countries have missing values for certain years.

Table 3.1 The Philippines' ratio of billionaires' net worth to GDP is quite high for its level of development.

Country	Top 10 Billionaires' net worth share to GDP (in percent)	Gini Index
Hong Kong	50.3	53.3
Malaysia	16.0	46.2
Philippines	**15.4**	**43.0**
Singapore	11.4	47.3
Thailand	10.5	40.0
Taiwan	9.9	32.6
Indonesia	4.1	36.8
South Korea	3.4	31.0
China	0.8	48.0
Japan	0.9	37.6

Sources: WDI, Central Intelligence Agency Factbook, and WB staff estimates using data from the 2013 Forbes Billionaires list, CEIC, and various government statistics.
Note: Data from the various sources refer to the latest year.

61. **Over time, poverty reduction has become less responsive to economic growth.** Between 1985 and 2009, the growth elasticity of poverty in the Philippines is estimated at -1.37 (Table 3.2). This indicates that a one-percent increase in per capita income is associated with a 1.37-percent decline in the USD 1.25-a-day poverty headcount. This is lower than the average in the East Asia and Pacific region as a whole, and in neighboring countries such as Thailand, Indonesia, and Vietnam. The response of poverty reduction to economic growth also declined over the years. Between 1990 and 2000, growth elasticity of poverty was -2.44, but between 2000 and 2009 it went down to -0.66, indicating that a much higher growth rate is needed to pull more poor people out of poverty.

Table 3.2 Estimates of the growth elasticity of poverty

Source	Years	World	E. Asia	Philippines	China	Indonesia	Thailand	Vietnam
Besley and Burgess (2003)	Varies by country (1980-1998)	-0.73 (0.24)	-1.06 (0.25)	-0.70 (0.12)	-0.60 (0.14)	-1.12 (0.38)	-1.72 (0.48)	N.A.
World Bank staff estimates	1980 - 2010s	-1.16 (0.05)	-1.83 (0.15)	-1.37 (0.31)	-0.74 (0.12)	-1.50 (0.16)	-3.59 (0.64)	-1.54 (0.18)
	1990 – 2000	-1.19 (0.08)	-2.00 (0.20)	-2.44 (0.73)	-0.59 (0.16)	-0.65 (0.21)	-4.16 (0.50)	-0.83 (0.0)
	2000 - 2010s	-1.13 (0.07)	-1.90 (0.27)	-0.66 (0.45)	-1.29 (0.27)	-1.24 (.027)	-6.18 (0.91)	-2.15 (0.15)

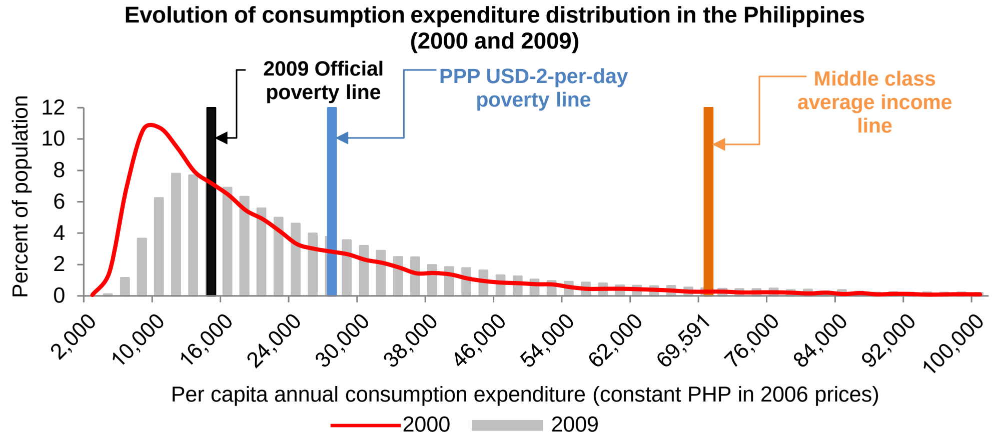
Source: WB staff estimates based on WDI data
Note: East Asia includes countries in table plus Cambodia, Lao PDR, Malaysia, and Myanmar.

62. **In the past decade, higher economic growth did not translate into progress in reducing poverty**. With high inequality and a lack of structural transformation, growth largely benefited the non-poor. The distribution of consumption expenditure improved modestly between 2000 and 2009 (Figure 3.4) while the incidence of pro-poor growth is evident only between 2006 and 2009 (Figure 3.5). Though per capita growth started to accelerate to as high as five percent in 2007 and 2010, the official poverty incidence hardly declined between 2000 and 2009 (Figure 3.6). In fact, the number of poor people increased by about four million, largely because of the high fertility rate among low-income households. Since 2003, the share of poor Filipinos has been rising steadily. The national poverty headcount increased by 1.5 ppt between 2003 and 2006 and then remained at about the same level in 2009. In that year, some 23 million Filipinos, or 26.5 percent of the population, were poor using the new methodology for calculating poverty,[55] while 41.5 percent of the population was living below the USD 2-a-day poverty line. The middle class[56] is relatively small at about 15 percent of the population, of which around a third resides or works abroad. This slow progress in reducing poverty, despite higher economic growth during this period, points to deeper structural problems, which express themselves in a pattern of economic growth that makes poverty reduction stubbornly difficult.[57]

63. **The latest official poverty statistics show that the incidence of poverty hardly changed between 2009 and 2012.** In April 2013, the National Statistical Coordination Board (NSCB) released preliminary estimates using data from the first half of 2012 that showed that poverty incidence hardly declined from 28.6 percent of the population in the first half of 2009 to 27.9 percent in the first half of 2012,[58] suggesting that gains from higher economic growth are still not benefiting the poorest Filipinos.

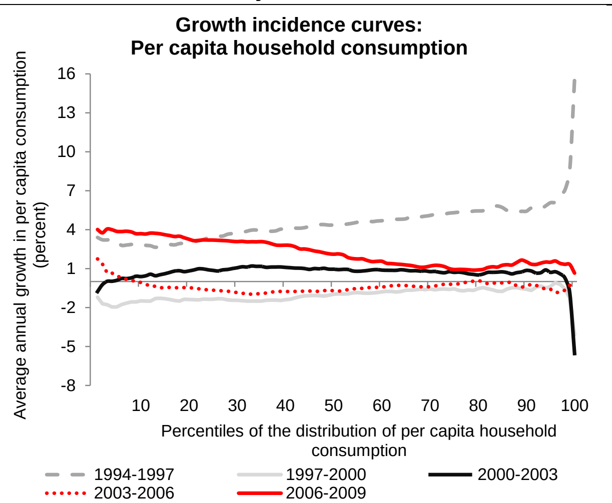
[55] The government defines the poor as those whose income falls below PHP 1,400 per person per month (around USD 33).
[56] Households with wage and entrepreneurial income of at least PHP 30,000 (or about USD 700) after tax are considered to be middle class and up.
[57] See World Bank (2010d) for more discussion.
[58] The decline in poverty incidence is statistically insignificant according to the NSCB.

Figure 3.4 The distribution of consumption expenditure improved modestly between 2000 and 2009.



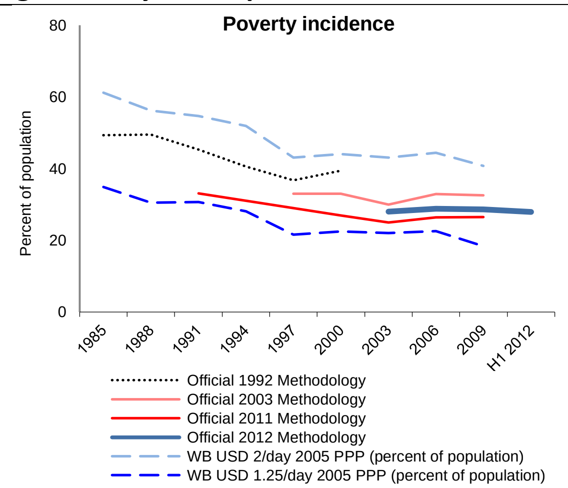
Source: Family Income and Expenditure Survey (FIES) 2000, 2009
Note: Shares to total population with more than PHP100,000 per capita annual consumption expenditure are only 1.7 percent and 3.7 percent for 2000 and 2009, respectively.

Figure 3.5 The incidence of pro-poor growth is most evident only between 2006 and 2009.



Source: FIES 1994 to 2009

Figure 3.6 Poverty reduction slowed significantly in the past decade.



Sources: NSCB, SWS, and WB PovcalNet (an online poverty analysis tool of the World Bank)

Poverty profile

64. **The overall poverty profile of the Philippines has remained relatively unchanged over the past two decades.** Poverty is concentrated mostly in rural areas, particularly in regions in Mindanao, and in the agriculture sector. Income and access to various services remain highly unequal across population groups and geographic boundaries. The only significant change over time is the declining gap between urban and rural poverty and the somewhat faster real income growth among poorer households, albeit still insufficient to bring many out of poverty.

65. **Poverty is highest and concentrated in rural areas.** A disproportionately large share of the poor is found in rural areas (Table 3.3). In 2009, three in four poor people in the country resided in rural areas. Rural poverty incidence is about twice as high as the national average and more than thrice the incidence in urban areas. The gap and severity of poverty in rural areas are also four times higher than in urban areas. On average, in 2009, poor households in rural areas earned about PHP 2,200 less than the minimum monthly income required to meet their basic food and non-food needs to stay out of poverty. In contrast, poor households in urban areas were short by about PHP 1,200 of the income necessary to stay out of poverty.

Table 3.3 Urban and rural poverty incidence rates

Year	1985	1988	1991	1994	1997	2000	2003	2006	2009
Rural	56.4	52.3	55.0	53.1	50.7	54.0	38.5	41.7	41.2
Urban	37.8	34.2	35.4	28.0	21.6	24.4	11.7	10.8	11.6

Source: NSO, NSCB, WB staff estimates using FIES data for 2000 to 2009
Note: Estimates for 1985-1997 cannot be linked to 2000-2009 because of changes in NSCB's method of estimation.

66. **Similarly, poverty among agricultural workers is more than three times higher than in other sectors, except for mining and quarrying workers.** Less than a quarter of the population derives most of its income from agriculture. Yet, in 2009 agricultural households accounted for about half of the country's poor. The gap and severity of poverty among agricultural households were at least twice as high as the national average and at least four times as high compared to those who are mainly dependent on nonagricultural incomes. Farmers make up the biggest share of the food-poor.

67. **Vulnerability to poverty is very high, as many Filipinos live just above the official poverty line.** For example, a major food price shock can easily raise the poverty line by 20 percent (equivalent to around PHP 280 per month) and increase poverty incidence by 9.4 percent (equivalent to an additional 8.2 million poor Filipinos). The decline in average real household income between 1997 and 2009 is one reason for the high level of vulnerability. Although real household income increased between 2006 and 2009 by 4.5 percent, reversing the fall between 2003 and 2006, it was not high enough for people to feel a significant improvement in their welfare, because the level of income is still lower than its 1997 value.

Moving in and out of poverty

68. **Moving out of poverty permanently has been challenging.** Based on a panel of households from 2003 to 2009 (See Box 3.1 for the methodology), about 44 percent of the population were poor at least once between 2003 and 2009, while one in three poor Filipinos was persistently poor in the seven-year period. Two out of three households moved in and out of poverty at least once in the same period. Transient-poor households, or those that became non-poor for at least one year during the seven-year period, accounted for at least 60 percent of the poor. Moving in and out of poverty was most evident in urban areas, such as Metro Manila, where 95 percent of the poor were transient-poor between 2003 and 2009. This

transitory nature of poverty reflects the high level of vulnerability among Filipinos in urban areas where, when jobs are lost, the high cost of living pushes people quickly into poverty.

69. **The persistently poor had the worst conditions on all dimensions of poverty compared to the whole population and to the transient-poor** (Table 3.4). For instance, the transient-poor were more educated and lived in better conditions than the persistently poor but many transient poor belonged to households with an unemployed head of the family. Moreover, unlike the persistently poor who did not earn enough to offset income shocks, the transient-poor had savings that they can use in times of temporary job losses. On average, the persistently poor had a five-percent spending deficit against their annual income. The transient-poor had savings equivalent to about two percent of their annual income, which were not enough to get them through long periods of unemployment.

70. **The attributes of the poor explain why a significant number of poor Filipinos cannot escape poverty.** Panel data analysis reveals that more than half of extremely poor Filipinos, or those living below the food threshold in 2003 remained extremely poor in 2006, and more than half of those extremely poor in 2006 remained so in 2009. Among the moderately poor, or those living between the food and poverty thresholds, close to 40 percent remained moderately poor and around 20 percent became extremely poor. A third of panel households did not experience improvement in their poverty status between 2003 and 2006 or between 2006 and 2009. Between 2003 and 2006, and between 2006 and 2009, only around nine percent of those who were extremely poor became vulnerable non-poor (defined as those whose income is within 20 percent above the poverty line), and another nine percent became non-poor (defined as those whose income is at least 20 percent above the poverty line).

Table 3.4 Profile of the persistently poor and the transient-poor (2003 to 2009)

Out of 100…				
All households	Not poor	Transient poor	Persistent poor	Profile
62	48	76	86	Live in rural areas
48	31	62	76	Belong to households whose head works in agriculture
54	42	62	80	Belong to households with more than 5 members
5	4	5	7	Average household size
27	22	32	45	Dependency rate (<15 years old only)
42	39	45	50	Dependency rate (<15 years old & >60 years old)
84	80	88	93	Belong to households headed by a male
56	53	59	59	Belong to households whose heads are informal sector workers
15	21	9	5	Belong to households whose heads are unemployed
48	34	62	76	Belong to households whose heads did not reach high school
4	2	5	8	Belong to households whose heads did not attend school
84	94	78	58	Live in dwellings built out of predominantly strong materials
16	4	23	47	Do not have access to electricity
50	32	69	79	Do not have their own water source
9	3	13	22	Do not have any toilet facility

Source: WB staff estimates using FIES 2009

Table 3.5 Movement in and out of poverty
(percent of households, 2003 to 2006 and 2006 to 2009)

2006 Poverty Status	2009 Poverty Status				Total
	Poor		Non-poor		
	EP	MP	VNP	NP	
EP	54	28	9	9	100
MP	19	39	18	24	100
VNP	9	29	18	43	100
NP	1	7	7	85	100
Total	**12**	**17**	**10**	**60**	**100**

2003 Poverty Status	2006 Poverty Status				Total
	Poor		Non-poor		
	EP	MP	VNP	NP	
EP	54	31	8	8	100
MP	24	37	16	23	100
VNP	14	29	22	36	100
NP	2	7	7	83	100
Total	**13**	**17**	**10**	**60**	**100**

Source: WB staff estimates using FIES

Notes: Extreme poor (EP) are households whose per capita income fell below the food poverty line (FPL). Moderately poor (MP) are households whose per capita income fell above the FPL but below the poverty line (PL). Vulnerable non-poor (VNP) are households whose per capita income fell within 20 percent above the PL. Non poor (NP) are households whose per capita income was at least 20 percent above the PL.

Box 3.1 Poverty panel data methodology

The 2003, 2006, and 2009 Family Income and Expenditure Surveys (FIES) form a panel of 6,529 households. The panel comprises 16 percent of the total sample in the 2003 FIES. Although the number of households that form the panel is not very big,[59] it is nevertheless large enough for understanding the movement of households in and out of poverty over time.

The panel households cover all 17 regions and 80 provinces but are not necessarily representative of each domain. Results presented in Tables 3.4 and 3.5 are based on an un-weighted sample of households in the panel. Without adequate information on how the households in the panel were selected and the appropriate weights, results presented in the table are valid only for the sample and not necessarily applicable to the whole population. If weights from the 2009 FIES are used, then the sample would consist of around 317,000 individuals.

[59] This is because the survey was not originally designed to form a panel. The panel came about for administrative convenience and to minimize noise across the years.

To understand better the dynamics of poverty at the household level, data on the poor are further broken down into the persistent poor and transient-poor.[60] The persistently poor are those who are poor in all three rounds of the FIES. The transient-poor are those who moved in and out of poverty at least once during the seven-year period.

Informality

71. **The Philippine labor market is characterized by high levels of informality.** Around 75 percent of Filipino workers are informally employed.[61] The report operationally defines informal workers to include all self-employed workers (not including employers), unpaid family workers, and wage workers with no written contract, social insurance, or protection from dismissal using the 2008 Informal Sector Survey (ISS)[62] of the National Statistics Office (NSO). The NSO and the Department of Trade and Industry (DTI) estimate that around 90 percent of Filipinos work in micro, small, and medium-size enterprises (MSME)[63] or on own-account, and more than 60 percent are found in the informal sector.[64] According to the ISS, around 70 percent of self-employed workers are not registered with any government authority. A majority of their workers are working under informal arrangements. As will be explained in Part II, the country's long history of policy distortions, the high cost of doing business, and more rigid labor policies are at the root of this phenomenon.

72. **In the past 15 years, the share of vulnerable workers, which include own-account and unpaid family workers — an indicator of informality — have decreased but their magnitude is still high.** Wage and salaried workers accounted for about 55 percent of total employment in 2012, six ppt higher than in 1997 (Figure 3.7). Three fast-growing industries contributed to this growth: BPO, electronics, and tourism. The remaining 45 percent are either own-account (33 percent) or unpaid workers in family micro-enterprises (12 percent).

---

[60] This follows the analysis of Reyes (2002) using a panel of households from the 1997 FIES and the 1998 and 1999 Annual Poverty Indicators Survey (APIS).

[61] 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).

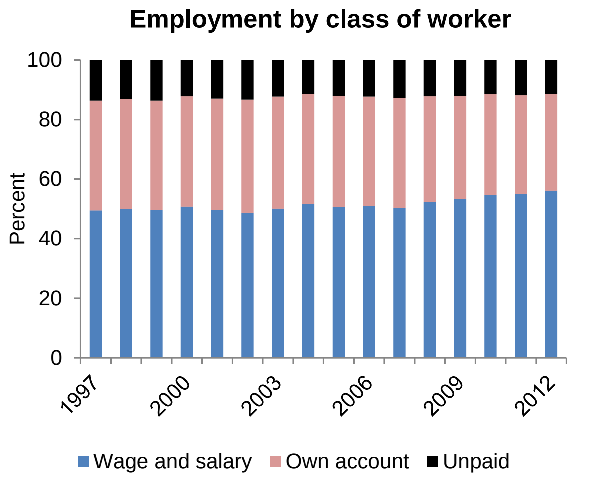
[62] The ISS largely follows the recommendations of the International Labour Organization (ILO) 15th and 17th International Conferences of Labor Statisticians (ICLS). They recommend the following criteria for informal enterprises: i) non-registration of enterprise, ii) small employment size, and iii) non-registration of employees of the enterprise. On the other hand, it recommends two criteria for informal employment: i) workers in informal sector enterprises and households and ii) contributing family workers in formal sector enterprises.

[63] Following government definitions, micro firms are firms with fewer than 10 employees, small firms are firms with 10 to 99 employees, medium firms are firms with 100 to 199 employees, and large firms are firms with 200 or more employees.

[64] The informal sector is broadly defined to include enterprises that fall outside the purview of government regulations. Operationally, the informal sector includes the agriculture and informal services sectors. The informal services sector is operationally defined to include the following subsectors: i) wholesale and retail trade, and ii) transportation, communication, and storage (TCS).

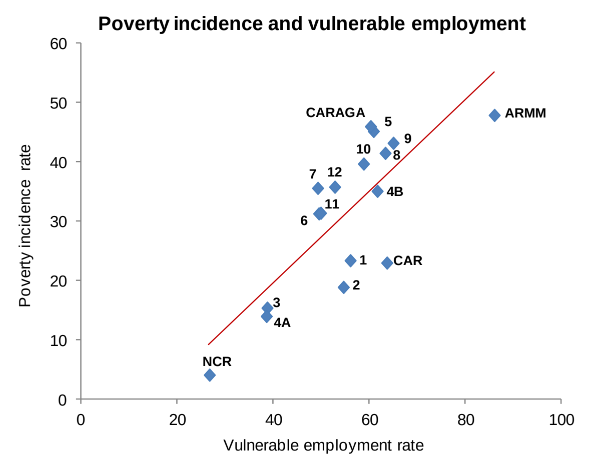
73. **Vulnerable workers are susceptible to job or income losses.** While non-wage work does not necessary mean a bad job, it is less desirable in most cases because workers in this category are less likely to have formal work arrangements, access to benefits and social security, and protection from income shocks or job losses. In fact, vulnerable employment is widespread in the agriculture and services sectors (Table 3.6), and is highly correlated with poverty incidence (Figure 3.8).

Figure 3.7 The composition of employment has moved toward wage workers but vulnerability remains high.



Source: LFS

Figure 3.8 Vulnerable employment is highly correlated with poverty incidence at the regional level in 2009.



Source: LFS 2009, NSCB

Table 3.6 Agriculture and the informal services sectors have the highest rates of vulnerability.

Composition of employment by sector

Industry	Wage and salary	Own account	Unpaid	Total
Agriculture	29.1	46.0	24.9	100
Industry	81.8	14.6	3.6	100
Manufacturing	73.6	20.3	6.1	100
Others	92.2	7.4	0.4	100
Services	63.6	30.4	5.9	100
Formal	90.1	7.9	2.1	100
Informal	50.7	41.5	7.8	100

Source: LFS 2011

74. **Even among wage workers, many are informal workers.** Many wage workers do not receive adequate protection from the Labor Code. The Labor Code *de facto* protects only about a third of wage workers. The majority of wage earners face a high degree of income insecurity and a low degree of social protection (Table 3.7). Data from the ISS show that 63 percent of workers in 2008 had no written contracts and 62 percent had no social insurances. Such attributes significantly increase the probability that workers are subjected to labor abuse. They also expose workers to sudden income shocks when they lose their jobs. Protection from and compensation for dismissal are also limited. Almost 60 percent of wage workers reported that they can be terminated without advance notice, and an even larger share of workers (70 percent) did not receive termination pay. Agricultural workers exhibit the highest degree of informality, with more than 90 percent of workers exposed to low protection and a high level of income insecurity. The level of informality is lower in industry and services but employment is still mostly informal in these sectors (64 and 52 percent, respectively).

Table 3.7 Measures of informality for wage workers

	Written	Verbal	None
Type of contract	36.7	40.1	23.2
	Yes	**No**	
Social Insurance (Social Security System or Government Service Insurance System)	38.1	61.9	
Protection from dismissal	41.4	58.6	
Compensation in case of dismissal	29.8	70.2	
Leave benefits			
Paid leave	28.0	72.0	
Sick leave	28.9	71.1	
Maternity/paternity leave	27.3	72.7	

Source: ISS 2008

Conclusion

75. **With a perennially weak employment record, the Philippines has not been able to reduce poverty and inequality at a faster pace. Majority of Filipinos are informally employed and vulnerable to poverty.** Lack of human capital endowments and low rate of return on these endowments explain this outcome. To address these issues, more investment in education and health is needed, as well as reforms to provide more opportunities for these workers to move up the job ladder. These are discussed in Part III of this report.

Chapter 4 – Migration

Supply and demand for overseas work

76. **With rising wage gaps between the domestic and global labor markets and limited domestic job opportunities, more than 10 million Filipinos and their families had left the country to work abroad as of 2012.** Around six million Filipinos (equivalent to 12 percent of the active labor force) are working overseas under fixed-term contracts, apart from about six million permanent migrants. Filipinos' international labor mobility dates back to the American colonial period, when thousands of Filipinos migrated to Hawaii to work in plantations. However, outmigration accelerated in the early 1970s when government policies and institutions were established to mitigate rising unemployment and facilitate overseas deployment.[65] Between 1975 and 1985, overseas employment grew by over 20 percent annually while domestic unemployment rate fell from around eight to five percent. This pattern seems to suggest that overseas employment helped ease domestic labor market pressure.

77. **On the demand side, globalization and technological progress have induced the rapid movement of Filipinos to jobs abroad.** Clemens et al. (2009) highlights three forces that generate global labor movements. These are i) the large and increasing gap in average real wages between developing and developed countries,[66] ii) diverging demographic trends with developed countries exhibiting inverted population pyramids that contrast with the broad-based population pyramids found in many developing countries,[67] and iii) a shift in relative demand from goods to services, particularly in developed countries.[68] As services are not moveable, delivery of services across borders (e.g., healthcare services) often requires the international movement of workers.

78. **The Philippines has taken advantage of global labor mobility opportunities more than most other countries.** In fact, Filipinos find more jobs abroad than at home. In 2010, every day, some 4,000 Filipinos found jobs abroad, as opposed to some 3,000 domestic jobs created each day, according to the National Statistical Coordination Board (NSCB). Majority of overseas jobs are found in the services sector. Among labor-exporting countries in 2010, the Philippines was the fourth-largest recipient of remittances, which amounted to some USD 20 billion (nearly 10 percent of GDP), more than the value-added of merchandise exports. These data indicate that the Philippines' comparative advantage is in the export of services.

---

[65] See Ang (2007) for more discussion.

[66] According to Clemens et al. (2009), Filipinos with nine years of education are estimated to earn 3.5 times as much in the US as in the Philippines.

[67] This means, among other things, that the ratio of active workers to dependents is quickly declining in developed countries and rising in developing countries like the Philippines.

[68] This, too, is partly a consequence of diverging demographic trends, as an aging population requires more healthcare services and other complementary low-skill or manual services.

Trends in overseas employment

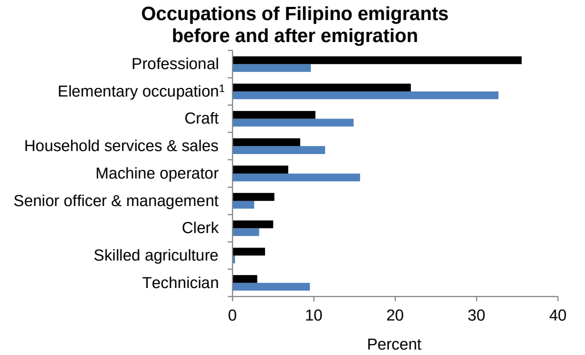
79. **Overseas employment for Filipinos diversified in the past 15 years.** Many Filipinos now work in high-skill sectors and are found across a range of industries. Both land-based and sea-based jobs are growing, and the number of rehires attests to a global preference for Filipino workers with proven skills and competence.

80. **The share of overseas Filipino workers (OFWs) in high-skill jobs has grown in the last decade.** Over 40 percent of OFWs today hold high-skill jobs, such as in healthcare, accounting, and information technology, compared to less than 30 percent a decade ago. The better-educated and professionals have an easier time finding jobs abroad. Government data show that some 60 percent of OFWs have college or university degrees and 25 percent have high school degrees. This is in sharp contrast to the domestic labor market where only 27 percent of workers have tertiary education.[69] Moreover, some 40 percent of OFWs used to be professionals or senior managers in the Philippines. However, some have accepted lower-level jobs abroad just to earn higher incomes, while some do not meet higher qualification standards (Figure 4.1).

81. **Seafaring jobs have been increasing steadily** (Figure 4.2). The Department of Labor and Employment (DOLE) estimates that Filipinos make up 25 percent of the global seafaring market.[70] Sea-based jobs accounted for about a quarter of the 1.5 million overseas jobs filled in 2010. The increase in employment in the international shipping industry (e.g., in gas, chemical, and oil tankers) during the 2008-09 slowdown may be attributed to shipping firms' cost-cutting measures, such as replacing workers with lower-cost and yet well-qualified Filipinos.[71]

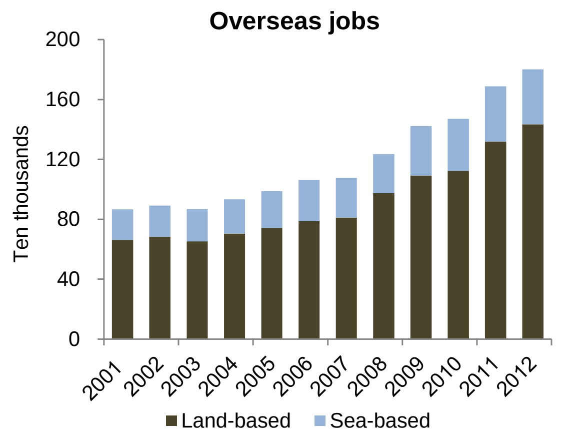
[69] See World Bank (2010b) for more discussion.
[70] Source: DOLE (2011)
[71] See World Bank (2010c) for more discussion.

Figure 4.1 Many Filipino professionals downgrade their jobs to work abroad.



Source: Survey of Overseas Filipinos 2003
Note: 1. "Elementary occupations consist of simple and routine tasks which mainly require the use of hand-held tools and often some physical effort" according to the International Labour Organization's International Standard Classification of Occupations.

Figure 4.2 Growth in overseas jobs accelerated in the past decade.



Source: Philippine Overseas Employment Administration (POEA)

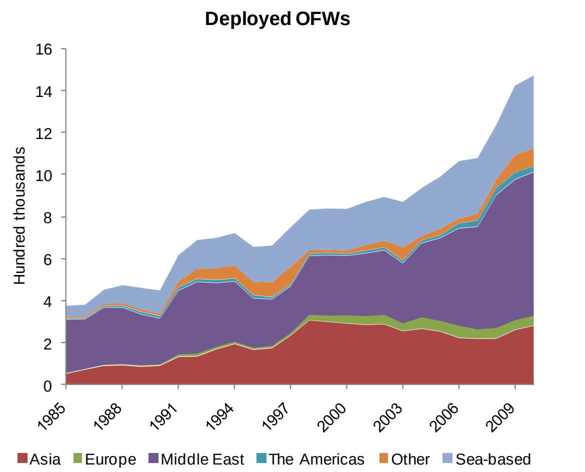
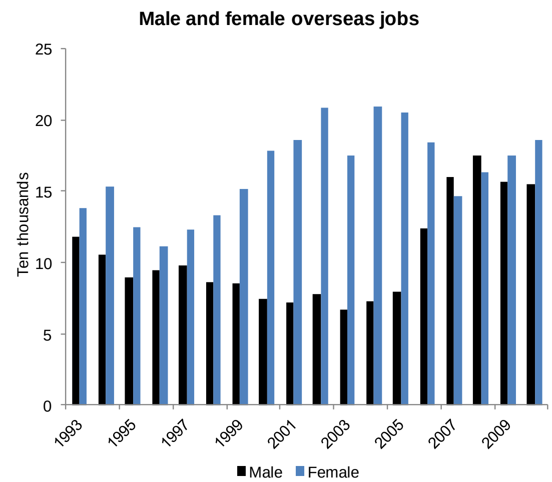
82. **The Middle East offers the largest number of overseas land-based jobs for Filipinos.** The top three countries seeking Filipino workers in 2010 were Saudi Arabia (26 percent of total land-based jobs), followed by the United Arab Emirates (UAE) (18 percent), and Hong Kong (nine percent). There has been a sharp increase in Filipino employment in the Middle East since 2004 (Figure 4.3), accounting for some 60 percent of total overseas employment in 2010, as oil prices escalated and fueled their economies. On the other hand, deployment to Asian countries contracted during 2004-10. Strong demand for female domestic helpers continues to grow in Hong Kong. Many of these domestic helpers have college degrees (some used to be public school teachers in the Philippines) but they opted to downgrade their jobs in exchange for higher wages.

83. **Most OFWs are rehires or under contract renewals and do not represent new job creation.** More than 60 percent of workers are rehires, according to Philippine Overseas Employment Administration (POEA) data. The high rate of rehires shows employers' preference for Filipino workers with previous work experience abroad.[72] It also attests to the growing popularity of the "Filipino brand." However, the lack of new hires despite the growing demand for OFWs indicates that many Filipinos lack the skills or experience required to be hired in the present global market. This is discussed in the next section.

84. **Among land-based overseas jobs, new job creation is concentrated in construction and retail services, with male workers getting increasingly more jobs** (Figure 4.4). In 2010, these two sectors accounted for more than 80 percent of new land-based jobs (Figure 4.5). Females mostly find work as domestic helpers in Hong Kong, Kuwait, and UAE, restaurant servers and bartenders in Saudi Arabia and UAE, cleaners in Saudi Arabia, and caregivers and caretakers in Taiwan. Male workers found work mostly in construction as wiremen, plumbers, and welders, largely in Saudi Arabia and Qatar. The creation of 100,000 industrial jobs in South Korea and

[72] See Orbeta and Abrigo (2009) for more discussion.

Taiwan explains the spike in the number of jobs filled by Filipino male workers in recent years, a reversal of the earlier contraction. An increasing number of OFWs are professionals working in the information technology, accounting, and medical fields, and are found all around the world.

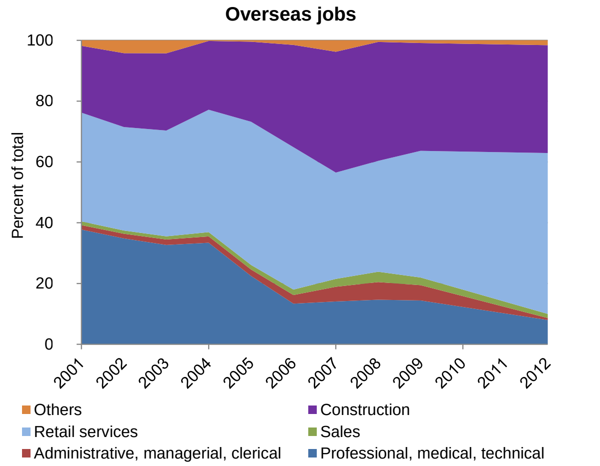
Figure 4.3 Majority of temporary jobs are found in the Middle East.	Figure 4.4 Deployment of male workers increased significantly in the past decade.
 Source: POEA	 Source: POEA

Qualifications and skills mismatch

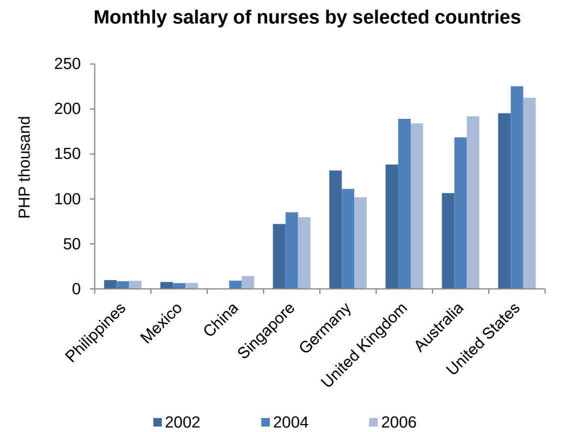
85. **Better job prospects, especially skilled jobs, in the global labor market have drawn many people back to school or to improve their skills through training.** A survey conducted in Metro Manila by the authors of the report revealed that half of respondents chose their fields of study mainly to improve their chances of getting jobs abroad, rather than jobs at home. This is particularly evident in the field of nursing. A significant number of students enroll to get nursing degrees, intending to work abroad, considering the large wage differential between domestic and overseas nursing jobs (Figure 4.6).[73] However, overseas demand for nurses has slowed down in recent years, and many nurses do not qualify for overseas work. As a result, many nurses have become unemployed, have taken jobs outside their fields (e.g., as BPO employees), or have even accepted jobs requiring lower skills.

[73] See Murata (2012a) for more discussion.

Figure 4.5 Most overseas jobs are in retail services and construction.	**Figure 4.6 Salaries of nurses are much higher abroad.**



Source: POEA



Source: WB staff estimates using International Labour Organization data
Note: Values are PPP adjusted.

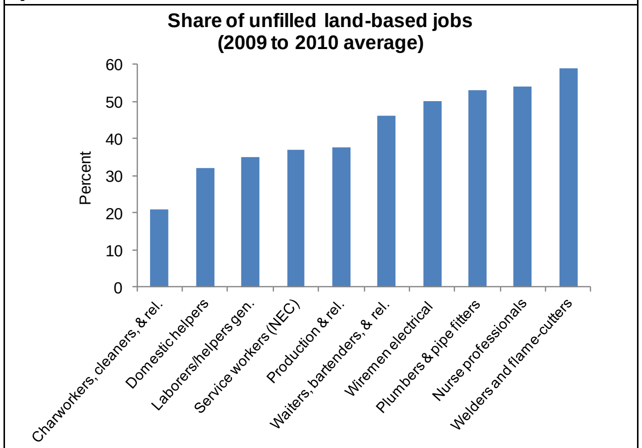
86. **The desire of many Filipinos to prepare for work abroad has generated some job and skills mismatch in the domestic labor market, especially among skilled positions.** As schooling and training have generally been geared toward the global labor market (e.g., nursing, seafaring, and hotel and restaurant management), the economy has faced several skills shortages in a number of sectors such as engineering and general management. The Commission on Higher Education's (CHED) Graduate Tracer Study reveals that college graduates are unable to work in their fields of specialization because i) there is no job in the area of specialization, ii) graduates lack required qualifications, iii) available jobs did not meet the search criteria of job seekers (i.e., the starting salary is too low), iv) no interest in getting a job in the field, and v) the college is not prestigious enough (Santamaria and Watts 2003).

87. **Skill mismatch is also evident in some overseas job markets** (Figure 4.7). Mismatch is more apparent among professionals. While 36 percent of OFWs used to have professional occupations in the Philippines, less than 10 percent of OFWs currently hold professional positions abroad. POEA data show that the downward adjustment is particularly high among female overseas employees. McDonald and Valenzuela (2009) find that Filipinos' qualifications do not necessarily reflect the skill sets required for overseas jobs. Lower quality of education and training are key reasons for this mismatch.

88. **However, lack of qualifications is the more pressing concern.** While demand for Filipino workers has been rising, vacant overseas jobs are becoming more difficult to fill. Data from POEA show that nearly 72 percent of approved job orders were unfilled in the second quarter of 2011 (Table 4.1). The gap is prominent among semiskilled jobs, such as welders, plumbers, and electricians. POEA's field survey finds that applicants fail to get overseas jobs because of i) lack of experience (at least two years of experience in their respective fields is often required), ii) limited years of formal education (i.e., 10 compared to 12 years of basic education), iii) lack of license, iv) lack of vocational-related training, and v) insufficient work experience abroad.

These reasons apply particularly to nurses. Despite an oversupply of nurses in the Philippines,[74] some 50 percent of approved overseas nurse job orders were unfilled in 2009-2010.

Figure 4.7 Positions requiring more skills are more difficult to fill, nurses and welders in particular.



Source: POEA 2011
Note: "Rel." stands for "related workers," "gen." for "general," and "NEC" for "not elsewhere classified."

Table 4.1 More than half of approved overseas job orders were unfilled in 2010-11

	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2
Total approved job orders	148,675	154,148	175,577	145,645	203,748	176,606
Percent of processed	26.2	44.4	59.8	52.8	30.2	28.1
Percent of unfilled	73.8	55.6	40.2	47.2	69.8	71.9

Source: POEA

Conclusion

89. **In summary, while overseas migration is a testament to the competitiveness of Filipino workers in the global market, it also reflects a domestic economy that is unable to provide good jobs to the majority of its people.** A number of factors explain the country's weak employment record, slow progress in reducing poverty, and rising outmigration. Foremost is the lack of structural transformation in the Philippine economy, as evidenced by its weak agriculture and manufacturing sectors — the two sectors that could have provided jobs to the poor. The weak performance of these two sectors is traced to the country's long history of policy distortions and underinvestment in physical and human capital. Moreover, the high cost of doing business and more rigid labor regulations have hindered entrepreneurship, which could have also created jobs for the poor. These issues are discussed in Part II of this report.

[74] As of the first quarter of 2011, around 700,000 nurses were registered with the Professional Regulatory Commission (PRC) (Source: PRC data as cited in the Labor Market Monitor of the Bureau of Local Employment [BLE] [2011]). Every year in the past five years, around 156,000 nursing candidates took the nursing board exam. Around 65,000 (42 percent) passed the exam and were added to the roster of registered nurses.

Part II – What went wrong in the Philippines

Chapter 5 – Structural transformation and economic development

Stylized facts

90. **Economic development involves a gradual transformation from activities with low productivity to activities with higher productivity.** In most countries, this involves a structural transformation from agriculture to manufacturing and then to high-skill services.[75] There are several possible transformation stories, some more successful than others. The process can start with growth in the urban manufacturing sector (e.g., during the Industrial Revolution in England), or with growth in agriculture (e.g., when China abandoned collective farming in favor of household farming in the late 1970s). It involves large-scale movement of workers from one sector to another, from rural to urban, and from one type of business to another. In each movement, different skills are required. Key factors of a successful and relatively rapid transformation are the development of labor-intensive and productive agriculture, and the growth of export-oriented manufacturing. This combination creates jobs for the majority of the population, keeps food prices relatively low, allows workers to acquire new skills, and can successfully accommodate large migrations from rural to urban areas. Without this combination, as history has shown, rapid economic development will not be sustained. This has been the case in the Philippines

91. **Successful transformations are typically one of two scenarios. In one scenario, urban manufacturing growth leads to higher wages that trigger labor migration from rural agricultural areas to urban areas.** The resulting urban population growth leads to higher food prices, making agriculture more profitable for the remaining rural workers. Higher farm profits then lead to increased farm and non-farm investments, and given the strong multiplier and linkage effects of agricultural growth, rural investments lead to improvements in rural livelihoods that result in poverty reduction. At the same time, agricultural productivity increases so farmers remain profitable even at lower farm output prices relative to non-food prices. Higher farm profits in turn fuel further the growth of the urban manufacturing sector, including export manufacturing. Over time, farm output prices decline relative to farm input prices. Nonetheless, agriculture continues to grow through the efficient use of costlier inputs, wider adoption of modern technologies, and a more diversified output structure that includes higher value-added products. The process continues until urban productivity and rural productivity are equalized.

[75] For more discussions on structural transformation, see Lin (2012), Usui (2012), and Timmer and Akkus (2008), among others.

92. **In the other scenario, increased profitability in agriculture increases farm income, which, through the same multipliers and linkages, promotes growth of the non-farm sector.** The basic local manufacturing capacity that is created in this process is then well-positioned to exploit the export markets, which provide a new source of sustainable growth, further accelerating the structural transformation process. In the East Asia region, China is the most recent example of this second scenario[76], which had earlier occurred in Japan, South Korea, and Taiwan, China.

93. **In both scenarios, the sector that grows the fastest (manufacturing) is not the sector that reduces poverty (agriculture).** In most cases, it is agriculture that reduces poverty.[77] However, both sectors are needed for a successful structural transformation. The exception would be a scenario in which the urban export sector creates jobs at such a rapid and massive scale that agriculture does not need to fulfill its traditional role as the sector that provides the poor with jobs and effectively sets the minimum wage for the economy. But such cases are rare.

94. **Unsuccessful transformations, unfortunately, are many.** Well-known unsuccessful scenarios are the enclosures during the British industrial revolution, the forced industrialization in the former Soviet Union in the first half of the 20th century, the collectivization of agricultural production in China before 1978, and countless state-led industrialization drives in Africa in the 1960s and 1970s. This type of industrialization led to initial rapid economic growth that was followed by long periods of stagnation and eventual collapse. For instance, from the 1920s to the 1960s, the former Soviet Union prioritized state-led capital-intensive manufacturing while taxing agriculture excessively. This, together with the absence of market institutions, led to its collapse in the late 1980s.[78] Other unsuccessful transformations quickly led to collapse and prompted important corrections. This was the experience in China before 1978. Individual household farming had been abolished and farmers were herded into collective production units, which resulted in massive famines as productivity collapsed. Only after collective farming was abandoned did China embark on a successful transformation scenario, which started in agriculture and basic manufacturing, before moving on to manufacturing for export.[79]

95. **Taking shortcuts is particularly fraught with difficulties.** Attempts at shortcuts (i.e., rapid industrialization without improving agricultural profitability and productivity), have proven to be particularly difficult.[80] A successful transformation hinges on i) rural incomes rising, so that the more enterprising households or household members can acquire the necessary basic education to make the transition to non-farm sectors, particularly urban manufacturing, ii) agricultural productivity increasing in response to higher prices, iii)

[76] See Naughton (2007), Dollar (2007), Dollar (2008), and Montalvo and Ravallion (2009) for more discussion on the China case.
[77] See Lipton and Ravallion (1993) for more discussion.
[78] See Lin (2012) for more discussion.
[79] See Timmer (2007) for more discussion.
[80] Singapore and Hong Kong are exceptions (Timmer and Akkus 2008).

manufacturing serving as a major source of growth, generating employment and skills and industrial capacity, and sustaining aggregate demand, and iv) avoiding inappropriate policy responses to the initially widening and politically sensitive gap between the rural and urban sector, such as unsustainable agricultural subsidies or uncompetitive practices, which are invariably captured by better-off farmers and agricultural corporations,[81] undermining long-term productivity growth.

96. **An unsuccessful structural transformation translates into an economy that is unable to grow rapidly and sustainably, create jobs, and reduce poverty.** This is because it is not based on a productive and labor-intensive agricultural sector that will reduce poverty, a fast-growing manufacturing sector that will absorb excess labor from agriculture and that will use new skills and technology, and a services sector that can provide good jobs when rising wages start to make labor-intensive manufacturing uncompetitive. The Philippine experience is that of an unsuccessful transformation, characterized by intermittent periods of growth, low quality of employment, and slow progress in reducing poverty.

97. **Successful structural transformation scenarios translate to higher agricultural productivity, strong job creation in manufacturing and then in services, and faster poverty reduction.** Agricultural productivity growth keeps food prices relatively low, thereby keeping wages competitive while also allowing consumers to spend more on non-food items. This further boosts the manufacturing sector and allows it to absorb excess agricultural workers created by agricultural productivity growth. As agriculture and manufacturing provide more jobs to the poor, poverty is reduced faster. Continued growth in manufacturing productivity and increased aggregate demand then opens up the economy to a new stage: growth led by a high-skill services sector. Such a pattern of structural transformation is the experience in most developed countries, including the high-performing economies in East Asia.

Structural transformation in East Asia[82]

98. **Between 1960 and 1997, a number of East Asian economies experienced rapid and sustained economic growth.** This successful structural transformation began in Japan, South Korea, and Taiwan, China in the 1950s. It has been replicated, albeit less successfully, by Indonesia, Malaysia, and Thailand since the 1970s. These economies grew by an average of 7.3 percent annually or 5.3 percent in per capita terms.[83] These economies had initially been characterized by a shift from agriculture to labor-intensive and export-oriented manufacturing. As they developed, they became increasingly driven by capital-intensive manufacturing and

[81] See Eastwood et al. (2010) for more discussion.
[82] This section draws in part from World Bank (1993), World Bank (2007), Fan and Chan-Kang (2005), and Vollrath (2007).
[83] This is computed as the simple average of annual growth rates of Hong Kong, Indonesia, Japan, South Korea, Malaysia, Singapore, and Thailand for the period 1960 to 1997. The real per capita GDP growth of Taiwan, China covers 1980 to 1997.

high-skill services. The average share of agriculture to GDP fell from 35 to 10 percent, while that of manufacturing increased from around 10 to 30 percent before declining as high-skill services took over (Figures 5.1, 5.3, and 5.5).[84] This structural change is also evident in the pattern of employment by sector (Figures 5.2, 5.4, and 5.6). By the 1980s, the first group of “industrializers” began to shift toward high-tech manufacturing and high-skill services. This successful structural transformation from agriculture to manufacturing and then to high-skill services is the underlying reason for East Asia’s “miracle” growth and poverty reduction.

99. **The successful structural transformation in these countries enabled them to create jobs and reduce poverty rapidly.** The unemployment rate in these countries fell to around three percent[85] (Figure 5.7) and poverty headcount at the USD 2 poverty line was reduced from around 90 percent in 1981 to around 40 percent in 2008 (Figure 5.8). In some countries like Malaysia and Thailand, poverty at the USD 1.25 line was eliminated. Inequality started from a low level and then gradually increased with growth (e.g., Indonesia) or it declined over time (e.g., Malaysia).[86]

Figure 5.1 As expected, most countries have been transitioning out of agriculture.

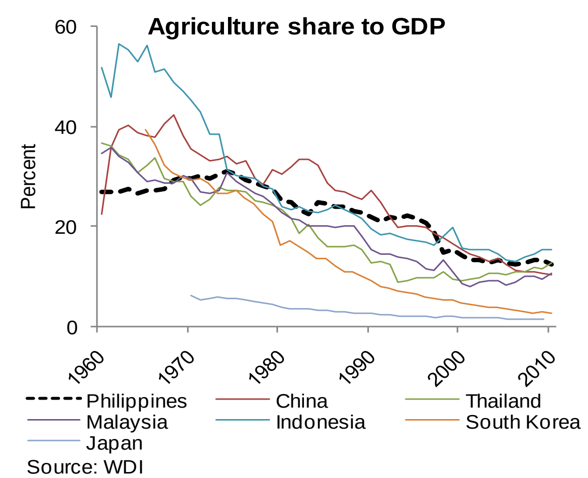
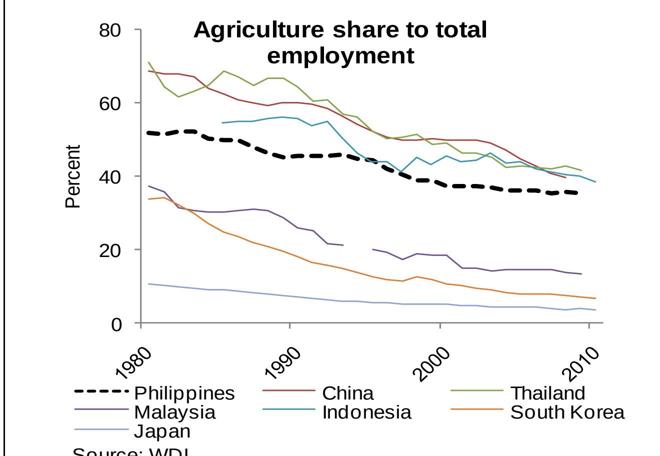


Figure 5.2 As expected, most countries have been transitioning out of agriculture.

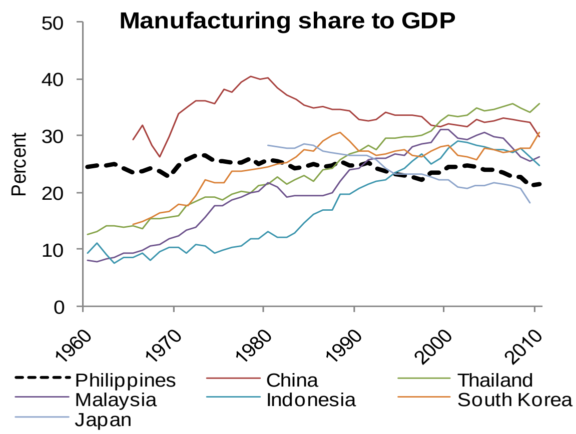


[84] This is computed as the simple average of annual sectoral shares to GDP of China, Indonesia, Japan, South Korea, Malaysia, and Thailand for 1960 and 1997. Some countries have missing data for certain years.

[85] This is computed as the simple average of unemployment rates of China, Indonesia, Japan, South Korea, Malaysia, and Thailand. Some countries have missing data for certain years.

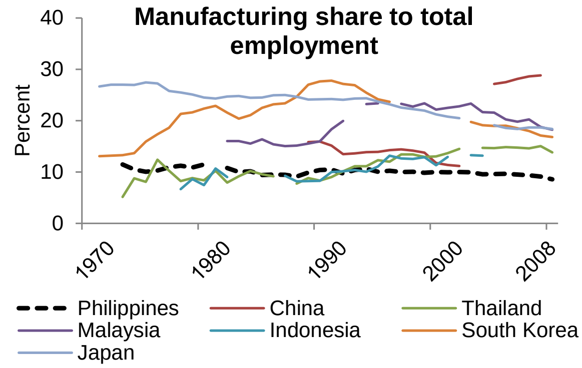
[86] See Figure 3.3 in Chapter 3 of this report.

Figure 5.3 The Philippines stands out as having a stagnant manufacturing sector.



Source: WDI

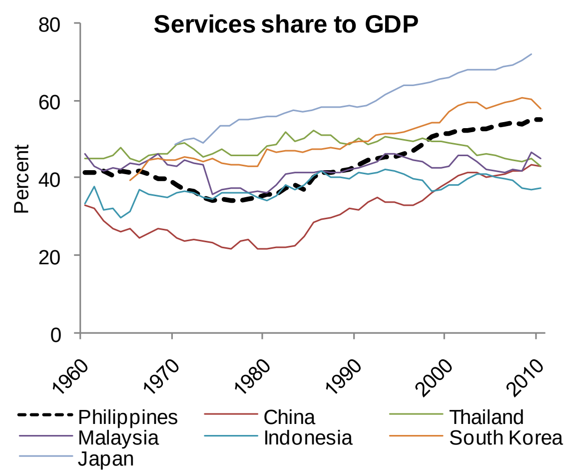
Figure 5.4 The Philippines stands out as having a stagnant manufacturing sector.



Source: ILO

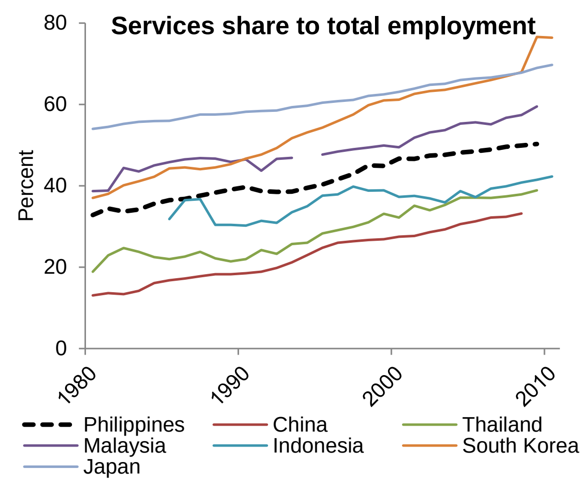
Note: The 1969-2000 series cannot be linked to the 2001-2008 series because of a change in industry classification. The former series uses the second revision of the International Standard Industrial Classification, while the latter uses the third revision.

Figure 5.5 In most countries, the services sector is becoming the dominant sector of the economy.



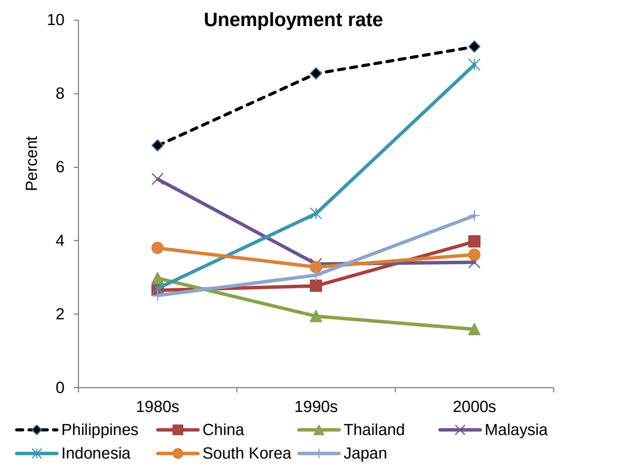
Source: WDI

Figure 5.6 In most countries, the services sector is becoming the dominant sector of the economy.



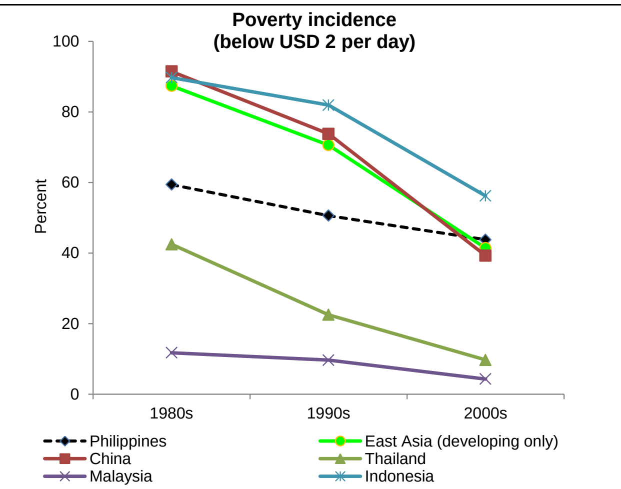
Source: WDI

Figure 5.7 In most countries, unemployment was half that of the Phiippines.



Source: WDI

Figure 5.8 Progress in poverty reduction was much faster in other countries.



Source: WDI

Increasing agricultural profitability and productivity as prerequisites to sustained growth

100. **In these successful East Asian economies, raising the profitability of smallholder agriculture, the core farming structure in the region, was the first step in the transformation process.** These countries had either substantial landholdings from traditional small family ownership patterns (e.g., Indonesia) or had an effective land distribution program (e.g., Japan, South Korea, China, and Taiwan, China).[87] In addition to land redistribution, all these countries ensured a basic measure of security of tenure and allowed a land rental market, which facilitated the consolidation of farms and the shift to manufacturing as farmers moved out of agriculture.[88] In addition, they provided crucial farmer support services and invested in rural infrastructure.

101. **Effective land redistribution in these countries was the beginning of a period of accelerated agricultural growth and increasing equality.** By having their own land, small

[87] In Japan, ownership of land was transferred from landlords to tillers and small tenant farmers during the US occupation. South Korea's land reform program set a maximum farm size of three hectares. The excess was bought by the government and distributed to small or landless farmers. Prior to this, most agricultural workers were tenants and paid rents to landlords (Kim 1992). In China in the 1950s, the government took land from landlords and distributed them to landless farmers to be managed collectively, which proved disastrous. However, when in the late 1970s the household responsibility system (which provided incentives to invest in agriculture) was introduced, China's agricultural sector took off, and it has been very effective in reducing poverty ever since.

[88] International experience shows that secure property rights on land, whether *de jure* or *de facto*, provides sufficient basis for land rental markets to emerge, facilitating migration and the reallocation of land to more productive uses, while retaining the social safety net function of land for migrant workers. If formal social security systems do not yet exist, secure property rights on rural land for urban workers are important elements of the initial phases of a successful structural transformation process.

farmers had the incentive to work hard. This led to higher farm profits, which they invested to improve productivity. Labor productivity in agriculture grew fastest in Japan and South Korea at around five percent,[89] while land productivity grew fastest in China and South Korea at around three percent.[90] In addition, their governments invested heavily in irrigation, roads, and research and development, and provided market support and extension services to farmers. Finally, these countries leveraged on technological progress brought about by the Green Revolution[91] to further raise productivity.

102. **Higher agricultural productivity and rural investment allowed these countries to successfully proceed to the next stage of the structural transformation: manufacturing.** They did so by lowering food prices for consumers and subsequently farm profits, thus creating incentives for excess agricultural workers to move out of farming and in the process sustained the income of workers left behind in agriculture. Government investment in education, health, and rural-to-urban infrastructure facilitated this transition, providing transitioning workers with options to set up their own non-farm businesses or to work in the growing manufacturing sector. An important corollary to a profitable smallholder sector was the emergence of a thriving non-farm sector through strong backward and forward linkages of agricultural production and local multiplier effects of farm incomes, thereby reducing unemployment and poverty. This increase in broad-based aggregate demand also provided the initial platform for basic manufacturing to take off and provide simple manufactured goods to the local markets. These series of events marked the beginning of a successful transition toward industrialization in East Asia.

Export-driven industrialization necessary for reaping growth dividends

103. **Having taken these first steps on the path towards a successful structural transformation, these countries then made the conscious push toward export-oriented manufacturing.** The basic manufacturing capabilities acquired in the first phase positioned the sector well to move to an export-led growth in the second phase. Unlike services, which require an accumulation of skills and institutional capacity that can take many years to build, manufacturing allows for relatively easy copying of foreign production technologies, which these countries used to move up the value chain. To illustrate, production capabilities acquired in garments can position the country relatively well for a transition to food processing, and then on to construction, metal products, and finally electronics.[92] The traded nature of

[89] The figure for Japan and South Korea is the average growth in labor productivity in agriculture from 1961 to 2000.

[90] Land productivity is calculated as agricultural GDP divided by agricultural land (in hectares). The figure for China and South Korea is the average growth in land productivity from 1961 to 2000.

[91] The Green Revolution refers to the increase in crop yield through the use of modern varieties, or crop varieties that have more nutrition and higher drought or pest tolerance, and are more suitable to the local environment (e.g., hybrid seeds).

[92] See Hausmann et al. (2011) for more discussion.

manufacturing means that opportunities for technology transfer and competition from foreign firms can help enhance productivity and efficiency of manufacturing much more than traditional agriculture and non-tradable services.[93]

104. **In these countries, market incentives and targeted government interventions made the transition to export manufacturing easier.** These included i) less restrictions on the importation of parts, because exporting firms needed to access direct and indirect inputs at internationally competitive prices, ii) preferential bank lending to high-performing firms, iii) a well-targeted system of tax incentives for exporting firms based on performance, with penalties if export performance missed the set targets, and iv) accumulation of large foreign reserves to contain currency appreciation. Underpinning the export-led growth was macroeconomic stability and healthy fiscal balances, which allowed these countries to invest significantly and sustainably in infrastructure, health, and education.

Structural transformation in the Philippines

105. **In contrast, the Philippines took a different road.**[94] Despite having a head start over these neighbors in manufacturing in the 1950s and 1960s, the country failed to industrialize. Instead, since the 1960s, the share of manufacturing to GDP stagnated at around 25 percent, while other countries steadily increased their shares and eventually surpassed the Philippines (Figure 5.3). By the year 2000, all neighboring countries had higher shares than the Philippines. The same is true for the share of manufacturing employment, which hardly rose above 10 percent (Figure 5.4). A scatter plot of the Philippines' share of manufacturing to GDP and GDP per capita shows that the country's manufacturing sector began to decline at an early stage of its development, even before reaching GDP per capita of USD 500 (Figure 5.9). This trajectory is quite similar to the experience of several Latin American countries when using the industry[95] to GDP ratio) (Figure 5.10). In contrast, most other countries in East Asia saw increasing shares of industry to GDP up to GDP per capita of USD 10,000 (Figures 5.11 to 5.12). 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.

[93] See Rodrik (2011) for more discussion.
[94] See Balisacan and Hill (2003a) and Usui (2012) for more discussion on the Philippine case.
[95] Total industry share is used as proxy for manufacturing in cross country comparisons as comparable manufacturing data is not available for all countries.

Figure 5.9 Philippine manufacturing GVA and GDP per capita shows an early downward trend.

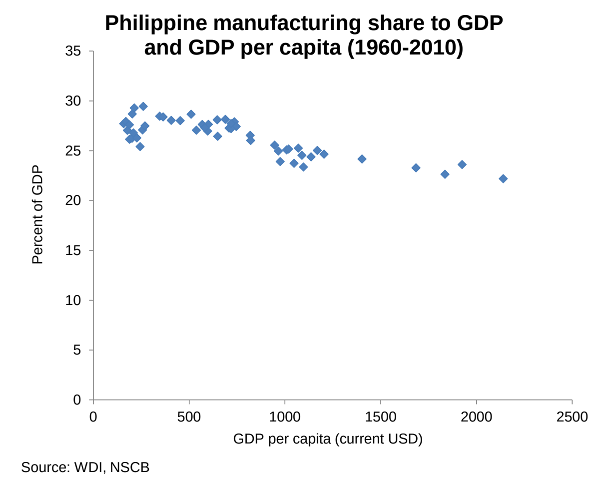


Figure 5.10 The Philippines' experience is similar to Latin America's...

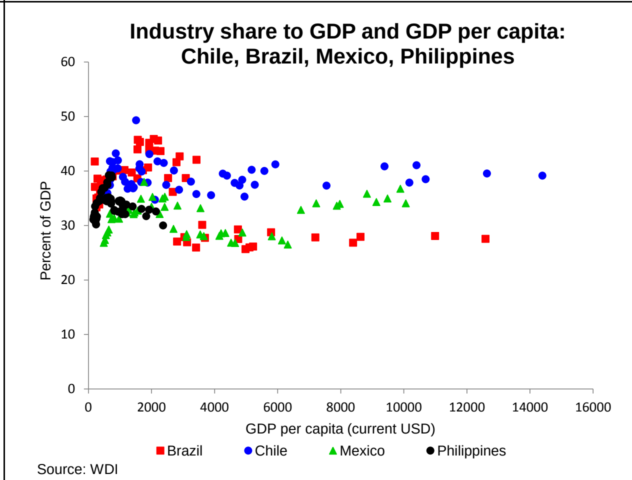


Figure 5.11 ... and is in stark contrast to that of the ASEAN-4 countries...

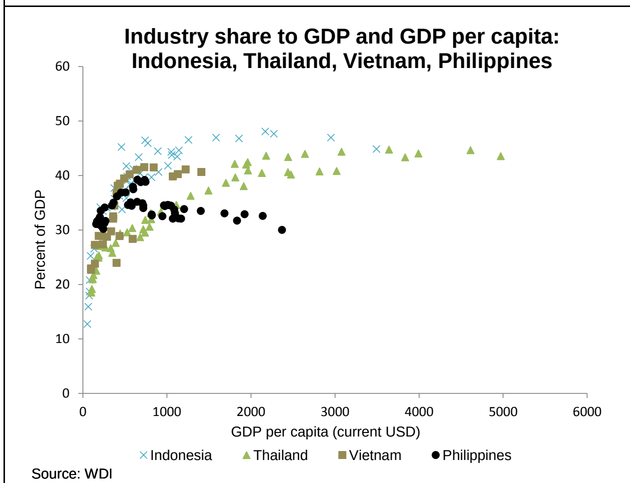
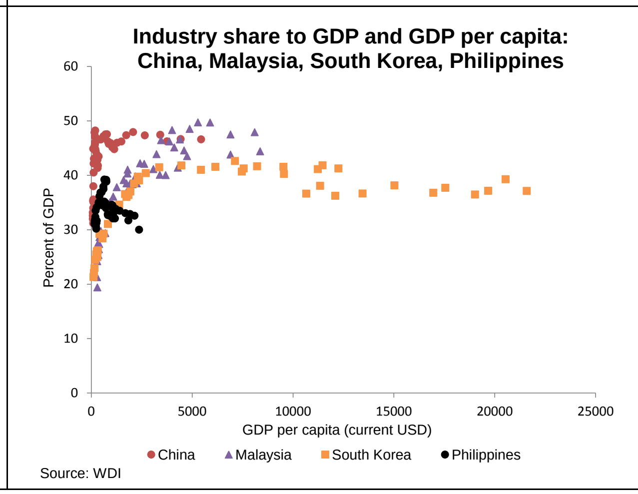


Figure 5.12... and the rest of developed East Asia.



106. **Without a rapidly growing manufacturing sector, the services sector became the catch-basin that absorbed excess labor from an equally stagnant agriculture sector.** While the services sector has been the largest employer since 1997, there have been no significant increases in its productivity. At present, around 80 percent of workers in the services sector are low-skilled[96] or informally employed,[97] and almost half of services' value-added is derived from

[96] Low-skilled workers are operationally defined to include workers who did not graduate from high school.

[97] Informal workers are 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). All other workers are considered formal workers.

the informal sector. The majority of services workers are found in the retail trade and public transportation sectors, which have the highest incidences of informality.

Why the lack of structural transformation?

107. **The country's lack of structural transformation is explained by persistent policy distortions that have slowed the growth of agriculture and manufacturing over the past century.** In agriculture, land inequality remains significant to this day, while insecurity of property rights, both for land reform beneficiaries as well as for large landholders, have depressed incentives to invest.[98] This owes largely to the weak design and implementation of the country's land reform programs, which have not been completed even after six decades.[99] At the same time, public spending on rural infrastructure and agricultural research and development has been inadequate. Other policy distortions include the historical focus on crops (e.g., sugar and rice) instead of on farmers, which has led to the capture of agricultural support and subsidies by well-connected elites and other interest groups, to the detriment of overall agricultural profitability and productivity growth.[100] In manufacturing, several decades of protectionist policies, such as import substitution and foreign exchange and credit rationing, an investment deficit, and high input costs due to weak agricultural productivity prevented the sector from becoming a major driver of economic growth.

108. **The country's low levels of public investment in physical and human capital made the transformation difficult.** The Philippines' low investment in human capital especially in rural areas compromised a successful transition of labor from farm to non-farm sectors. And without adequate investment in health and education in rural areas, rural and agricultural productivity itself remained stagnant. Meanwhile, better services and higher wages in urban areas attracted migrants, which contributed to congestion in urban areas. However, without the necessary skills to transition to manufacturing and the lack of manufacturing jobs, migrants resorted to finding or creating work in the low-skill low-productivity informal services sector.

109. **The Philippines also lags behind its neighbors in attracting investment because of its weak investment climate and its costlier business and labor regulations.** Among business regulations, some of the most problematic issues include the high cost of starting, operating, and closing a business, paying taxes, and accessing finance. Among labor regulations, there are concerns about the high level of nominal minimum wages, *de facto* rigidity of employment protection laws, and the high cost of dispute settlement. These have contributed to the closure of many labor-intensive firms or have hindered their expansion. The ultimate effect of these policy distortions is to significantly limit good job creation.

[98] See David (2003) for more discussion.
[99] See Hayami et al. (1990) and World Bank (2009a) for more discussion.
[100] See David et al. (2009) as cited in Anderson and Martin (2009) for more discussion.

110. **These policy distortions, in turn, are the result of the particular political economy of the Philippines. It is characterized by many observers as one in which a small elite class is able to capture the economic institutions to its benefit, at the expense of the majority.** This elite capture, with deep historical roots, has resulted in a range of economic and political institutions that have systematically blocked the poor from accumulating wealth to move out of poverty. It has also deprived the majority of Filipinos of good jobs that would have raised real income and increased their stock of human capital. This capture has also undermined the inclusive growth agenda of successive administrations.

111. **To achieve higher growth and create more jobs for the poor, the Philippines needs to restart the transformation process.** Concretely, this means developing its agricultural sector and reviving its manufacturing sector. This process entails transforming the economy from one that is currently driven by narrow high-skill and capital-intensive sectors to one that is driven by labor-intensive, but relatively high value-added manufacturing, supported by a more productive agricultural sector. The challenge in agriculture is to improve the profitability of smallholder agriculture so that poverty is reduced and smallholders can make the investments needed to increase productivity so that food prices and manufacturing input costs are reduced. The challenge in manufacturing is to attract capital to a labor force that is not cheap by regional standards. These challenges imply finding ways to reduce elite capture of key sectors of the economy. To illustrate the potential benefits of restarting the transformation, a counterfactual scenario is developed in the next section: What if the Philippines, instead of taking a different road, had followed the transformation path of its successful neighbors?

A counterfactual structural transformation for the Philippines

112. **With the right policy framework supportive of agriculture and manufacturing, the Philippines can expect to see a pattern of structural transformation that is more in line with the experience of its successful East Asian neighbors.** Following the methodology of Timmer (2007), a simple counterfactual analysis for the path of sector employment and sector value-added is simulated over a 60-year period starting in 1956.[101] The path of poverty is also simulated over a 24-year period starting in 1985.[102]

113. **In the counterfactual scenario, sector value-added and labor productivity are assumed to grow much faster than actual.** Agriculture and services are assumed to grow by 1.5 times the historical average or 4.2 and 6.8 percent, respectively, while industry is assumed to grow by twice the historical average, or 8.4 percent. This gives a weighted average GDP growth of 6.7 percent, which is more in line with the growth rates of successful East Asian countries (Table 5.1). Labor productivities in industry and services are assumed to grow by 4.2 and 2.7 percent, respectively (or 0.5 and 0.4 times the growth of their respective sector value-added growth).

[101] 1956 is the earliest year when sector value-added and employment are available.
[102] 1985 is the earliest year when poverty data are available.

The higher labor productivity in industry means that agricultural workers are absorbed more into industry than in services.

114. **The counterfactual results underscore the importance of a successful structural transformation to long-run economic growth and poverty reduction.** As expected, agriculture would decline both in terms of value-added and employment contribution. The value-added share of industry, as well as its employment share, would rise over time. Services would continue to be the main employer but its contribution to value-added would be overtaken by industry (Figures 5.14 and 5.16 show the counterfactual while Figures 5.13 and 5.15 show the actual). Stronger growth in agriculture and manufacturing, as well as faster movement of people out of agriculture into manufacturing and services would have resulted in a much faster reduction in poverty. Assuming a doubling of the growth elasticity of poverty, official poverty incidence would decline from around 50 percent in 1985 to 10 percent in 2009 as opposed to around 25 percent in the actual case (Figure 5.17).

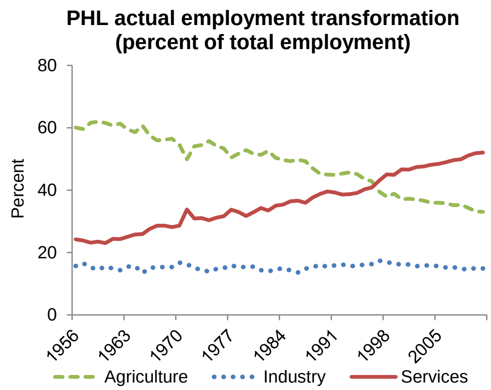
115. **The rest of Part II of this report is organized as follows.** The next chapter discusses the policy distortions in agriculture and manufacturing that have contributed to the country's weak growth and employment record. It also describes a number of successful reforms, notably in the services sector, that have created good jobs in the last 15 years, suggesting that similar reforms in agriculture and manufacturing can create even more jobs, in particular jobs for the poor. Chapter 7 discusses how the country's investment climate, and business and labor regulations affect employment generation.

Table 5.1 Actual numbers vs. counterfactual assumptions

	Labor productivity growth		GDP growth rates				Employment growth rate
	Industry	Services	Industry	Services	Agriculture	Economy	
Actual	1.5	0.3	4.2	4.5	2.8	4.0	2.7
Counterfactual	4.2	2.7	8.4	6.8	4.2	6.7	2.7

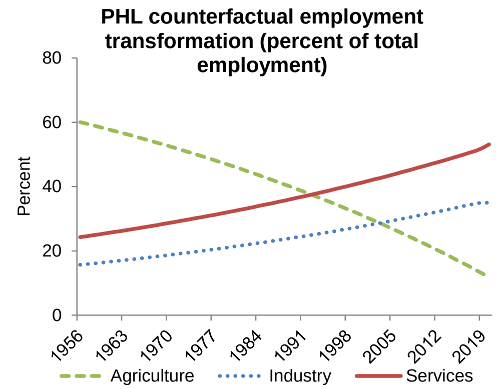
Sources: World Bank (WB) staff estimates using data from NSCB (national accounts) and NSO (Labor Force Survey)

Figure 5.13 The employment share of industry is stagnant in the actual scenario.



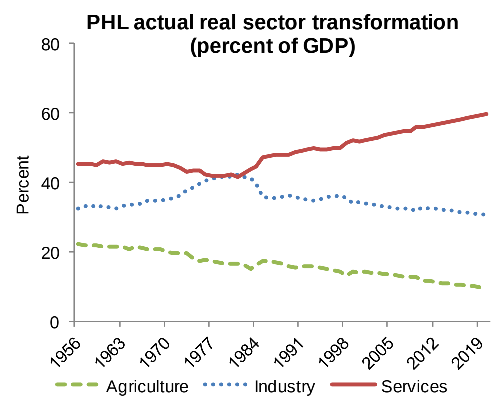
Source: LFS

Figure 5.14 The employment share of industry would rise in the counterfactual scenario.



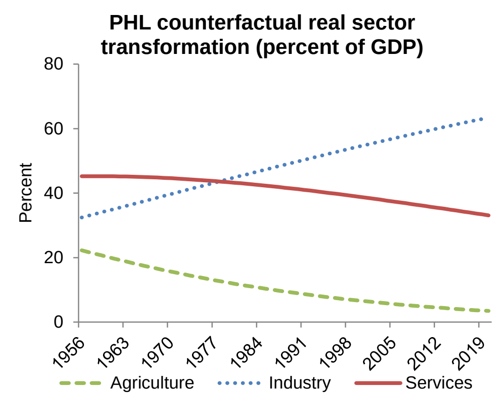
Source: WB staff estimates

Figure 5.15 The value-added share of industry falls in the actual scenario.



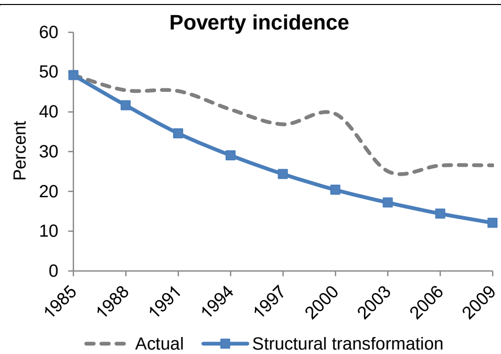
Source: NSCB

Figure 5.16 The value-added share of industry would rise in the counterfactual scenario.



Source: WB staff estimates

Figure 5.17 Poverty reduction would be much faster in the counterfactual scenario.



Source: NSO, NSCB, WB staff estimates
Note: Estimates for 1985-1997 cannot be linked to 2000-2009 because of changes in NSCB's method of estimating poverty.

Chapter 6 – Sector performance, policy distortions, and past reforms

> "The Philippine economy as currently constituted cannot on a sustained basis generate economic development … The essential structure of the Philippine economy is still Latin American rather than Asian: a highly inefficient manufacturing sector (whose productivity actually declined in the 1980s), sheltered behind high protective walls, uses excessively capital-intensive techniques; the rapidly growing labor force is absorbed, not into industrial jobs, but into subsistence agriculture and marginal service-sector employment" (Krugman et al. 1992).

Agriculture[103]

Sector overview

116. **The agricultural sector underperformed in the last 30 years.** On average, growth and productivity were lower than in other sectors (Figures 6.1 and 6.2) and in other countries in the region (Table 6.1). Employment in agriculture and in the rural sector in general is still characterized by low productivity[104] and returns, large-scale informality, and high incidence of poverty. Three out of every four poor Filipinos live in rural areas and are mainly dependent on agriculture.

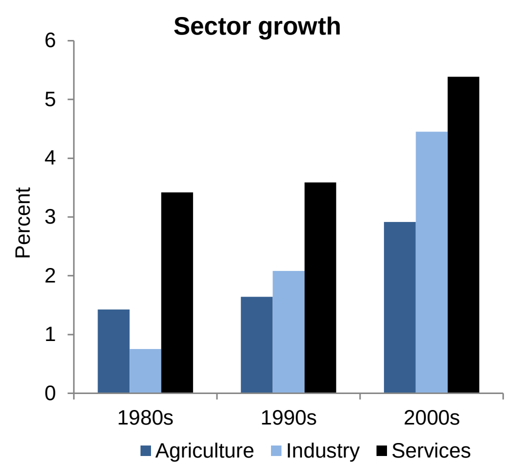
117. **Low agricultural productivity has negatively impacted household welfare, employment in other industries, and the competitiveness of the country in general.** Low agricultural productivity translates into high food prices that raise the cost of living and hamper the country's poverty reduction efforts. High food prices also translate into high statutory minimum wages, which have negatively affected employment generation in manufacturing and in the formal services sector.[105] In manufacturing, the high cost of sugar and other agricultural inputs have raised processed food prices and those of other finished goods. These further reduce household real income and make the manufacturing sector less competitive.

118. **Diversification towards more profitable crops has been limited.** The sector's structure remains broadly the same as in 1970. Rice remains as the dominant crop, accounting for around 45 percent of crop arable area and 24 percent of total agriculture gross value-added. Except for

[103] This section draws in part from World Bank (2010d), World Bank (2009a), and Briones (2012).
[104] Several studies (e.g., Mundlak, Larson, and Butzer 2004, and Teruel and Kuroda 2005) show that total factor productivity (TFP) growth in the agriculture sector has been declining due to lower investments in rural infrastructure, including roads, electrification, and irrigation.
[105] High food price strongly affects the minimum wage rate as food comprises around half of the consumption basket.

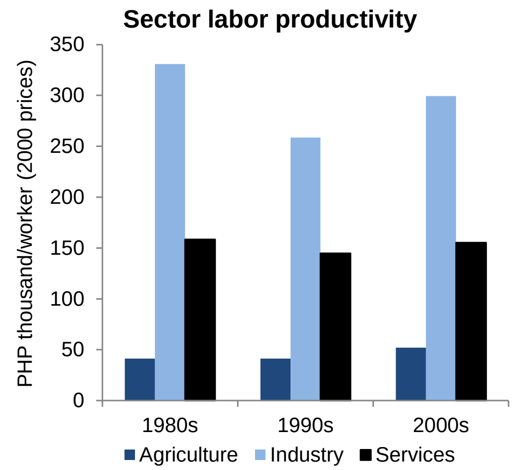
bananas and pineapples, agriculture exports have found it difficult to compete in the world market, given quality and price issues.

Figure 6.1 Agriculture growth was generally the lowest among the three sectors.



Source: National Statistical Coordination Board (NSCB)

Figure 6.2 Agriculture also had the lowest labor productivity.



Source: NSCB, Labor Force Survey (LFS)

Table 6.1 Growth rates of key productivity indicators in agriculture

	Agriculture real value added		Agriculture real value added per worker		Agriculture value added per hectare		Agricultural land per worker[1]	
	1980-2000	2000-2010	1980-2000	2000-2010	1980-2000	2000-2007	1980-2000	2000-2009
Indonesia	3.0	3.3	1.1	3.1	1.9	1.9	-0.7	0.8
Malaysia	2.0	3.2	2.8	4.5	-0.1	3.2	3.0	-2.1
Philippines	1.6	2.9	0.3	2.3	1.0	3.6	-0.6	-1.3
Thailand	2.8	2.6	2.0	2.9	2.6	4.3	-0.5	-1.3
Vietnam	3.7	3.7	1.9	2.5	1.5	2.1	-0.3	-0.7

Sources: World Bank and the Statistics Division of the Food and Agriculture Organization of the United Nations (FAOSTAT) as cited in World Bank (2010d) for 1980-2000, World Development Indicators (WDI) for 2000-2010 and 2000-2009

Note: [1] For the 2000-2009 figures under "agricultural land per worker," the indicator is originally named "arable land (hectares per person)."

119. **Output growth of agriculture improved between 2000 and 2010 in part due to the reduction in policy biases against agriculture and some improvements in productivity.** Growth in value-added increased from an annual average of 1.6 percent between 1980 and 2000 to 2.9 percent between 2000 and 2010. But this rate of growth is still behind that of comparator countries in the region, except Thailand (Table 6.1). Higher productivity reflected lower protection of agricultural inputs (e.g., chemicals, fertilizers, and machinery), the real

depreciation of the peso, and the increased use of new technology in the case of the livestock subsector, which was the main driver of agriculture productivity growth.[106]

Sector issues

120. **Low agricultural productivity reflects the incomplete agrarian reform effort, policy distortions, and insufficient and misdirected public investment in the sector.** The most successful countries in the region (i.e., Japan, South Korea, Taiwan, China, and more recently China) had largely resolved their agrarian problems early on by implementing an effective agrarian reform program.[107] By giving farm workers their own land, farm productivity increased and secure land ownership provided strong incentives to invest farm profits. At the same time, their governments invested in research and development (R&D) and irrigation to improve crop yield (and hence reduce production costs), and in other necessary infrastructure to help farmers connect to markets and reduce marketing costs. This package of reforms has yet to be completed in the Philippines, where land reform programs have been characterized by weak design and implementation, resulting in one of the world's longest-running agrarian reform programs. This has contributed to large-scale uncertainties and has pulled back investments and productivity growth.[108] Productivity also suffered on account of subsidies that targeted crops, rather than farmers, and low levels and quality of public investment in rural infrastructure and R&D.

Agrarian reform

121. **Successive governments since the 1930s have enacted various land reform programs in an effort to correct the historically high level of land inequality.** In 1903, the estimated land Gini coefficient was 0.64.[109] This means that five percent of total farm holdings accounted for 41 percent of total land area under cultivation (Figure 6.3). A century later, land reform managed to lower the Gini coefficient to around 0.58[110] but it is still higher than in neighboring countries like Indonesia (0.46), South Korea (0.34), and Thailand (0.47).[111] Land inequality in the Philippines has a very long history. Box 6.1 summarizes the historical antecedents that led to the high degree of land inequality in the Philippines. This historical injustice is a strong reason why land reform programs should continue until society deems the injustice satisfactorily

---

[106] According to David et al. (2009), the livestock subsector is a major source of agricultural productivity growth. The subsector produces more with less given international technology transfers, increase in scale, and innovations in management.

[107] See World Bank (2007) for more discussion.

[108] See World Bank (2011b) for more discussion.

[109] This Gini coefficient is estimated by World Bank staff using data from *Comision Filipina, Censo de 1903* as cited in Corpuz (1997).

[110] This Gini coefficient is estimated by World Bank staff using data from the 2002 Census of Agriculture and Fisheries.

[111] These Gini coefficients are the latest figures from the Agricultural Census Database of the Food and Agriculture Organization (FAO) (http://www.fao.org).

addressed. Failing to do so could lead to regularly recurring episodes of rural unrest, which can easily be exploited by populist politicians.

Box 6.1 Historical antecedents of land inequality

Philippine society exhibited high land inequality even prior to Spanish colonial rule. Property rights existed and were transferable by inheritance or purchase. However, usurious lending was common and land rights were quickly lost after non-payment of debt.

During the Spanish colonial period, large-scale land grabbing and usurious lending worsened land inequality. Many members of the *principalia* (elite) class, which originated from the pre-colonial *datu* (nobility) class and Chinese mestizos, illegally accumulated land through usurious lending. The working class was often subjected to extreme poverty brought about by harsh colonial rule and extraction under the *encomienda* and *polo y servicio* system.[112] When in dire need, the poor borrowed from the elites. Interest rates were usurious and exacerbated the condition of the poor. In addition, some religious orders usurped adjacent lands and claimed them as part of their *haciendas*. Land grabbing was facilitated by the absence of a cadastral system and a comprehensive land survey during the entire Spanish period. Petty land surveys were corrupt and highly favored the *haciendas* and landed elite. Fraud, as well as irregularities and delays, characterized the titling system introduced in the late 1800s. People who lost their lands had no choice but to work as tenants to pay their tributes.

Under US colonial rule, land grabbing by well-connected elites continued unabated, tenancy levels rose substantially (from 16 percent in 1903 to 35 percent by the 1940s),[113] while poor, illiterate farmers had great difficulty in acquiring land titles. The Land Registration Act of 1902 granted property, tenancy, and usufruct rights. Funding and manpower constraints, however, impeded a provision in the law requiring the government to undertake a comprehensive land survey. Another provision stated that land titles may be given to those who could show a tax declaration showing payment of tax on the land. Many illiterate farmers living in subsistence and whose only claim was based on inheritance or ancestral rights could not produce a tax declaration. Corpuz (1997) explained that "many farmers lost their fields and were evicted by landowners who paid tax on the field adjoining theirs." In 1932, Congress passed a Rice Share Tenancy Law that required, among others, written contracts between

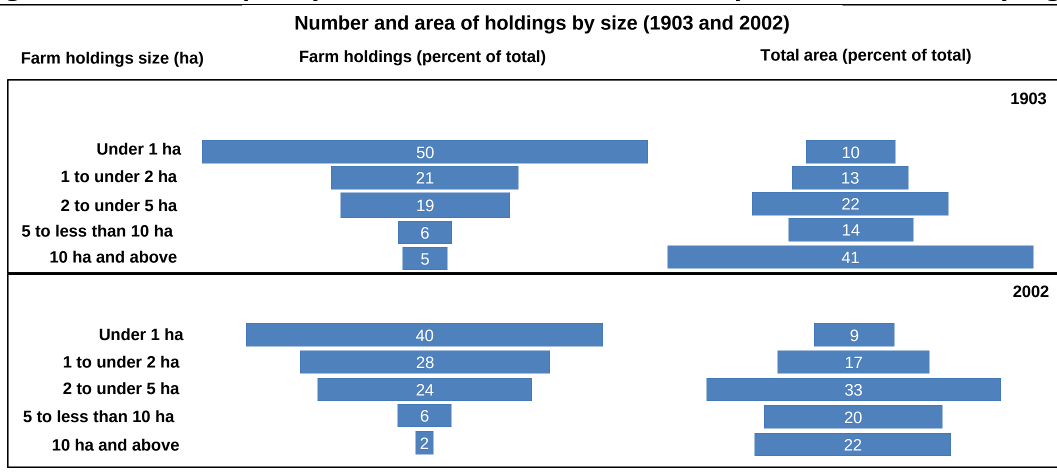
[112] An *encomienda* was the Spanish Crown's grant to colonizers. This gave them authority over a particular area and its residents and, along with this, the privilege to collect tributes. *Polo y servicio* refers to forced labor imposed on Filipino and resident Chinese males aged 16 to 60 years old. They were required to work for 40 days on government projects, notably shipbuilding (Agoncillo 1990). The system of forced labor meant that farmers had to temporarily leave their fields. This came with dire consequences for future farm use as fields were often left without care, driving their families into poverty.

[113] See Putzel (1992) for more discussion.

landlords and tenants, regulation of the terms of cost and harvest sharing, and interest rate limits on loans and advances. In the end, the law was not implemented because it required the majority of a province's municipal councils, which were dominated by landlords, to petition the governor general before the law could be implemented in their respective provinces.

Source: This box draws from Corpuz (1997).

Figure 6.3 Land inequality was reduced in the last century but is still relatively high.



Source: *Comision Filipina, Censo de 1903* as cited in Corpuz (1997) for 1903, 2002 Census of Agriculture and Fisheries as cited by the Food and Agriculture Organization (FAO) for 2002

122. **After independence from the US in 1946, several agrarian reform programs redistributed a significant amount of land but were hampered by design and implementation weaknesses.** Agrarian reform laws were passed in 1954[114], 1955[115], 1963[116], 1972[117], and most recently in 1988 (Republic Act 6657 or the Comprehensive Agrarian Reform Law [CARL] and subsequent amendments[118]).[119] The current Comprehensive Agrarian Reform Program (CARP)

[114] Republic Act 1199 "An act to govern the relations between landholders and tenants of agricultural lands (leaseholds and share tenancy)."
[115] Republic Act 1400 "An act defining a land tenure policy…"
[116] Republic Act 3844 "An act to ordain the agricultural land reform code and to institute land reform in the Philippines, including the abolition of tenancy…" and amended by Republic Act 6389.
[117] Presidential Decree 2 "Proclaiming the entire country as land reform area" and Presidential Decree 27 "Decreeing the emancipation of tenants…"
[118] Republic Act 6657 was amended by Republic Acts 7881, 7905, 8532, and 9700. The latter two extended the CARP by another 10 and 5 years, respectively.
[119] The number of land reform laws in the Philippines is in sharp contrast to those in neighboring countries, such as Thailand, Malaysia, and Indonesia, which all have a single comprehensive law (Briones 2012).

has intended to redistribute 75 percent of total agricultural land, or 9.7 million[120] out of 13 million hectares.[121] The Department of Agrarian Reform's (DAR) cumulative land distribution accomplishment from 1972 to 2012 was 4.5 million hectares out of around five million hectares of private and non-private agricultural lands (or 87 percent of its scope). In terms of private agricultural lands, DAR distributed 2.5 million hectares out of 3.3 million hectares (or 76 percent of its scope).[122]

123. **While the area of land reportedly redistributed under CARL is significant, the lack of individual security under collective titles has reduced the incentives for farmers to invest.** In a bid to meet targets, the government resorted to using collective certificate of land ownership awards (CLOAs), instead of individual titles, as the preferred mode of giving land titles. Collective CLOAs cover around two million hectares or 70 percent of total distributed private agricultural land. Only about 30 percent of beneficiary farmers have individual land titles.[123] This incomplete assignment of property rights and responsibilities has prevented land reform beneficiaries from accessing credit and has serve as strong disincentives for small farmers to increase investment and raise productivity. The relatively low level of private investment in agriculture is evident in the limited mechanization of the country's farms. The ratio is quite low in most regions of the country and is lower than in some countries in East Asia at similar levels of development (Figures 6.4 and 6.5). The use of collective CLOAs has also made land amortization difficult (i.e., beneficiaries do not know for sure what they are paying for since the title is held collectively and default by one means that others would have to shoulder the payment).

124. **Apart from weak assignment of property rights, uneven provision of public goods and support services, restrictions on the transfer of awarded land, and design and implementation weaknesses have prevented CARP from improving beneficiaries' welfare.** With inadequate provision of public goods and support services, many beneficiaries outside agrarian reform communities remained impoverished since they have to pay for expensive inputs and find markets for their products, on top of paying for the amortization and interest (set at six percent) on the awarded land. Current restrictions on land transfer, such as the prohibition on selling out distributed land in the first 10 years,[124] restrictions on leasing out land, and unclear succession rules[125], have prevented the efficient functioning of the rural land market in allocating land to its best uses. It has also constrained the efficient functioning of the

[120] Presidential Decree (PD) 27 targeted around 1.5 million hectares for redistribution (Hayami et al. 1990) while CARL targeted around 8.2 million hectares for redistribution, for a total of 9.7 million hectares (Congressional Policy and Budget Research Department [CPBRD] 2012).

[121] Source: Food and Agriculture Organization (FAO)

[122] Scope and accomplishment data are from the Presidential Agrarian Reform Council (2013) as cited in CPBRD (2013).

[123] See Balisacan (2009) for more discussion.

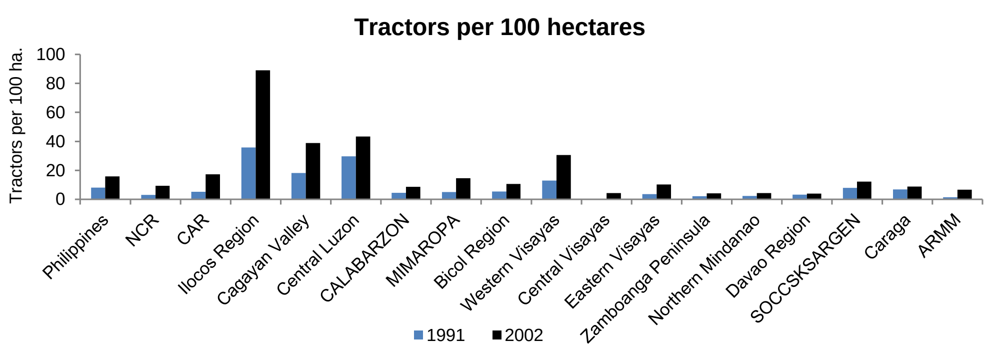
[124] The period can be longer depending on the repayment schedule of the agrarian loan.

[125] As beneficiaries grow older, a new generation of beneficiaries needs to be able to obtain access to land, including land from those who are too old or incapable of using the original allocations.

rural credit market. Moreover, CARP was diluted by many exemptions[126], high retention limits[127], and loopholes such as the option to distribute shares of stock to farmers instead of actual land under CARL. Finally, implementation was hampered by lack of funds, complex valuation formulas, lengthy and tedious bureaucratic and judicial processes, and a plethora of landlord delaying tactics.[128]

125. **Finally, weak design and implementation of CARP has led to imperfect targeting of the poor.** Although land reform coverage was finally expanded under CARL to cover all agricultural land, design and implementation weaknesses reduced its impact on inequality and poverty reduction. According to World Bank (2009a), CARP's ex-post targeting in land distribution has been weakly pro-poor and inconsistent through time. Over the period 1988 to 2006, combining provincial-level data on poverty from the Family Income and Expenditure Surveys with DAR-generated information on accomplishments in land distribution suggests that there has been no correlation between the initial poverty incidence in 1988 and CARP implementation. This result holds whether one looks at total accomplishments in land distribution, at distribution of privately owned lands, or at land transferred as part of the compulsory acquisition (CA) process. The same report also finds no correlation between agricultural landholding Gini and the over-all CARP scope, suggesting that the overall CARP scope was not particularly sensitive to landholding inequities, although it did find a positive correlation between the share of landless farmers and the ratio of CA scope to total alienable and disposable land.

Figure 6.4 Regional disparity in the number of tractors (a proxy for farm investment) is large.



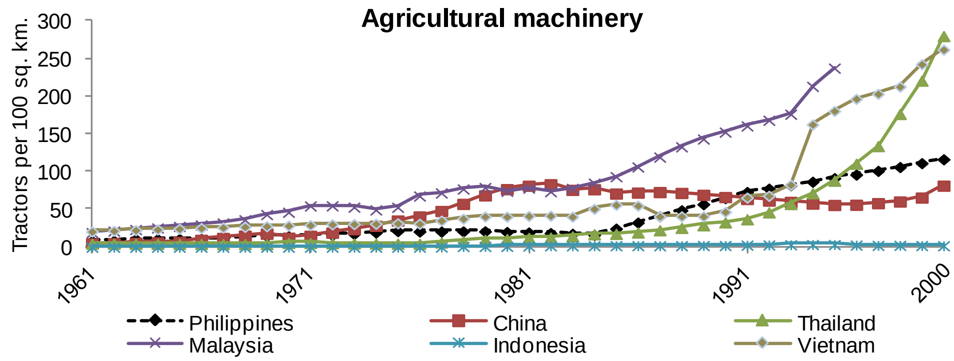
Source: Census of Agriculture and Fisheries 1991 and 2002, NSO

[126] Prior to CARP, the coverage of agricultural land for redistribution was limited to rice and corn farms.

[127] Retention limits were set extremely high at 144 hectares (in 1955) and 75 hectares (in 1963), and were reduced to seven hectares (in 1973) for rice and corn land and five hectares (in 1988) for non-rice and non-corn land, plus additional three hectares for every heir of the landowner. The retention limit in the 1973 law was often evaded by registering excess holdings under the names of family members, while tenants were often evicted under the guise of voluntary surrender. Since landowners were given 10 years to comply and penalties for noncompliance were negligible, many landowners simply kept the land title in anticipation of a future government that would grant more favorable provisions (Otsuka 1991).

[128] In contrast, successful land reforms in Japan, South Korea, and Taiwan, China, were characterized by lower retention limits, more straightforward compensation formulas, and faster pace, though admittedly aided by more authoritarian regimes, to prevent delaying tactics and evasion (Putzel 1992).

Figure 6.5 Agricultural machinery use is relatively low in the Philippines.



Source: WDI

***Land policy*[129]**

126. **Issues in agrarian reform are exacerbated by weak governance in the areas of property rights recognition, land use planning and management, and property valuation and taxation.** Together, these impede effective use and allocation of land to its best use, discourage investments in property development, and undermine government's ability to collect taxes on land. This weak governance favors the well-connected and is biased against the poor, leaving them without secure property rights. Some of the key issues are:

- **Untitled properties are estimated at around 11 million parcels throughout the country (out of a total of 24 million),** brought about by slow progress in the titling program and delays in the passage of a law authorizing streamlined titling of residential lands. The World Bank recently supported a stakeholder-driven Land Governance Assessment Framework (LGAF), which estimates between 0.7 and 5 million parcels of untitled agricultural properties (6 to 45 percent of total).[130] Aside from depriving landholders of the ability to enjoy the benefits associated with secure rights, the high informality that takes place over these properties affects the efficiency of the land market and investments in property development.

- **Land use planning and zoning in the Philippines have been mostly reactive,** resulting in the proliferation of informal settlement enclaves, uncontrolled spatial development, and undue pressure on public investments and public provision of services.

[129] See World Bank (2013b) for more discussion.

[130] According to the LGAF, official data do not segregate urban from rural parcels. However, the Land Tenure Study undertaken under the Land Administration Management Project (LAMP) of the government estimates about five million untitled agricultural properties, representing about 34 percent of the total agricultural lands. The government claims that a more recent study put the estimate at only about 700,000 untitled agricultural parcels (see World Bank 2013b for more details).

- **Local government units (LGUs) are not maximizing the potential of real property taxes to raise funds for local development.** Average collection efficiency (i.e., actual collection as a share of potential collection) is only 59 percent. LGU records do not contain updated property information, as tax mapping is not done regularly, and LGUs do not have access to records from the Registry of Deeds. Very few LGUs update their Schedule of Market Values (SMVs) — only 22 percent of provinces and cities as of 2013. Only a paltry six LGUs use market values in SMV updating as prescribed by the Bureau of Local Government Finance. More importantly, LGUs grant tax exemptions beyond their authority. The result is rampant land speculation, inefficient land sale and rental markets, and continuing dependence on national government transfers (up to 80 percent for provinces, 43 percent for cities, and 76 percent for municipalities) to finance local investments.

Agricultural policies

127. **In addition to the shortcomings of previous land reform programs and uncertainty over land rights, several aspects of public policy have contributed to the relatively poor performance of agriculture.** These include i) industrial policies that were biased against agriculture, ii) policy bias for crops rather than for farmers, iii) high trade barriers, iv) poor quality of logistics, and v) low levels and quality of public investment in rural infrastructure and R&D.

128. **First, until the 1990s, industrial policies, in particular exchange rate policy and trade policy, were largely biased against agriculture**. The overvaluation of the peso initially reflected industrial policies to promote import substitution industries. But unlike other East Asian countries that undervalued their exchange rate to promote exports, the overvaluation of the peso persisted and even worsened through the early 1990s as the real effective exchange rate appreciated sharply between 1992 and 1996. Schiff and Valdés (1992) estimate the average indirect taxation[131] of Philippine agriculture at 23.3 percent in 1960-1986. This is higher than in Thailand (15 percent in 1962-1964) and Malaysia (8.2 percent in 1960-1983), but slightly lower than in South Korea (25.8 percent in 1960-1984).[132] Today, this bias has been largely removed.[133]

129. **Second, the policy focus on rice self-sufficiency since the 1960s has resulted in lost opportunities in diversifying to other crops and supporting the growth of a vibrant**

[131] Indirect taxation, or negative protection, measures the negative impact of an overvalued exchange rate (and other forms of industrial protection) on the price of agriculture relative to non-agriculture (Krueger et al. 1992).

[132] A more recent study by Anderson and Martin (2009) examines nominal rates of assistance (NRAs) in agriculture. NRA is defined by World Bank (2007) as the price of the product in the domestic market less its price at the border, expressed as a percentage of the border price. According to Anderson and Martin (2009), the average NRAs of the Philippines turned from negative to positive in the 1980s and reached almost 20 percent a decade later. Negative NRAs reflect a net taxation of agriculture or an "anti-agricultural, pro-urban consumer bias in a country's policy regime" (Anderson and Martin 2009).

[133] See Table 4 in David et al. (2012).

agribusiness sector. **It has also reduced household welfare through higher food prices.** This bias was evident in how the budget used to be allocated: A disproportionate share of public expenditures (about 65 percent of the total budget of the Department of Agriculture and of related government-owned and/or controlled corporations) was allocated to rice. These expenditures included i) lowland irrigation development, ii) rice input subsidies (e.g., seeds and fertilizers), and iii) production support (e.g., farm machinery and postharvest equipment). Often, investments were provided at low quality and with little support mechanisms. For example, irrigation investments were not accompanied by sustainable management arrangements, resulting in the repeated restoration and rehabilitation of many of the country's irrigation systems.[134] In addition, high import tariff rates, alongside the National Food Authority's (NFA) near-monopoly on rice trade,[135] have kept domestic prices artificially high relative to world prices (Figure 6.6). The fiscal costs of such price support — estimated at close to one percent of GDP in 2008 alone— have become very difficult to sustain. The overriding concern with rice self-sufficiency has meant that public policies are directed away from developing a potentially vibrant agribusiness sector and from developing other crops with higher values. For the majority of Filipinos, this policy has meant much higher food prices between 50 and 100 percent of world prices.

130. **Third, high import protection for other agricultural products has also contributed to higher food prices.** Market interventions and other non-tariff barriers in agriculture, especially in cereals, sugar, poultry, and livestock, have raised the NRAs in agriculture relative to those in non-agriculture. While this policy has brought short-term relief to selected groups, though not necessarily the professed target groups, the strategy has failed to sustain growth in productivity and farm incomes. Policies undertaken in the mid-1980s began to address this issue through efforts to eliminate quantitative restrictions on trade and to reduce the level and dispersion of import tariffs. However, import protection for the above-mentioned products remains high.

131. **Fourth, logistics and marketing have been hampered by insufficient investments, policy distortions, and lack of competition.** The supply chain for agriculture is characterized by high transportation, storage, and marketing costs. The main problems contributing to high transportation costs are the low quality of roads,[136] especially farm-to-market roads connecting smallholders' farms to urban markets, and lack of competition in the local shipping and trucking

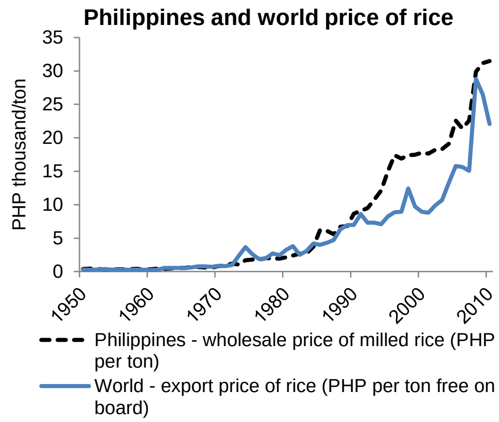
[134] When an irrigation system is poorly maintained, rehabilitation is needed every 10 years on average and full restoration is needed every 20 years to use water efficiently and achieve positive impact on farm yields.

[135] The NFA plays a key role in the government's pursuit of food security. Historically, it has had a near-monopoly on rice importation and is mandated to stabilize domestic rice prices by procuring rice from the world market and reselling them domestically at a subsidized rate. Apart from high administrative costs, its strategy of maintaining high enough prices for domestic producers and low prices for domestic consumers has resulted in large deficits. During the 2008 food price crisis, the NFA imported over two million metric tons of rice and achieved a cumulative operational loss of PHP 72 billion, equivalent to one percent of GDP.

[136] "The proportion of paved roads, for example, is only about 20 percent, in contrast to 47 percent in Indonesia and up to 82 percent in Thailand (Tolentino 2000). The actual carrying capacity of the country's road network is 72 vehicles per kilometer for surfaced roads and 14 for all other roads, compared with 433 vehicles per kilometer in Malaysia (World Bank 1995)" (David, 2003).

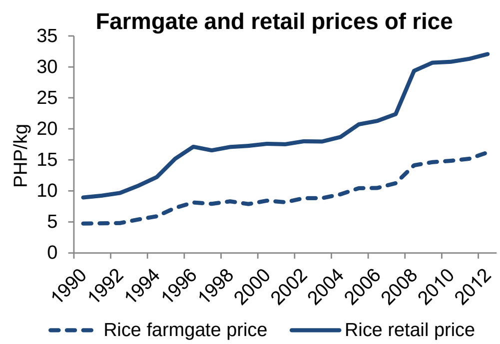
industries.[137] Moreover, uncertainty over the timing and levels of imports and domestic sales by the NFA and the high cost of capital have resulted in underinvestment in milling,[138] drying, and storage as evidenced by increasing markups relative to farm gate prices in the last two decades. For example, rice markups increased from 88 percent in 1990 to an average of 105 percent from 1991 to 2012 (Figure 6.7). Banana and mango, both exportable, and corn also show the same trend (Figures 6.8 to 6.10).[139] The high cost of food is also evident in the large share of food in the consumption basket (43 percent on average and up to 60 percent for the poor) and the large share of food spending as a percent of total private consumption (around 35 percent), the highest among a group of East Asian comparator countries (Figure 6.11).

Figure 6.6 The gap between Philippine and world price of rice has been growing since 1980 (except during the 2008 food crisis).



Source: International Rice Research Institute (IRRI)

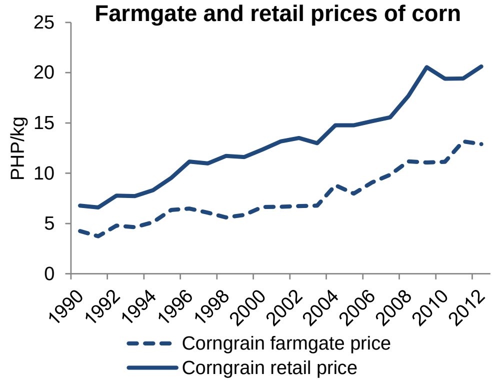
Figure 6.7 Rice markups have been increasing.



Source: Bureau of Agricultural Statistics (BAS)
Note: Farmgate price is based on "Palay [Paddy] Other Variety, dry (converted to 14% moisture content)" and retail price is based on "Regular Milled Rice." Latest available 2012 data are preliminary.

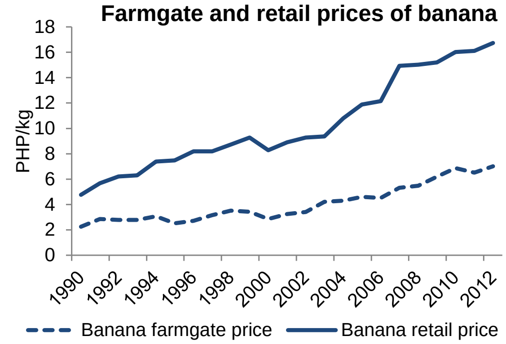
[137] Some segments of the trucking industry, notably those that serve the country's main ports, are believed to operate like cartels.
[138] Keefer and Zoratto (2012) estimate that underinvestment in rice milling could have resulted in a 15-percent reduction in domestic supply.
[139] Banana increased from 112 to 156 percent (1991-2012 average), mango from 110 to 118 percent, and corn from 60 to 75 percent.

Figure 6.8 Corn markups have been increasing.



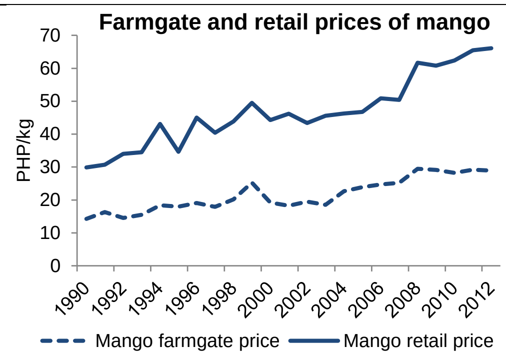
Source: BAS
Note: Prices are averages of "yellow" and "white" types.
Latest available 2012 data are preliminary.

Figure 6.9 Banana markups have been increasing.



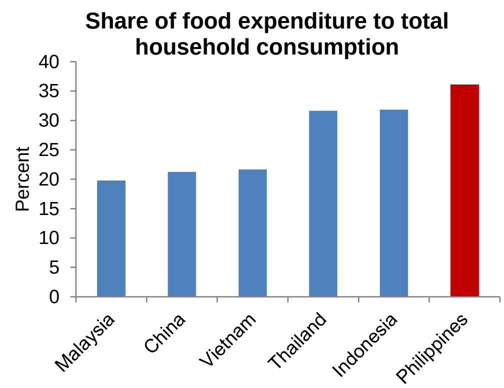
Source: BAS
Note: : Farmgate price is based on green "saba" type of banana and retail price is based on ripe "saba" type of banana.
Latest available 2012 data are preliminary.

Figure 6.10 Mango markups have been increasing.



Source: BAS
Note: Farmgate price is based on green "carabao" type of mango and retail price is based on ripe "carabao" type of mango.
Latest available 2012 data are preliminary.

Figure 6.11 The Philippines has the highest share of food spending to total consumption in the region.



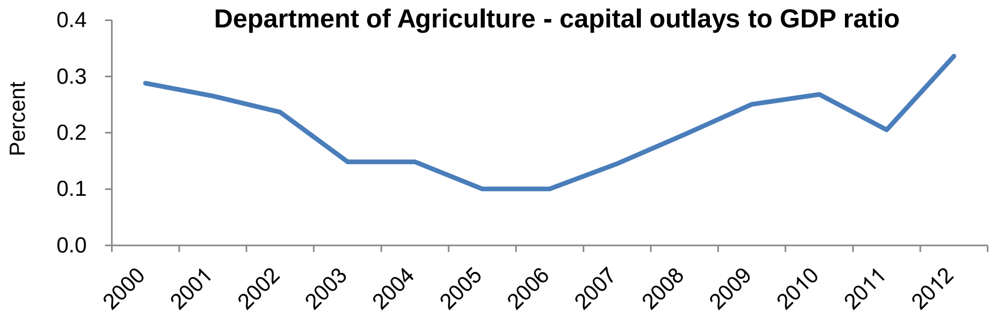
Source: United States Department of Agriculture Economic Research Service

132. **Fifth, public support for agriculture has been limited and disproportionately directed to a few crops, instead of supporting farmers through provision of public goods and support services.** The budget for agricultural capital outlays was well below 0.3 percent of GDP through most of 2000-2012 and was in fact decreasing from 2000 to 2006 (Figure 6.12). Irrigation investments declined from the 1980s to the early 1990s and were provided largely to support the government's rice self-sufficiency target. Only in the past three years did irrigation investment increase significantly, returning to 0.3 percent of GDP, with more focus on cost-efficient rehabilitation and restoration of existing systems along with improvements in maintenance arrangements. Similarly, investments in farm-to-market roads and ports remain inadequate, though they have recently increased.

133. **Finally, R&D and extension services have been limited.** While the country's research intensity ratio in recent years is comparable to those of neighboring countries, its much lower productivity demands a higher level of R&D support (Figure 6.13). In addition, R&D findings

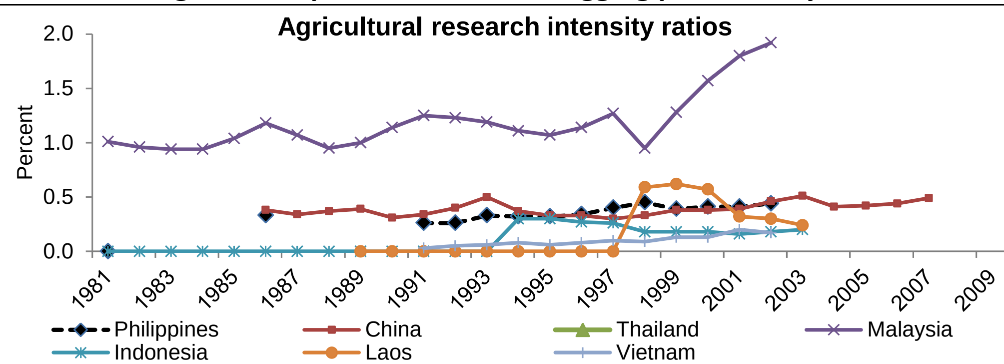
have not reached farmers given weak extension services. Compounding this problem is the weak involvement of the private sector in research, development, and extension. As with irrigation, much of the resources for research have been inordinately focused on rice.[140]

Figure 6.12 Agriculture investments declined in the first half of the last decade by 50 percent before improving



Sources: General Appropriations Act (GAA), Department of Budget and Management, NSCB
Notes: The Budget for the Agriculture and Fisheries Modernization Program was incorporated in the budget for the Office of the Secretary of the Department of Agriculture starting in 2010.

Figure 6.13 Philippine agriculture research intensity ratios, while comparable to other countries, could be higher to improve the sector's lagging productivity.



Sources: Agricultural Science and Technology Indicators (ASTI) database, Food and Agricultural Organization (FAO)
Note: Agricultural research intensity ratio is equal to public agricultural research and development expenditures as a percentage of agricultural GDP.

Conclusion

134. **A major consequence of these policies is that they have negatively affected the welfare of farmers, productivity of downstream industries, and household welfare in general.** High food prices have kept almost half of Filipinos below or near the poverty line for many decades. These include the majority of poor farmers, who are net buyers of food. For the manufacturing sector, the high cost of sugar and other agricultural inputs has raised prices of

[140] In fact, funds for rice research are several times out of proportion to the contribution of rice to gross value-added.

processed food and of other manufactured goods. Manufacturing also suffers from higher minimum wages, which are driven mostly by high food prices, rather than increases in productivity.

Manufacturing[141]

Sector overview

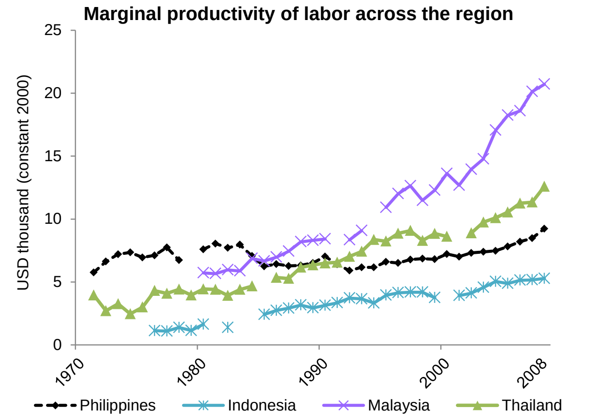
135. **The Philippine manufacturing sector has lagged behind those of its East Asian neighbors for over four decades.** As discussed in Chapter 5, the country's manufacturing sector grew at a much slower pace than in Indonesia, Thailand, and Malaysia. Through the 1990s, Philippine manufacturing was growing by five percent annually when its neighbors were growing by 10 to 15 percent. In the last decade, Philippine manufacturing grew at a faster pace, but it still lags behind its peers.

136. **As a result, the sector has made little contribution to employment and productivity growth.** Manufacturing employment, as a share to total employment, has been increasing in the East Asia region since the mid-1980s but has been stagnant in the Philippines. Labor productivity of Philippine manufacturing has also stagnated since the 1980s, in contrast with the large productivity growth observed in neighboring economies (Figure 6.14). This suggests that, on average, Philippine manufacturers have been slower in adopting or investing in new productivity-enhancing technologies.

137. **Within manufacturing, industry performance is varied** (Figure 6.15)**.** Electronics, transport, machinery, furniture, and food have experienced strong value-added growth of around 6 to 10 percent in the last decade (Figure 6.16). Together, these sectors accounted for over 80 percent of the total manufacturing value-added between 1999 and 2010[142] and raised employment by around 15 percent between 1999 and 2008. Employment in other capital-intensive sectors, such as cement and machinery, declined despite growth in these sectors' output (Figure 6.15 and 6.16). The sluggish performance of several labor-intensive sectors, such as wearing apparel and footwear, directly translated into a large contraction in employment.

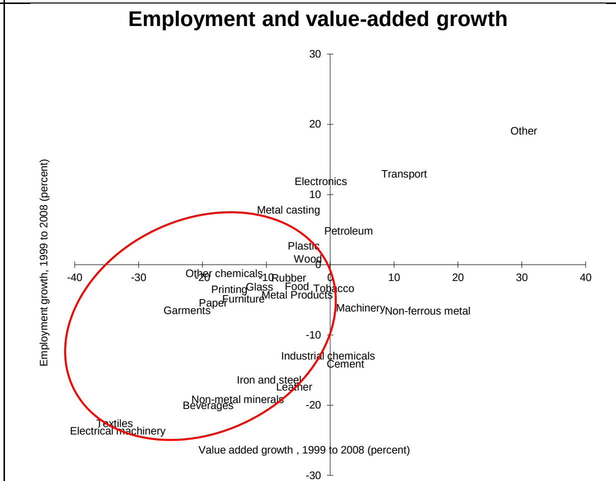
[141] This section draws in part from World Bank (2010d).
[142] This series is based on 1985 prices. Time series data on the revised and 2000-rebased GDP series broken down by manufacturing sub-sectors are unavailable for 1999 to 2009.

Figure 6.14 Manufacturing labor productivity has been largely stagnant.



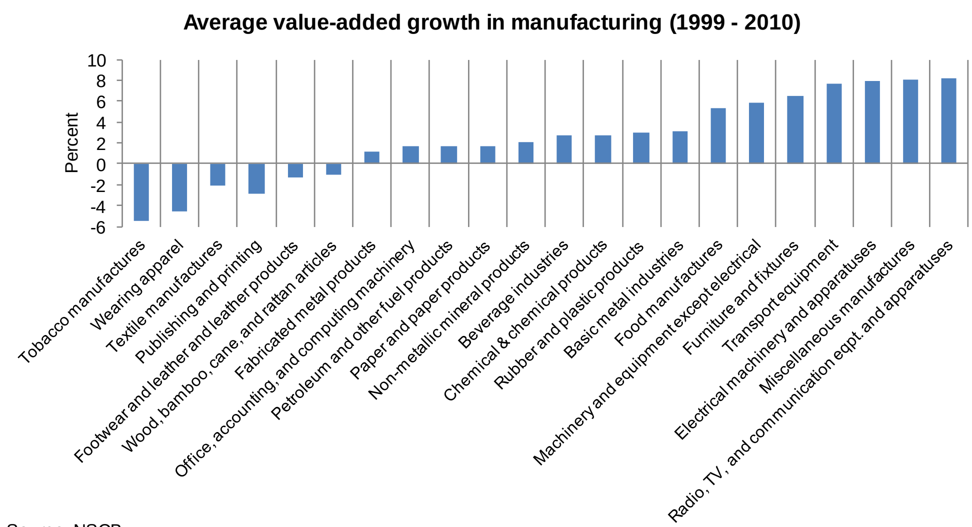
Sources: WDI for manufacturing value-added, ILO for manufacturing employment
Note: Labor productivity is equal to manufacturing value added divided by manufacturing employment.

Figure 6.15 Many manufacturing industries have been contracting and shedding jobs.



Source: NSCB, LFS

Figure 6.16 Labor-intensive manufacturing experienced slower growth compared to capital-intensive manufacturing.



Source: NSCB

Historical bias for capital-intensive manufacturing

138. **The Philippine manufacturing sector has become more capital-intensive over time.** A large number of labor-intensive firms have either closed down or shifted to more capital-intensive production technologies over the past four decades. According to the manufacturing survey conducted by the National Statistics Office (NSO), the number of labor-intensive firms[143]

[143] Labor-intensive firms are defined as firms with labor cost of at least a third of total cost. This is used as a proxy for labor-intensiveness in the absence of capital data in the manufacturing surveys.

that were surveyed declined from 1,562 to 706 between 1989 and 1997,[144] with a corresponding decline in employment from 208,502 to 72,702 (or a net reduction of 135,800 workers).

139. **This bias for capital reflects distortions in the factor markets.** In many manufacturing subsectors, capital-labor ratios are far higher than what would be expected after accounting for differences in technology.[145] These are attributed to past policy distortions, such as the overvaluation of the peso, credit and fiscal incentives that favored capital inputs (e.g., duty-free import of capital), and high minimum wage rates that make capital relatively cheaper, thereby keeping manufacturing employment artificially low. Rising wage-rental ratios[146] across manufacturing sectors in the last decade corroborate the continuing bias against labor (Figure 6.17).

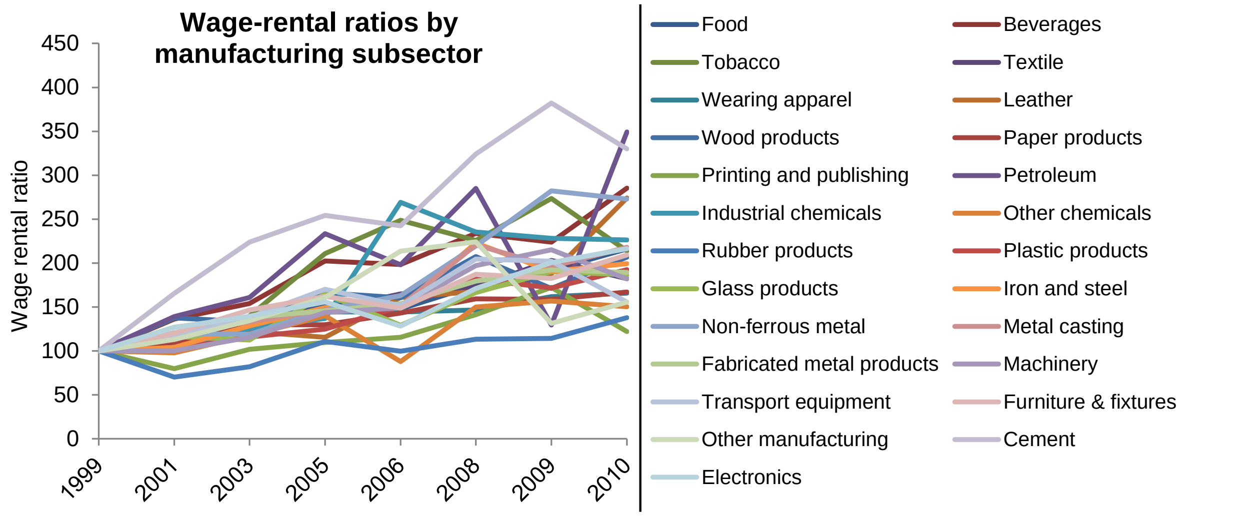
140. **Factor market distortions have also constrained the movement of labor within and to manufacturing.** The lack of labor mobility is apparent in the wide variation in the marginal product of labor (or output produced per additional worker) among manufacturing industries and they do not appear to be converging over time. Moreover, employment growth has not been notably faster in the sectors exhibiting high marginal product of labor (Figure 6.18). As Sectors with higher shares of labor to total cost (i.e., the more labor-intensive sectors) tend to exhibit a lower marginal product of labor (Figure 6.19).

[144] Ideally, a longer time period should be used. However, changes in the structure of the surveys prevent long-term comparison. Until 1983, all firms are surveyed regardless of size. Between 1984 and 1998, firms with at least 10 employees are surveyed. Starting 1999, only firms with at least 20 employees are surveyed. Breakdown by firm size is not available. Apart from the change in coverage, there are also sampling differences. Given these, the optimal time period is 1989 to 1997.

[145] This conclusion may need to be tempered by the possibility that differences in capital-labor ratios across sectors may reflect differences in the quality of labor. If the quality of labor varies significantly across sectors (e.g., with some sectors employing a higher proportion of skilled versus unskilled labor), the more skill-intensive sectors should exhibit a higher average wage-rental ratio (and higher capital-labor ratio), even in the absence of factor price distortions that raise the price of labor.

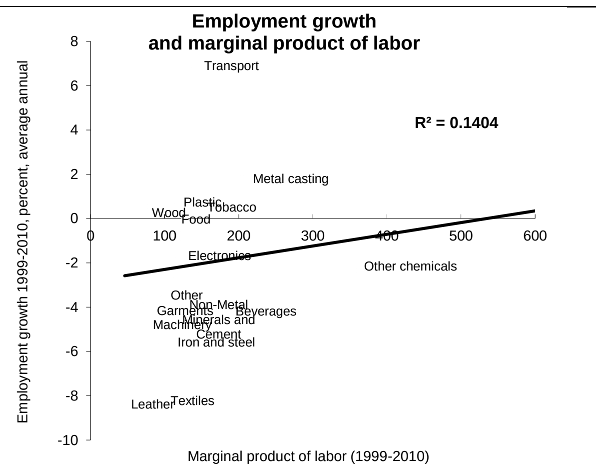
[146] This is computed as the ratio of total wages divided by total employment, and total non-wage costs divided by total fixed assets per sector, indexed to 1999 values. Data come from the Annual Survey of Philippine Business and Industry (ASPBI). If non-wage costs are reduced by 20 percent to remove depreciation and indirect taxes, the wage-rental ratios still follow the same rising trend.

Figure 6.17 Wage-rental ratios in Philippine manufacturing are on an up-trend (1999=100).



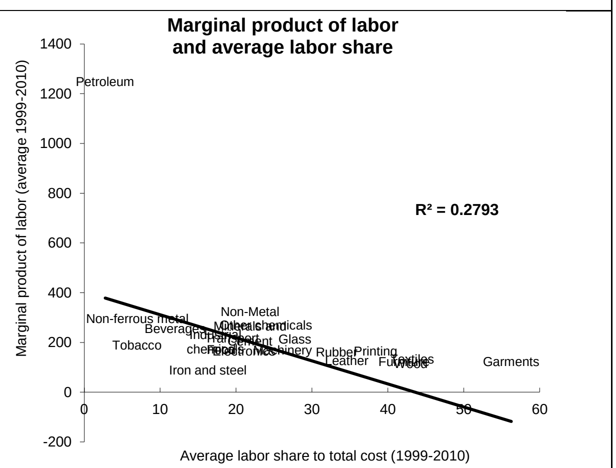
Source: WB staff estimates using Annual Survey of Philippine Business and Industry (ASPBI) data

Figure 6.18 Employment growth has not been faster in sectors with higher marginal product of labor.



Source: WB staff estimates based on the Philippine Statistical Yearbook, various years

Figure 6.19 Sectors with a high marginal product of labor use relatively little labor.



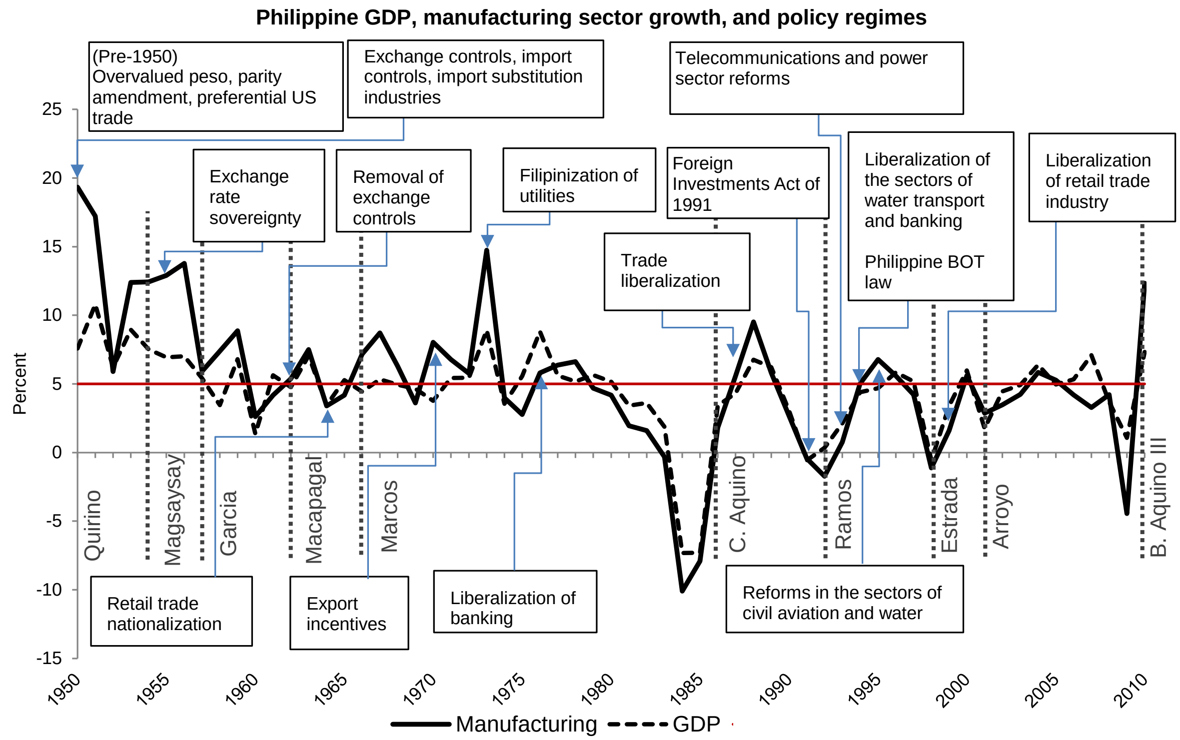
Source: WB staff estimates based on the Philippine Statistical Yearbook, various years

Sector issues

Protectionism and macroeconomic instability[147]

141. **The stagnation of Philippine manufacturing is rooted in protectionist policies that the country adopted since the American colonial period** (Figure 6.20). The legacy of protectionist policies enacted during colonial and post-independence governments has prevented many manufacturing industries from emerging, growing, and becoming globally competitive after trade liberalization commenced in the 1980s.

Figure 6.20 Inward looking policies contributed to weak manufacturing growth.



Sources: Sicat (2009), Philippine Laws and Jurisprudence Databank from the LawPhil Project (www.lawphil.net), Chan Robles Virtual Law Library (www.chanrobles.com)

142. **During the American colonial period, policies largely favored export-oriented plantation agriculture, to the detriment of subsistence agriculture and labor-intensive manufacturing.** A number of preferential trade agreements and policies were enacted to promote agricultural exports such as sugar and tobacco, and to make the Philippines a ready market for US goods and a source of cheap raw materials. To facilitate trade, the exchange rate was fixed at PHP 2 per USD 1. The influx of cheap US goods reduced the incentives to develop the domestic manufacturing sector.

[147] This section draws in part from Sicat (2002), de Dios and Hutchcroft (2003), Hutchcroft and Rocamora (2003), and Hill (2003).

143. **After gaining independence from the US in 1946, the Philippines kept its preferential trade with the US and continued to look inwards.** The new government kept the nominal exchange rate at PHP 2 to USD 1. However, with little reserves to defend the peg, the government resorted to import and exchange rate controls. Imports were subjected to strict quotas while foreign exchange was rationed according to "government priorities" but, in reality, they were directed to well-connected elites. Credit was allocated not to the most efficient firms but to those that had the best connections, leading to bankruptcies of several government financial institutions.[148] These distortions led to several episodes of macroeconomic instability and recurring balance-of-payments crises in 1949, 1957, and 1969.

144. **Import substitution industries were promoted between 1953 and 1961, giving prominence to the domestic manufacturing industry.** Sustained growth of manufacturing, however, was not achieved, as firms looked inwards to cater to a narrow domestic market, and relied on a whole array of preferential treatments. With largely open-ended protection (e.g., renewable fiscal incentives and high tariff walls), infant industries remained infants even after four decades. Periodic devaluations of the peso helped to improve exports but inflation caused by loose monetary policies soon eroded their competitiveness. Instead, import-dependent manufactures benefited. Limited domestic demand soon led to the stagnation of the manufacturing sector.

145. **The country started to open up in the late 1960s with the promotion of exports and foreign direct investments (FDIs), but implementation was "half-hearted," as manufacturers continued to be protected**. FDI as a whole remained constrained by laws limiting foreign ownership of land, natural resources, public utilities, and retail trade,[149] among others, despite the partial liberalization of the financial sector that resulted in some foreign participation. Easy access to foreign grants and loans provided a major source of foreign exchange and resulted in complacency. In the end, exports and FDIs were not sustained and GDP growth fell. De Dios and Hutchcroft (2003) explained that "[b]ecause of the ready availability of external funds, there was never any need to make a comprehensive push for export-oriented industrialization; it was much more expedient to simply adopt the strategy of 'debt-driven growth.'"

Barriers to domestic competition

146. **The protectionist policies provided an environment conducive for the proliferation of a largely oligopolistic economy**.[150] The average four-firm concentration ratio[151] across all

[148] See Hutchcroft and Rocamora (2003) for more discussion.
[149] The enactment of the Retail Trade Nationalization Act (Republic Act 1180) in 1954 disallowed foreigners, especially Chinese residents, from participating in the profitable retail distribution business. This was partially reversed only in 2000 through the Retail Trade Liberalization Act (Republic Act 8762).
[150] See World Bank (2010d) for more discussion.
[151] The four-firm concentration ratio used to estimate industrial concentration refers to the proportion of an industry's output, based on the five-digit Philippine Standard Industry Classification (PSIC) code, accounted for by

subsectors rose from 71 percent in 1988 to 81 percent in 1998 where the most concentrated subsectors involve the production of intermediate and capital goods (Aldaba 2008).[152] This means that, on average, around 80 percent of manufacturing value-added is derived from the top four firms in each sub-sector. Unsurprisingly, this tendency toward oligopoly has resulted in high price-cost margins in the Philippine manufacturing sector, undermining competition. Apart from manufacturing, the utility, transportation, communication, and agribusiness industries, which provide inputs and vital logistics support to manufacturing, have operated with little or no effective competition, thereby further increasing manufacturing output costs.[153]

147. **Inadequate competition policy explains in part why the country's oligopolistic market structure persists.** While a number of sector or industry-specific competition laws exist, as well as regulatory arrangements to regulate natural monopolies, they do not consistently deal with the wide range of anti-competitive behaviors that have emerged or could emerge in different sectors. Moreover, the Philippines lacks a strong central institution for enforcing competition policies, fair trade, and consumer rights.[154]

148. **In some sectors, trade reforms beginning in the mid-1980s have introduced greater competition and have limited the potential for abuse of market power.** The increase in competitive pressures in sectors such as agricultural machinery, and metal and paper-based industries has had the dual effect of decreasing firm concentration and lowering domestic prices toward international levels.[155]

149. **However, not all industries have been liberalized to the same extent. A number of key industries still enjoy high protection from foreign competition.** For example, the glass and cement industries still enjoy high levels of protection from foreign competition in the form of substantial import restrictions,[156] while other industries show signs of collusion, either due to structural barriers or behavioral constraints (Table 6.2).[157]

---

the four largest firms. The basic data comes from the 1988 Annual Survey of Establishments and 1998 Annual Survey of Philippine Business and Industry (ASPBI) produced by the NSO.

[152] Preliminary estimates for 2008 using BusinessWorld's Top 15,000 Corporations (an alternative data source), however, show that this ratio declined to 68 percent. This may be the outcome of past liberalization programs.

[153] See Aldaba (2008) for an assessment of competition in the Philippine economy.

[154] Anti-competitive practices among large retailers are cases in point. Limitations in the entry of foreign retailers to only the very large ones mean that consumers have fewer product options and do not benefit from potentially lower prices. Apart from restrictions on foreign participation, the dominance of these very large retailers means that they can dictate business terms to their benefit. For instance, some firms demand long payment terms on their suppliers' merchandise. This practice may have limited opportunities for suppliers and smaller retailers to grow.

[155] See Aldaba (2008) for more discussion.

[156] The glass and cement sectors are characterized by high industry concentration ratios, trade and non-trade barriers, and high markups. The glass industry has been heavily protected from imports through quotas and tariffs, and three dominant firms contribute 84 percent of the total industry value-added. The flat glass sub-sector, a capital and skill-intensive industry, has only one domestic producer. The Philippine cement industry has historically been heavily cartelized, with firms colluding to set production quotas and prices, and geographically distribute markets among themselves. With the introduction of more import-driven competition in the domestic market in

150. **Lack of competition in agriculture and services that provide vital inputs and logistics support to manufacturing also hamper the growth of manufacturing.** Competition in the ports industry is weak and marred by conflict of interest, as the regulator, the Philippine Ports Authority, is also a major operator. Competition in domestic shipping is limited, which contributes to large-scale inefficiencies and higher prices of many goods, especially food (see Box 6.2 for more discussion). Logistics costs account for 24 to 53 percent of wholesale price in the Philippines[158] compared to less than 20 percent in other countries in the region. Shipping and ports are estimated to account for about three to 30 percent of wholesale price depending on the goods and routes.[159] The water utility sector is operated by local monopolies, many of which are highly inefficient. Moreover, multiple, fragmented, and overlapping administrations make regulatory oversight difficult, resulting in poor water supply and high prices in secondary cities and rural areas. Finally, as discussed in the previous section, the agriculture sector, notably the marketing channels for rice, sugar, and corn are alleged to be controlled by a few firms[160] or face limited competition because of restrictions in acquiring import licenses, high tariffs, and quotas.

Table 6.2 Selected sectors with barriers to entry and competition

Sector	Source of barrier to entry
Agriculture	
Rice	Import licenses or tariff quotas
Corn, sugar	Cartel behavior by dominant producers
Agribusiness	Restrictions on foreign land ownership, restrictive land use policies
Downstream oil	Cartel behavior by oligopolistic producers, large capital requirement
Pharmaceutical drugs	Licensing/registration restrictions, cartel behavior by dominant firms
Cement	Cartel behavior by oligopolistic producers, large capital requirement
Electricity distribution	Monopoly, limited regulatory capacity
Water	Local monopoly, multiple fragmented/overlapping administrations
Drug stores	Economies of scale and scope
Telecommunications	Congressional franchise, limited regulatory capacity
Ports	Monopoly, limited regulatory capacity
Water transport	Cabotage Law, cartel behavior by local oligopolies
Air transport	Cabotage Law, congressional franchise, limited regulatory capacity

Source: Aldaba (2008)

2000 to 2001, the industry filed anti-competition suits, initially without success. Subsequently, however, the industry succeeded in obtaining protection through safeguard measures, which eliminated import competition.

157 These structural barriers refer to the presence of very high up-front investment expenditures required to enter the market or the existence of economies of scale conducive to natural monopolies. See Aldaba (2008) for more discussion.

158 These figures are based on data from Japan Bank for International Cooperation (2002) and University of Asia and the Pacific Industry Monitor (2002) as cited in Japan International Cooperation Agency and Maritime Industry Authority (2005).

159 These estimates are derived from Arnold and Villareal (2002), Bureau of Agricultural Statistics (2011a and 2011b), Japan Bank for International Cooperation (2002), Japan International Cooperation Agency and Maritime Industry Authority (2005), and University of the Philippines Mindanao (2013).

160 See Keefer and Zoratto (2012) for more discussion on the alleged uncompetitive practice of rice traders.

Box 6.2 Lack of competition in the domestic shipping industry

The shipping industry is characterized by monopoly operations in 40 percent of shipping routes and duopoly operations in 33 percent of shipping routes. The process by which operating licenses are awarded to shipping firms lacks transparency and favors incumbents (through the prior operator or grandfather rule). Cabotage, or the prohibition of international liners from interisland shipping (even if foreign vessels are cheaper and more efficient), is provided for in the Tariff and Customs Code[161] and the Domestic Shipping Act of 2004 (Republic Act 9295).[162]

Lack of competition in the shipping industry, together with poor ports services, contributes to high logistics costs. As a case in point, it is more expensive to transport goods between two domestic points than between two domestic points via an international point. For example, transporting a 40-foot container from Manila to Cagayan de Oro in Northern Mindanao costs some USD 1,860 but transporting from Manila to Cagayan de Oro via Kaohsiung would reduce the tariff by USD 716 to USD 1,144 (Table 6.3).[163] This implies either significant inefficiencies or large rents that profit only the industry at the expense of the majority of Filipinos who have to shoulder the inefficiency or rent-seeking behavior in terms of higher food prices and lower job opportunities.

Source: This box draws in part from International Finance Corporation [IFC] (2013 forthcoming).

[161] The cabotage provision is found in Section 902, which reads as follows: "The right to engage in the Philippine coastwise trade is limited to vessels carrying a certificate of Philippine registry."

[162] The cabotage provision is found in Section 6, which reads as follows: "No foreign vessel shall be allowed to transport passengers or cargo between ports or places within the Philippine territorial waters, except upon the grant of a Special Permit by MARINA…."

[163] The difference in cost is partly explained by the difference in scale. However, why the country, being an archipelago, cannot increase scale to reduce cost despite its huge market is an important policy question that needs to be answered.

Table 6.3 Direct inter-island shipping is more expensive than inter-island shipping via an international point.

Cost (in USD) of domestic shipping vs. foreign transhipment:			
Type of shipping container	**Manila-Cagayan De Oro**	**Manila-Hong Kong-Cagayan de Oro**	**Difference[1]**
20-footer	1120	644	**476**
40-footer	1860	1144	**716**
	Manila-Cagayan De Oro	**Manila-Kaohsiung-Cagayan de Oro**	**Difference[1]**
20-footer	1120	519	**601**
40-footer	1860	1044	**816**

Source: Data gathered by Royal Cargo as of October 2010 as cited in Joint Foreign Chambers of the Philippines (2010)
Note: 1. The difference is equal to the cost savings from using a foreign transhipment point instead of a direct domestic route when shipping a good from Manila to Cagayan de Oro.

Restrictions in foreign investment further limits competition

151. **The long foreign investment negative list has limited FDI growth that could have enhanced competition and contributed to more job creation.** This list comes with a 40-percent cap on foreign equity ownership in most sectors. Restrictions are particularly tight in the media sector (zero percent), followed by mining, agriculture, transport, and telecommunications (40 percent). Controlling interests are allowed in the financial services (60 percent) and the electricity sector (66 percent). In all these sectors, restrictions in the Philippines are more stringent than in other countries in the region (Table 6.4). Across sectors, there are restrictions on land and skilled labor (i.e., professional practice). Access of foreign investors to land is highly restricted. Even when long-term lease of land is allowed, regulations and red tape can provide significant *de facto* constraints, and thus deterrents, for foreign companies to invest. US investors cite land ownership restrictions as one of the main reasons why Americans do not invest much in the Philippines.[164] Finally, with respect to skilled labor, almost all licensed professions are *de facto* shielded from foreign entry even if the law allows reciprocity. As a result, FDI inflow to the Philippines is among the lowest in the region (Figure 6.21). It rarely exceeded PHP 2 billion in the past four decades (Figure 6.22).

[164] Source: "US envoy gives reasons why Americans not investing in country" BusinessWorld, October 3, 2012.

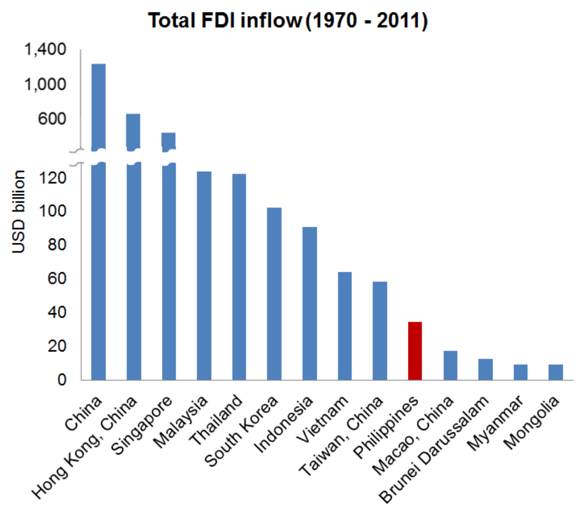
Table 6.4 Foreign ownership restrictions are more stringent in the Philippines

Foreign ownership restrictions (percentage of foreign ownership)

Sector Group	Philippines	China	Indonesia	Japan	Malaysia	Singapore	South Korea	Thailand	Vietnam	IAB regional average	IAB global average
Mining, oil & gas	40	100	98	100	70	100	100	49	50	**78**	**92**
Agriculture & forestry	40	100	72	100	85	100	100	49	100	**83**	**96**
Light manufacturing	75	75	69	100	100	100	100	87	75	**87**	**97**
Telecom	40	49	57	83	40	100	49	49	50	**65**	**88**
Electricity	66	85	95	100	30	100	85	49	71	**76**	**88**
Banking	60	63	99	100	49	100	100	49	65	**76**	**91**
Insurance	100	50	80	100	49	100	100	49	100	**81**	**91**
Transport	40	69	49	40	100	47	80	49	69	**66**	**79**
Media	0	0	5	60	65	27	40	28	0	**36**	**68**
Construction, tourism & retail	100	100	85	100	90	100	100	66	100	**93**	**98**
Health care & waste management	100	85	83	50	65	100	100	49	76	**84**	**96**

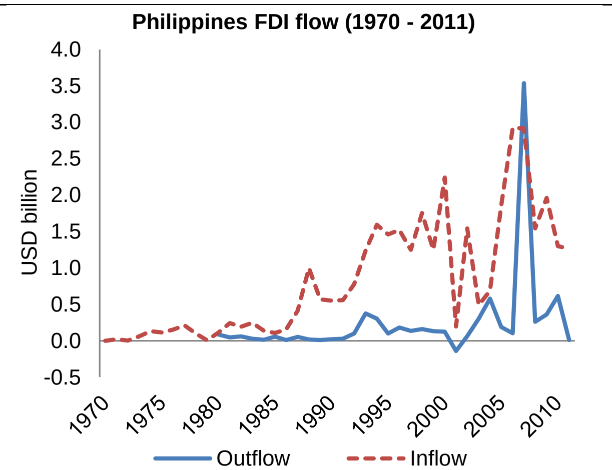
Source: Investing Across Borders (IAB) database of the World Bank

Figure 6.21 Philippine FDI was among the lowest in the region.



Source: United Nations Conference on Trade and Development (UNCTAD)

Figure 6.22 Philippine FDI inflow rarely exceeded USD 2 billion.



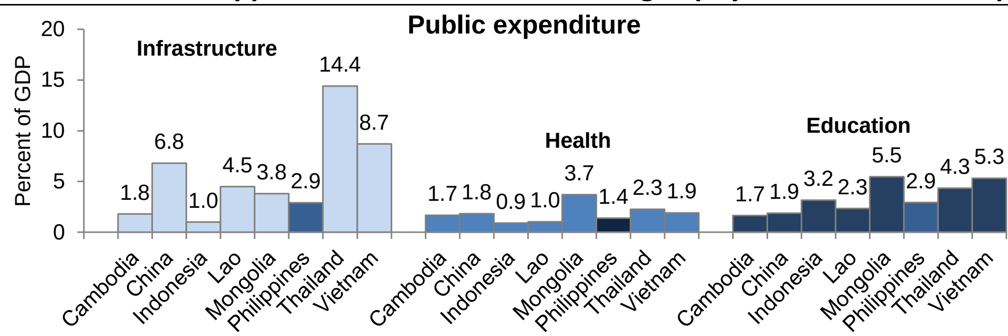
Source: UNCTAD

Underinvestment in physical and human capital

152. **The slow growth of manufacturing growth is also traced to the poor state of infrastructure and human capital resources, given decades of underinvestment.** In the last decade, public spending on infrastructure, health, and education in the Philippines averaged around seven percent of GDP, compared to more than 12 percent of GDP in many other East Asian countries (Figure 6.23). The basic education and health sectors exhibit a gap with regional comparators of 2.5 and 0.7 percent of GDP, respectively, while the gap in national government

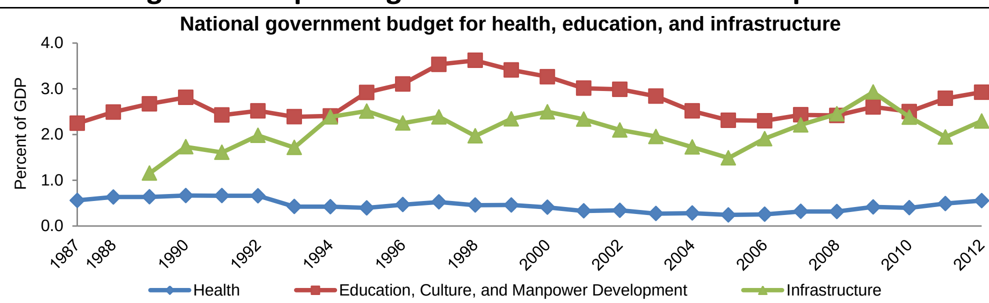
capital investment is almost four percent of GDP.[165] Low tax effort and weak public investment management have limited infrastructure spending to less than 2.5 percent of GDP annually. Moreover, expenditures had been on a downtrend for a large part of the last 15 years (Figure 6.24).[166]

Figure 6.23 The Philippines has been underinvesting in physical and human capital.



Source: World Bank (2005), WDI
Notes: Education data are from 1998 to 2010, while health data are from 1995 to 2009.

Figure 6.24 Spending levels have much room to improve.



Sources: WB staff estimates using Fiscal Statistics Handbook 1987-2006 (DBM) data for 1987-2006 and DBM website (Budget of Expenditures and Sources of Financing [BESF] FY 2009, 2010, 2011, 2012, and 2013) data for 2007-2011
Notes: Infrastructure data were derived from Table B.9 of BESF. Each year's infrastructure value is equal to the "Infrastructure" item plus "Capital Transfers to LGUs." Capital Transfers to LGUs refer to 20% of internal revenue allotment allocation to LGUs for development projects based on the Local Government Code and includes Special Shares of LGUs in the Proceeds of National Taxes. The value for infrastructure in 2000 is based on the revised Table B.9 of FY 2002 BESF. Health and education data were derived from Table A.3 of the BESF.

[165] This gap is compounded by an equally large shortfall in private investment. Total gross fixed capital formation in the Philippines is behind that of regional comparators by more than 10 percentage points of GDP.

[166] Expenditures on basic education, health, and transport infrastructure have been declining as a percent of GDP and as a share of government expenditures. The shares of government expenditures devoted to priority sectors also declined. Between 1997 and 2010, the shares of the national budget going to the Department of Education, the Department of Health (DOH), and to capital outlays declined from 18 to 14 percent, from three to two percent, and from 20 to 10 percent, respectively. Local government expenditures have followed a similar trend, with allocations to education, health, and "economic services" (including infrastructure) declining and personnel services and "other purposes" rising. Another reason why priority sector expenditures declined is that, until 2005, they were increasingly crowded out by rising debt service payments. This trend has since been reversed with the fiscal adjustment of 2005-2008.

153. **The high cost of power and lack of transport infrastructure are the two main reasons why businesses have been reluctant to invest**.[167] Transport infrastructure inefficiencies have also affected household welfare through increased transportation costs, and time and productivity losses. The infrastructure deficit continues to this day and is evident in several key areas:

- **Power** — in response to a supply crisis in the early 1990s, the sector built new capacities in a short period, which allowed for the growth of capital-intensive industries such as electronics (see Box 6.3). However, many new private power plants were guaranteed payments that over time accumulated huge liabilities for the government. Tariff rates also became highly uncompetitive. In 2001, the Electric Power Industry Reform Act (EPIRA) was enacted to restructure the power industry, privatize generation and transmission assets, and transition to a competitive, private sector-led environment. After 11 years of EPIRA implementation, significant progress has been made, but some reforms, such as competition at the retail level, are still unfinished and the continuing lack of competition in the deregulated power generation industry has contributed to increased power costs.

- **Ports** — the port system is generally characterized by dilapidated infrastructure and facilities that reduce cargo-handling productivity, with longer loading and unloading of cargo at berth (IFC 2013 forthcoming). Moreover, many ports are congested and shipping lines have increased cargo charges to recover the cost of delays.[168]

- **Arterial roads and expressways** — the national arterial road and expressway network outside the industrial regions (i.e., National Capital Region [NCR], Central Luzon, and Calabarzon[169]) is fragmented, underdeveloped, and under-maintained. Moreover, it is fast becoming inadequate due to the rising volume of traffic.[170] Even within the industrial regions, expressways are not well connected and many highways are congested, resulting in higher logistics costs.[171]

- **Urban commuter system** — the system is highly inefficient and very congested. There is an oversupply of buses relative to road capacity and commuter demand in NCR, which causes tremendous traffic in the main thoroughfares, while the light rail transit (LRT)

---

[167] See the Enterprise Survey 2005, also known as the Investment Climate Survey 2005, conducted jointly by the World Bank and the Asian Development Bank, and the Global Competitiveness Report 2012-2013 for more discussion.

[168] In the past decade, the efficiency of the country's water transport system improved with the introduction of the roll-on roll-off (RORO) system that bypasses some problems of the cargo system, but there remains much room for improvement, given the relatively high cost of transporting goods within the country.

[169] Calabarzon stands for the provinces of Cavite, Laguna, Batangas, Rizal, and Quezon, which make up Region IV-A.

[170] For example, travel time between Manila to Baguio averages six hours for a 250-kilometer stretch.

[171] For example, the North Luzon Expressway and South Luzon Expressway are only about 10 kilometers apart but, to go from one to the other, motorists have to travel for an average of one hour through congested city roads.

system suffers from severe congestion, inefficient connection between lines, and sub-optimal location of stations.[172] Weak flood management also exacerbates the problem. While these inefficiencies have not translated into very high commuting costs,[173] which on the average account for less than eight percent of household expenditure, they nevertheless manifest in a very long commute time and significant productivity losses amounting to an annual average of PHP 137.5 billion (1.4 percent of GDP in 2010 prices) between 2001 and 2011 (Regidor 2012).[174] In 2013, JICA (2013 forthcoming) estimated the total cost of traffic at around PHP 876 billion annually (around eight percent of GDP) or PHP 2.4 billion per day in forgone income.

Box 6.3 The restoration of power helped propel manufacturing growth

Following a crippling power supply crisis in the early 1990s, the Ramos Administration restored investor confidence to the country by addressing the supply gap, which set the stage for the country's economic growth in the succeeding years. Before 1993, the country's power supply had increasingly lagged behind demand after many decades of under-maintenance of existing power plants, underinvestment in new and more cost-efficient power plants, and the mothballing of the 600-megawatt Bataan nuclear power plant. By 1990, industries and households experienced up to 12 hours of power outages per day in NCR and longer in some provinces. This power crisis, exacerbated by high oil prices starting in 1990, revealed the fragility of the country's infrastructure, earning the country the reputation of being the "sick man of Asia." Together with the impact of a devastating 1990 earthquake and the 1991 eruption of Mount Pinatubo, the economy slowed down significantly in 1990 and fell into a recession in 1991.

The solution was not easy, given institutional constraints that prevented the government from quickly resolving the crisis. However, President Ramos' determination to address the lingering power crisis led to an agreement in which Congress granted him emergency powers to negotiate power purchase agreements with independent power producers (IPPs). This enabled the government to resolve the power crisis in just 18 months, compared to possibly many years had the regular process of approving investment projects been followed. At the same time, the agreement introduced more renewable sources of energy, in particular hydropower and geothermal energy. By mid-1993, a steady supply of power returned and the economy started

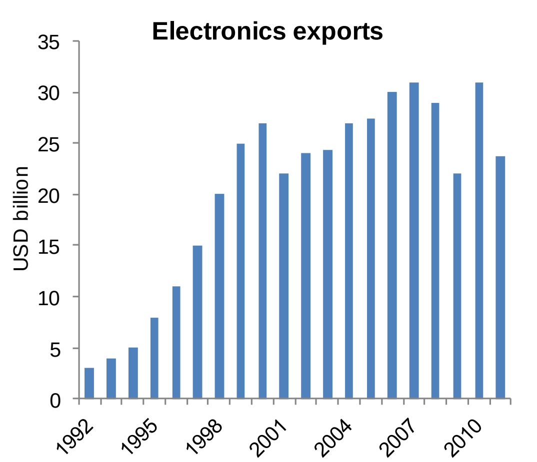
[172] These inefficiencies require commuters to use different ticketing systems and take another form of public transport from the train station to their offices, as several stations are outside the business districts.
[173] The large subsidy to the LRT system is a major reason for low train fares.
[174] A 2000 study titled "Economic Impact of Traffic Congestion in Metro Manila" by the University of the Philippines National Center for Transportation Studies (NCTS) (as cited in NCTS 2007) estimates that the average commute time was 79, 43, and 17 minutes per day, respectively, for bus, jeep, and tricycle passengers. Given few infrastructure developments in the past 12 years and an increased commuting population, the averages are likely to have gone up. At present, workers living in northern NCR and working in Makati (a distance of around 20 km) spend an average of three hours of commute per day.

to grow again in real per capita terms. By 1995, the economy had fully recovered with growth of as high as five percent, the highest since 1989.

The restoration of power attracted many capital-intensive manufacturing firms, in particular electronics, which helped improve the country's growth prospects in the following years. Together with better infrastructure and promotion of special economic zones and incentives, the restoration of power led to higher growth in capital-intensive industries, notably semiconductors. By 2005, the Philippines had become the third-largest exporter of semiconductors in the world. Total exports of electronics amounted to USD 29 billion in 2008 from USD 3 billion in 1992 (Figure 6.25) and accounted for around 50 percent of total exports before the recent global slowdown. Prior to the recent global slowdown, the Philippine electronics industry was estimated to have employed about half a million workers (Figure 6.26) while its allied industries and suppliers employed about another half a million.

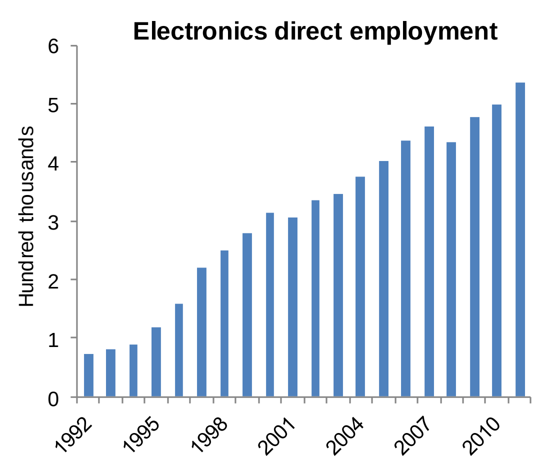
However, even after the power crisis was overcome, power plants continued to be built with guaranteed payments that carried huge fiscal liabilities to the government. Several factors led to this. One was the government, in hindsight, over-contracted with the IPPs and incurred huge liabilities that had to be serviced even as demand fell during and after the 1998 Asian Financial Crisis. Steep increases in fuel prices also raised the cost of power over time. By 2005, the high cost of power, among the highest in the East Asia region, had begun to seriously erode the country's competitiveness, as evidenced by the number of multinational firms that left the country, the number of local firms that closed down, and the declining levels of FDI.

Figure 6.25 The power sector reform enabled electronics exports to grow rapidly before the recent global slowdown.



Source: NSO as cited in Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI) (2012)

Figure 6.26 Electronics employment grew significantly to about half a million workers in 2011.



Source: Philippine Economic Zone Authority (PEZA) as cited in SEIPI (2012)

Conclusion

154. **With high input costs, lack of competition, and weak infrastructure, Philippine manufacturing declined.** Low agricultural productivity contributed to the decline in manufacturing through high cost of raw materials and high food prices that translated into high minimum wages. The lack of competition in manufacturing and in industries that provided it with vital support, such as ports and shipping, contributed to its decline. The long foreign investment negative list and weak state of infrastructure further limited competition and the inflow of FDI. The result is that majority of Filipinos could rely only on the services sector for employment.

Services

Sector overview

155. **In contrast to manufacturing and agriculture, the services sector has been experiencing rapid growth and has become the dominant sector of the economy since 1985.** In 2012, gross value-added of services comprised more than half of GDP and employed about half of the labor force. The formal services sector[175] has been the main driver of overall growth in services. However, the bulk of services employment is found in the informal services sector.[176] In effect, the services sector can be characterized as a dual sector composed of the formal services sector, which drives overall growth given new dynamic industries such as business process outsourcing (BPO) but with employment opportunities limited to highly educated workers, and the informal services sector, which serves as the catch-basin for excess agricultural workers who cannot find jobs in urban manufacturing and in the formal services sector.

Informal services sector

156. **As discussed in Chapter 3, informality is one of the major consequences of the country's weak employment record.** The informal services sector has become the dominant source of employment for the majority of Filipinos who cannot find work in formal services and manufacturing. While not all of informal services are equivalent to bad jobs, its correlation to poverty and vulnerability is high and there are strong indications that the majority of informal services workers do not have the opportunity to move up the job ladder. Many end up in informal and subsistence micro-enterprises with no plans to grow, innovate, and create jobs.

[175] The formal services sector is operationally defined to include the following subsectors: finance, real-estate and other business activities (including BPOs), public administration, and other personal services.
[176] The informal services sector is operationally defined to include the following subsectors: i) wholesale and retail trade, and ii) transportation, communication, and storage.

157. **Of particular concern is the slow growth of entrepreneurship, which has resulted in limited job creation for the poor.** This is evident in a number of indicators such as the small size of firms, lack of registration, necessity as main intention for starting a business, low productivity, and limited options.

158. **A huge majority of Philippine firms are small and remain small over the years**. Micro, small, and medium-size enterprises (MSMEs) account for 99 percent of all enterprises in the Philippines,[177] and a majority of workers are found in micro-enterprises.[178] The 2009 Enterprise Survey,[179] which covers registered firms, shows that after three years, 91 percent of small firms remained small and only one percent moved to the medium-size category. The biggest movement was in the medium-size category, where 17 percent of firms moved to the large-size category. However, a larger share reverted to the small-size category (21 percent) (Table 6.5). The lack of growth among micro and small firms has contributed to the "missing middle" phenomenon in the Philippines.

Table 6.5 Transition between firm size (in percent of total firms)

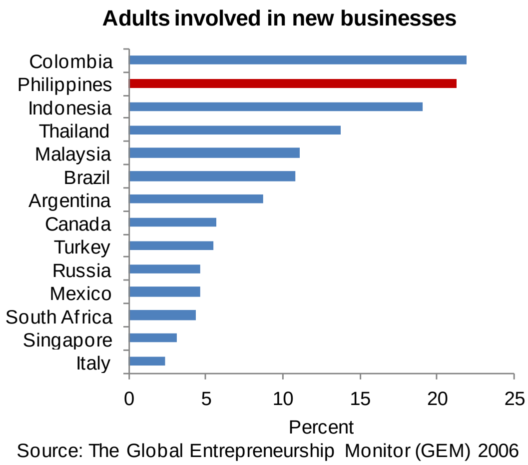
Size category (2006)	Size category (2009)				
	Micro	Small	Medium	Large	Total
Micro	85	15	0	0	100
Small	7	91	1	1	100
Medium	0	21	62	17	100
Large	0	6	3	91	100

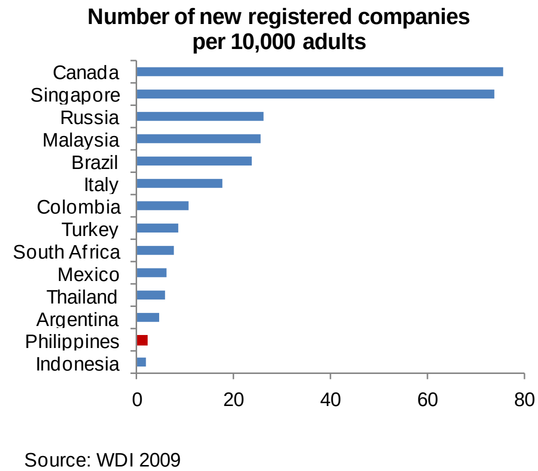
Source: Enterprise Survey 2009

159. **The number of registered MSMEs is very low.** A comparison between the Global Entrepreneurship Monitor (GEM) survey[180] and the World Development Indicators of the World Bank on the number of newly registered enterprises suggests that a large number of Philippine MSMEs are not registered. For instance, in 2006, about 20 percent of GEM respondents in the Philippines stated that they were in the process of starting a business, higher than in most other countries (Figure 6.27). However, the density of newly registered firms is lower than in other countries at only two registrations per 10,000 adults (Figure 6.28).[181]

[177] Source: Micro, Small, and Medium Enterprise Development Council (2011)
[178] Source: WB staff estimates based on DTI, NSO, and WB data
[179] The 2009 Enterprise Survey covers registered firms in manufacturing and services with five or more employees. To be consistent with the official definition, the definition for firm size in the Enterprise Survey was adjusted accordingly.
[180] GEM is an annual assessment of entrepreneurial activity. It is based on a survey conducted in over 85 countries and covers around 2,000 adults per country. The GEM survey for the Philippines was last conducted in 2006 (see http://www.gemconsortium.org/).
[181] These two statistics are not expected to match closely as new attempts to start a business are not always successful. But for countries with low levels of informality, these two statistics are much closer. In Canada, for example, six percent of respondents state that they are involved in a new business and business registrations are

Figure 6.27 The share of Filipinos involved in starting a business is one of the highest.	Figure 6.28 But few businesses are formally registered.



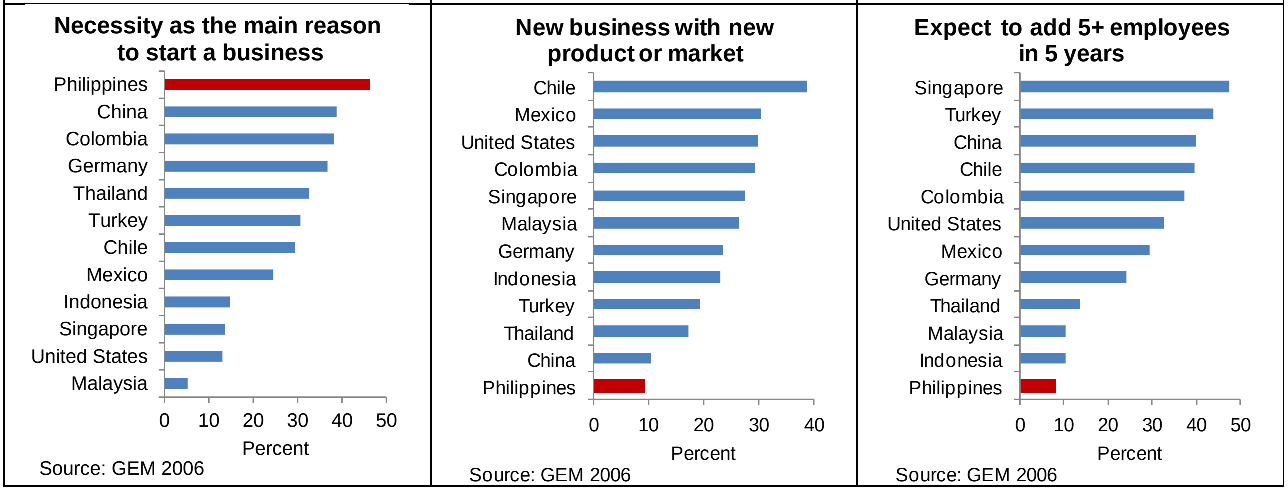


160. **The share of Filipinos involved in starting a business is one of the highest in the world, but new businesses are often started out of necessity, and few introduce innovations or intend to grow**. According to the GEM survey, although 20 percent of Filipinos are involved in setting up or running a new business, nearly half of them cite necessity as the main reason, more often than in most other countries (Figure 6.29a). Filipino entrepreneurs are less likely to introduce any product or market innovation than in most other countries (Figure 6.29b). They also do not expect to create more than five jobs in the next five years (Figure 6.29c). These statistics indicate that a vast majority of new businesses are subsistence in nature, reflecting the lack of jobs in the domestic economy.

at 75 per 10,000 adults. In countries with higher levels of informality, such as Indonesia and Thailand, the high share of entrepreneurs is accompanied by lower new firm registration density.

Figure 6.29 About half of new firms cite necessity as the main reason for starting a business and very few introduce innovation or plan to add five or more jobs over five years.

a	b	c



161. **The average productivity of MSMEs in the Philippines is very low**. The labor productivity of MSMEs in the Philippines is one-third that in Malaysia and one-twentieth those in high-income countries (Figure 6.30).[182] Also, Philippine MSMEs' contribution to GDP is small compared to their share of employment. They account for 60 percent of establishment employment but contribute only 36 percent of establishments' gross value-added (Figure 6.31).

162. **More than 50 percent of new businesses cluster in retail trade, given few options elsewhere** (Figure 6.32). This share is much larger than in other countries. Countries such as China, Indonesia, and Malaysia have higher rates of business creation in other sectors. Consequently, majority of jobs are also created in the retail trade sector in the form of *sari-sari* stores (i.e., informal retailing), street vending, and commission-based jobs, such as selling insurance or real estate.

[182] Not all country estimates in Figure 6.30 cover micro firms and have the same definition of firm size. For instance, the USA estimate covers only firms with less than 500 US-based employees.

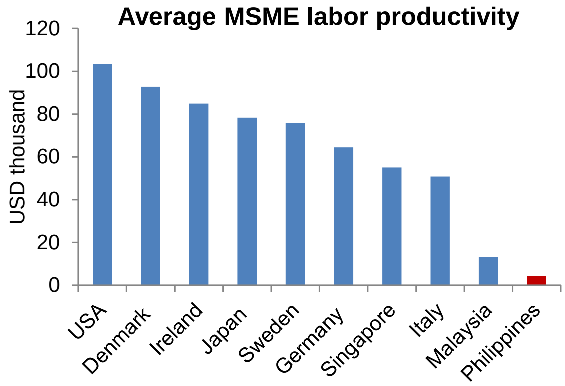
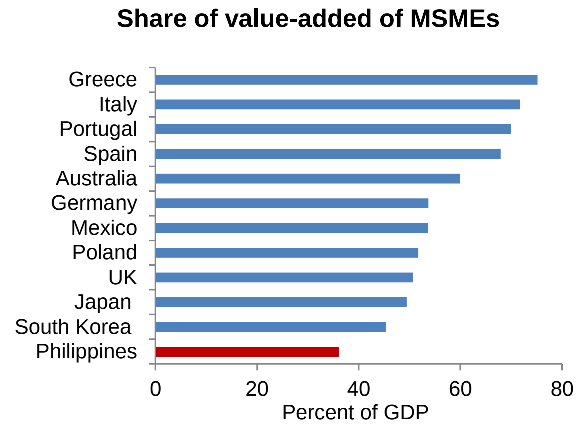
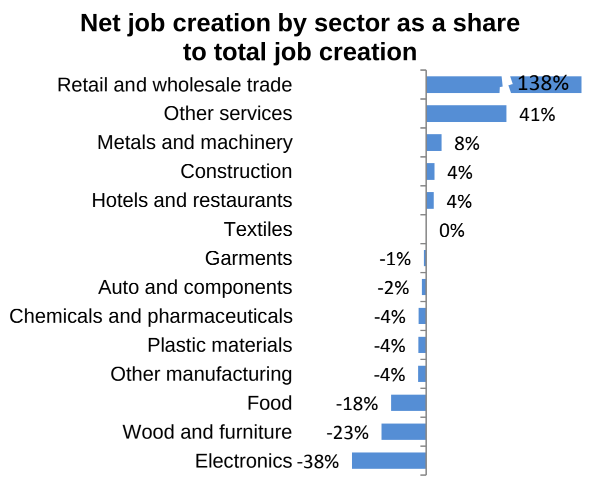
Figure 6.30 Labor productivity of smaller firms in Philippines is much lower than in other countries.	Figure 6.31 MSME contribution to GDP is small relative to its employment share.
	
Sources: European Commission, US SME Characteristics and Performance, Singapore Department of Statistics, Singapore, SME Corp. Malaysia, Micro, Small, and Medium Enterprise Development Council (2011)	Sources: OECD Structural and Demographic Business Statistics (SDBS) Database, NSO (2008), Micro, Small, and Medium Enterprise Development Council (2011)

Figure 6.32 The retail trade sector accounts for majority of new job creation.



Source: Enterprise Survey 2009

Formal services sector

163. **In contrast to the informal services sector, the formal services sector has been experiencing rapid and sustained growth.** Growth of the formal services sector reached over 10 percent annually while employment creation was robust, albeit from a small base. With higher investment in communication infrastructure and skills upgrading, the sector is expected to remain as the driver of economic growth.

164. **Liberalization of key industries in the services sector was the main catalyst of higher growth and job creation in the last decade.** As a result of these reforms, several industries, such as telecommunications, business process outsourcing (BPO), and tourism, grew rapidly. In particular, the BPO industry has been driving overall growth in the last decade. Its total (i.e., direct plus indirect) contribution to value-added growth through services exports, real estate, construction, retail trade, and telecommunications is estimated at around 10 percent of GDP in 2012,[183] roughly equivalent to the total value-added of merchandise exports as a share of GDP.

165. **Higher economic growth from these reforms has translated into more tangible benefits in the form of job creation, reduced prices, increased corporate profit, and increased tax revenues.** While it is hard to estimate the total impact of these reforms on the economy, a rough estimate puts the total number of new jobs created by these reforms at around five million. Majority of these jobs are found in the retail trade and transportation sectors which cater to the higher consumption needs of the new middle class — BPO and electronics workers — and to tourist spending. In addition to domestic jobs, these reforms have also opened up new opportunities for Filipinos to work abroad. More than six million Filipinos, mostly from the top two income deciles, have found better-paying jobs abroad. The telecommunications reform, in particular through the internet, has helped bring in new knowledge and technology, which have helped Filipinos upgrade their skills to be globally competitive. Finally, by opening up competition and increasing market size, these reforms have also raised corporate profits and government tax revenues. These in turn have contributed to macroeconomic stability and higher spending on social services, such as the K to 12 Program, universal healthcare, and the conditional cash transfer program.

Telecommunications reform[184]

166. **The telecommunications reform is arguably the most important reform in the 1990s and is largely responsible for fueling economic growth in the last 15 years.** The deregulation of the telecoms industry in 1993 not only transformed the industry — from a virtual monopoly to a more competitive market and from having a limited network and poor service to an expanded

---

[183] This is estimated as 60 percent of gross value-added (GVA) of renting and other business activities, 60 percent of real estate and ownership of dwellings, 30 percent of construction, 10 percent of retail trade, and 10 percent of transportation and communications, all as percent of GDP.

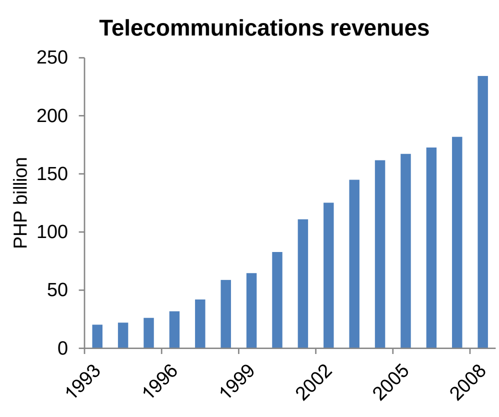
[184] This section draws partly from Bernardo and Tang (2008). The report team is grateful to them for sharing their data that the team updated.

network at much lower prices and better service — but also facilitated the growth of new non-traditional and non-captured industries, such as contact centers, back-office support, and other IT-enabled services. These new industries, collectively known as the BPO industry, have become the main drivers of growth in the last 15 years.

167. **Before its deregulation, the telecommunications industry was virtually a monopoly with one major player controlling more than 90 percent of the market and owning the country's only transmission line.** Telephone lines were hard to obtain. Waiting time for a phone line could take up to 10 years and service quality was low. This changed in 1993 when the Ramos Administration liberalized the telecommunications industry, initially by issuing executive orders that challenged the monopoly head-on, which was owned by one of the country's most powerful oligarchs.

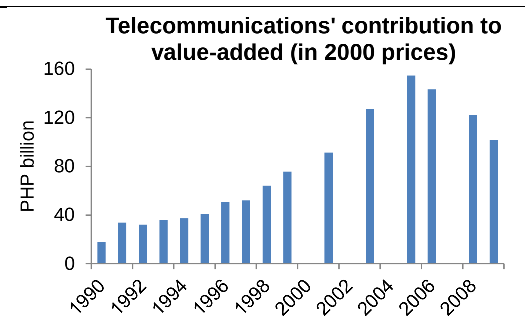
168. **As a result of this reform, several players, including international investors, entered the industry.** By 2001, the industry had seven players. Revenues grew 11-fold from about PHP 20 billion in 1993 to PHP 230 billion in 2008 (Figure 6.33). The industry's contribution to value-added increased at a similar pace (Figure 6.34). Ironically, the original monopoly that was initially affected by liberalization, the Philippine Long Distance Telephone Company (PLDT), emerged as the biggest beneficiary of the reform, earning much higher revenues arising from a much bigger market. Net job creation was also recorded in the telecommunications industry and much more in the industries that depended on it, such as BPOs.

Figure 6.33 Telecommunications revenues increased much faster after liberalization.



Sources: Securities and Exchange Commission (SEC)

Figure 6.34 Telecommunications value-added also increased at a similar pace through 2005.



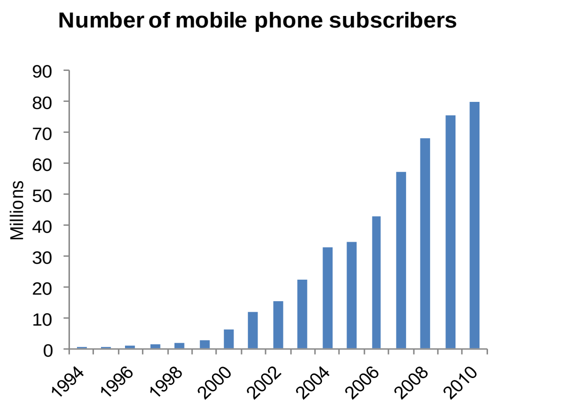
Sources: NSO (Annual Survey of Establishments [ASE], Annual Survey of Philippine Business and Industry [ASPBI], and Census of Philippine Business and Industry [CPBI])

Note: Data for 2000, 2002, 2004, and 2007 are not available. 1991 data include communication services not elsewhere classified.

169. **With stronger competition alongside technological advances, consumer prices fell substantially while access to information increased significantly, allowing more people to have a voice in national issues.** Telecommunications costs have gone down significantly. For example, international direct dialing from the Philippines to the US cost around USD 0.32 per

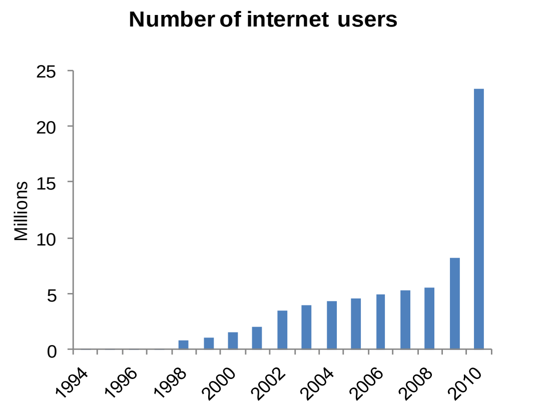
minute in 2007 from about USD 0.50 per minute in 2000 (Alampay 2008). By 2011, promo rates have further brought the cost down by as much as 60 percent.[185] With much lower prices, demand increased significantly. By 2010, there were over 80 million mobile phone subscribers and over 20 million internet users, compared to virtually zero before the reform in 1993 (Figures 6.35 and 6.36). Better access to knowledge and information via the internet, for example via social networking websites such as Twitter and Facebook, has helped build stronger demand for good governance, as evident in recent public debates (e.g., on tobacco and alcohol taxes), and has helped improve disaster risk management, as citizens share information about flooding.

Figure 6.35 Mobile phone subscribers grew almost exponentially in the last decade …



Source: WDI

Figure 6.36 … so did the number of internet users.



Source: WDI

Business process outsourcing (BPO) sector as key beneficiary

170. **The BPO industry is a prime example of a dynamic industry that has benefited tremendously from the liberalization of telecommunications.** In the last decade, the BPO industry grew at impressive rates averaging 25 percent annually, with revenues amounting to USD 13 billion (Figure 6.37) and employment of almost 800,000 people from virtually zero in 1999 (Figure 6.38). The industry expects to reach one million employees by 2016.[186] It has also generated significant positive spillovers to other sectors of the economy. As mentioned earlier, the BPO industry has been driving the rapid growth of the real estate, transportation, communication, construction, retail trade, and private services sub-sectors. Its total

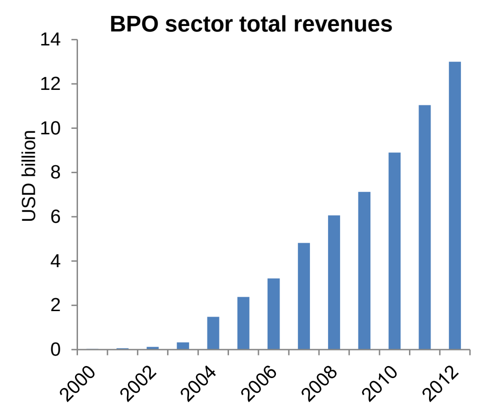
[185] The decline in prices is more pronounced in domestic mobile calls, with marginal cost down to zero in the case of unlimited call packages. Internet connection costs have also gone down by a significant amount, from a monthly rate of around PHP 1,800 for an hour of access per day to less than PHP 800 for unlimited access at higher speeds (based on the monthly payment for a broadband internet service with a speed of up to 512 kilobytes per second).

[186] Values in Figures 6.37 and 6.38 cover only call centers in 2000-2003. Values for 2004 onward cover call centers, back-offices, knowledge process outsourcing, information technology outsourcing, engineering services outsourcing, animation, healthcare information management outsourcing, and medical transcription. Values from 2007 onward include game development along with all the mentioned IT-BPO subsectors.

contribution to the economy through the above-mentioned sectors is estimated at 10 percent of GDP, which is more than the estimated value-added of electronics exports. At present, call centers account for 60 percent of total BPO revenues and 60 percent of total employment. However, in recent years, BPO growth has begun to shift from contact centers to more knowledge-based businesses such as back office systems development, accounting, medical transcription, and animation. Revenue growth in these non-voice BPOs ranged from 40 to over 100 percent. Even during the recent global economic slowdown, the BPO industry maintained high positive growth.[187]

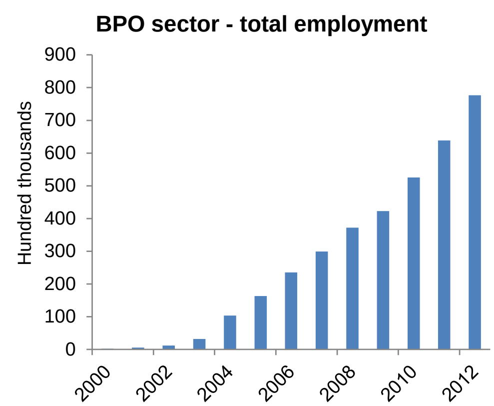
171. **The success of the BPO industry highlights the large dividends that can be gained from structural reforms.** Going forward, non-traditional and non-captured industries with very large growth potential, such as tourism and outsourcing of higher-value manufacturing, could become key growth and employment drivers if supported by the requisite investment in physical and human capital, and governance reforms.

Figure 6.37 BPO revenues grew by over USD 10 billion over 10 years.



Source: Business Processing Association of the Philippines (BPAP)

Figure 6.38 BPO employment is expected to reach 800,000 in 2013.



Source: BPAP

Air transport reform[188]

172. **The air transport reform also had a significant impact on the economy in terms of reducing prices and creating jobs in the trade and tourism sectors.** Like the telecommunications industry, the airline industry was a virtual monopoly before 1993, when it

[187] The growth of the BPO industry remained outstanding despite the recent global slowdown and is projected to grow even faster, given the global economic rebalancing. The sector is still poised to achieve high double-digit growth, especially in the back-office segment. However, recent supply bottlenecks (e.g., availability of qualified BPO workers) are slowing down growth in the industry. Nevertheless, provided that the overall investment climate improves, investments in information technology infrastructure are sustained, input costs such as communications and labor costs remain competitive, and an abundant supply of qualified workers is available, the industry is expected to grow further and contribute significantly to the economy over the medium term.

[188] This section draws in part from Salazar-Rodolfo (2011).

was dominated by Philippine Airlines (PAL). Flights were limited and largely flew out from Manila and to a lesser extent from Cebu. Service was characterized by frequent flight delays, cancellations, and high passenger ticket prices and freight costs.

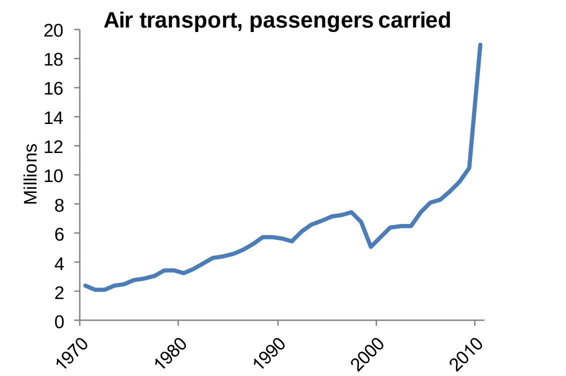
173. **In 1995, the government deregulated the air transport industry and opened the market to more competition.** This reform was part of a broader civil aviation reform to address three main issues: i) airport congestion in Manila, ii) poor performance of international tourism, and iii) inefficiencies in the domestic aviation market. On domestic aviation, in which the reform was the most successful, the government allowed new domestic airlines to operate freely and to complement or establish new routes. This led to a threefold increase in the number of domestic airline routes. Moreover, up to six airlines entered the market between 1995 and 2010. The degree of competition reached a high point in 2011, when the new players' combined market share reached almost 60 percent.

174. **The air transport reform's impact on the economy has also been astonishing.** Several indicators are worth mentioning. First, the cost of travel has significantly gone down. For example, the ticket price for the Manila-Cebu route fell by around 50 percent in real terms between 1997 and 2012.[189] On most routes, air travel has become much cheaper than sea or land travel.[190] Second, much lower prices have significantly increased the number of domestic airline passengers, from less than five million before the reform to more than 20 million in 2011, allowing tens of millions of Filipinos to travel by air for the first time. Partial deregulation of the international sector has also increased the number of international passenger arrivals from nine million to more than 20 million between 2004 and 2011 (of which around one-fourth are tourists) (Figures 6.39 and 6.40). Third, the surge in airline passengers has raised industry revenues fourfold over a 15-year period and, to a lesser extent, industry value-added (Figures 6.41 and 6.42). As in the telecommunications industry, the original monopoly, PAL, also benefited from the expanded market. Furthermore, more competition in the airline industry led to better protection of passenger rights, with the passage of the Air Passenger Bill of Rights in 2012.

[189] Data for 1997 are from Philippine Airlines as cited by Austria (2001) and data for 2012 are from Philippine Airlines' website (https://onlinebooking.philippineairlines.com).

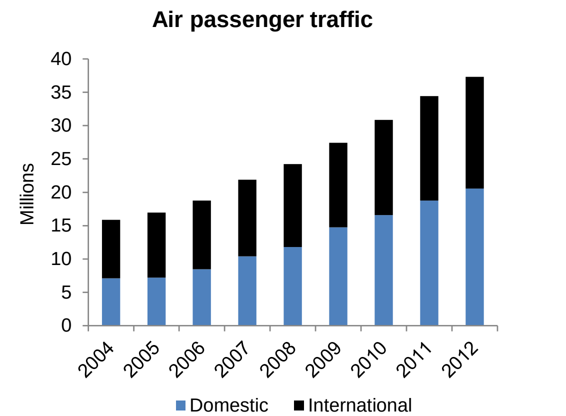
[190] For example, the cost of an air ticket for the Manila-Laoag route is only slightly higher than the bus fare and is even lower during the lean season.

Figure 6.39 Air passenger traffic increased 10-fold between 1970 and 2010, largely due to reforms in the last two decades.



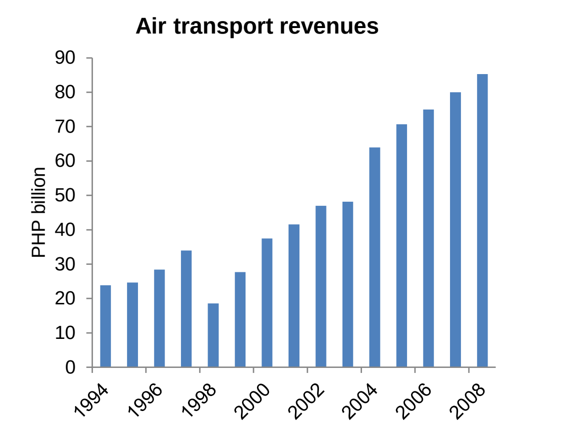
Source: WDI
Note: Data include passengers of both domestic and international flights.

Figure 6.40 Air passenger traffic more than doubled in the last eight years.



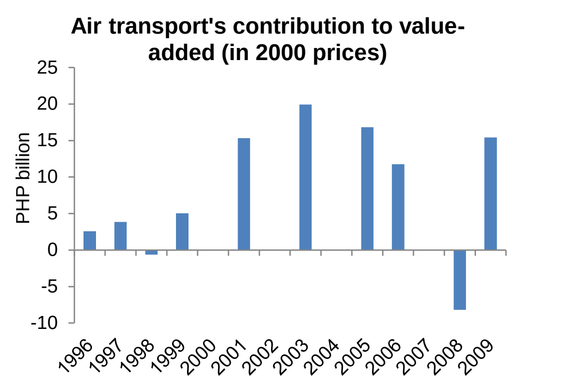
Source: Civil Aeronautics Board

Figure 6.41 Air transport revenues grew by four-fold between 1994 and 2008.



Source: SEC

Figure 6.42 Value-added also increased albeit to a lesser extent.



Source: NSO (ASE, ASPBI, and CPBI)
Note: Data for 2000, 2002, 2004, and 2007 are not available.

Conclusion

175. **In summary, the country's weak development outcome is largely explained by its history of policy distortions.** Regulatory and institutional capture in the past six decades, illustrated by, for instance, protectionist and monopolistic policies that favored a small elite class at the expense of the majority of Filipinos, has impeded the country's structural transformation. This elite capture, with deep historical roots, has resulted in a range of economic and political institutions that has undermined the inclusive growth agenda of successive administrations.

176. **Structural reforms in the 1980s and 1990s opened up the economy to more competition and resulted in significant job creation.** Economic growth and job creation that

followed these liberalizations demonstrated the economic potential that the monopolies and oligopolies had long suppressed. Without these key reforms, sustained growth and job creation seen in some industries since 2000 would have been difficult to achieve.

177. **Going forward, the country needs to pursue the remaining structural reform agenda to put the country on a more inclusive growth path.** This includes reforms to enhance competition in the economy and to protect property rights. In addition, increasing public revenues and improving public financial management are needed in order to sustainably finance more spending on infrastructure, education, and healthcare. This reform agenda is discussed in Part III of this report.

Chapter 7 – Investment climate, and business and labor regulations

178. **Apart from policy distortions in agriculture and manufacturing, the country's weak investment climate, and more complex business and labor regulations have also contributed to weak job creation.** The overall investment climate has been weak, as evidenced by the low levels of investment and formal sector job creation. Corruption, although diminishing, remains as a top concern for investors. The high cost of doing business limits the growth of gainful entrepreneurship as an alternative to wage employment. More rigid labor regulations have also pulled back employment generation. Together, these have led to the proliferation of the informal services sector.

Investment climate

179. **The country's weak investment climate has been a major hindrance to generating investments and creating more and better jobs.** According to the 2012-2013 Global Competitiveness Report (GCR),[191] the country's percentile ranking[192] improved from 57 to 45 (Table 7.1). However, compared to its neighbors, it is still underperforming. Relative to Indonesia, Malaysia, and Thailand, the Philippines has the highest (i.e., the worst) percentile rank in all the GCR competitiveness "pillars" except in higher education and training, financial market development, and technological readiness. It has the second-highest (i.e., second worst) percentile rank in labor market efficiency, after Indonesia.

180. **Among the investment climate constraints, corruption is the biggest concern in the Philippines.** The World Economic Forum's Executive Opinion Survey finds that corruption is the biggest constraint in the country (Figure 7.1). This is corroborated by the country's lackluster performance in the GCR pillar of institutions, in which insecure property rights, diversion of public funds, low public trust of politicians, and burden of government regulation were found to be major constraints to raising competitiveness. The World Governance Indicators (WGI) also finds corruption and related governance issues to be quite problematic in the Philippines. The most recent WGI, released in 2011[193], ranks the country's governance environment below those of its neighbors except Lao PDR and Cambodia. The Philippines' score in the "control of corruption" indicator worsened by 28 points, from 51 in 1996 to 23 in 2011 (Figure 7.2). This is further corroborated by surveys of public perceptions of corruption among local firms that still find corruption to be a major issue, although improving.[194]

[191] The GCR measures the quality of national business environments using 12 pillars that comprise the Global Competitiveness Index (GCI). The 12 "pillars" or categories of factors are the i) quality of institutions, ii) infrastructure, iii) macroeconomic stability, iv) health and primary education, v) higher education and training, vi) goods market efficiency, vii) labor market efficiency, viii) financial market sophistication, ix) technological readiness, x) market size, xi) business sophistication, and xii) innovation.

[192] Percentile rankings were calculated by WB staff based on GCR results.

[193] 2011 is the latest year available.

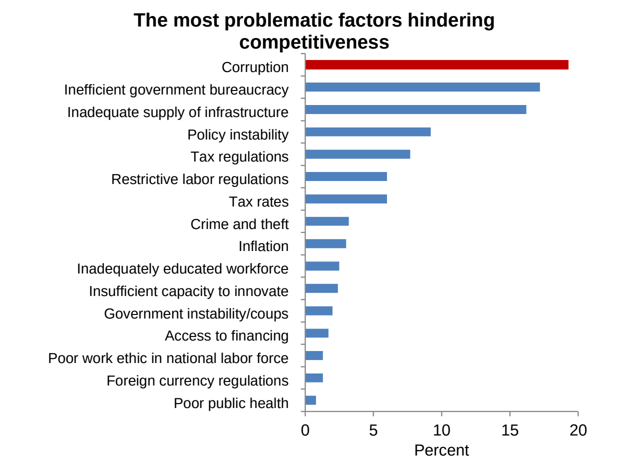
[194] The latest Social Weather Stations (SWS) Survey of Enterprises on Corruption finds that 42 percent of executives see a lot of corruption. However, this is a marked improvement from 2009 when the statistic was 64 percent.

Table 7.1 Global competitiveness rankings of selected ASEAN countries

	The Global Competitiveness Report percentile rankings[1]							
	2012-2013 (out of 144 countries)				2006-2007 Report (out of 125 countries)			
	Philippines	Indonesia	Malaysia	Thailand	Philippines	Indonesia	Malaysia	Thailand
Overall GCI ranking	45	35	17	26	57	40	21	28
Basic requirements	55	40	19	31	67	54	19	30
Institutions	65	50	20	53	70	41	14	32
Infrastructure	68	54	22	32	70	71	18	30
Macroeconomic environment	25	17	24	19	49	45	25	22
Health and primary education	68	48	23	54	65	57	33	67
Efficiency enhancers	42	40	16	32	50	40	21	34
Higher education and training	44	51	27	41	50	42	25	33
Market efficiency	NA	NA	NA	NA	45	21	7	25
Goods market efficiency	60	44	7	26	NA	NA	NA	NA
Labor market efficiency	71	83	16	53	NA	NA	NA	NA
Financial market development	40	48	4	30	NA	NA	NA	NA
Technological readiness	55	59	35	58	49	57	22	38
Market size	24	11	19	15	NA	NA	NA	NA
Innovation and sophistication factors[2]	44	28	16	38	49	33	17	29
Business sophistication	34	29	14	32	47	33	16	32
Innovation	65	27	17	47	63	29	17	26

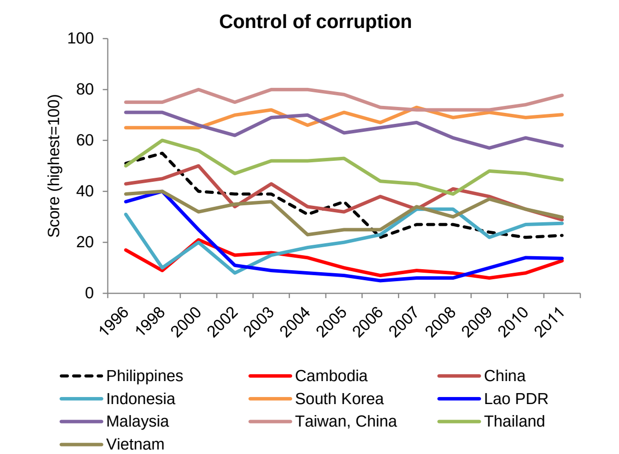
Sources: WB staff estimates using rankings from the GCR 2006-2007 and 2012-2013 (World Economic Forum 2012)
Note: 1. Percentile rankings (1=best, 100=w orst) w ere generated using Stata.
2. This w as called "Innovation factors" in the 2006-2007 report.

Figure 7.1 Corruption is the biggest problem in the Philippines.



Source: Executive Opinion Survey 2012 edition as cited in the GCR 2012-2013 (World Economic Forum 2012)

Figure 7.2 Control of corruption in the Philippines weakened through 2011.



Source: Worldwide Governance Indicators

181. **The GCR also points to two other major shortcomings: inadequate public infrastructure (third most problematic) and restrictive labor regulations (sixth most problematic).** Compared to firms in other countries in the region such as China and Indonesia, firms in the Philippines are more concerned about infrastructure and labor regulations (the latter is discussed in the following section). They also suffer from increased losses as a share of

sales from various unproductive expenses related to these factors. For example, losses from delays and high cost of shipment are three times higher for firms in the Philippines than for firms in China.[195] The power sector also faces problems of supply inadequacy and high tariffs. These findings are corroborated by the 2005 and 2009 Enterprise Surveys.

Business regulations

182. **Philippine business regulations are complex and among the costliest in East Asia, undermining firms' ability to create jobs.** Various measures of competitiveness show a big room for improvement. The Doing Business 2013 report ranks the Philippines at 138 among 185 economies in overall ease of doing business.[196] In the ASEAN region, only Lao PDR was ranked lower. The Philippines ranks low in most sub-indicators reported in the Doing Business report (Table 7.2). Firms find starting a business and resolving insolvency to be among the costliest in the world, with rankings of 161 and 165, respectively. Paying taxes and getting credit are not far at 143 and 129, respectively. All other indicators except trading across borders have rankings of 100 or higher (i.e., worse). In contrast, Malaysia and Thailand are among the easiest places to do business, with overall rankings of 12 and 18, respectively. Indonesia, which is slightly better than the Philippines with an overall rank of 128, does a better job in protecting investors (ranked at 49 compared to the Philippines' 128). Over time, the country's ranking decreased from 113 in 2006 to 138 in 2013 relative to other economies.

Starting, operating, and closing a business

183. **Cumbersome regulations and procedures in starting and operating a business deter new firm entry and business expansion.** For example, the number of procedures required to start a business in the Philippines, at 16, is substantially higher than in other countries in the region. The average firm spends 36 days securing licenses required to start a business and spends around USD 400 for these (equivalent to 18 percent of the country's per capita income). Firms in the Philippines also have to apply for licenses annually, more often than in other countries (Figure 7.3). Up to 18 licenses, permits, and forms have to be approved before a business can commence. In many cases, firms report that they need to pay bribes or give gifts to obtain various permits and government services (Figure 7.4).

184. **The process for individuals seeking government licenses, permits, or clearances for employment purposes is also cumbersome.** For instance, workers spend anywhere from a few hours to several days traveling and securing police or National Bureau of Investigation clearances, registering vehicles, getting a community tax certificate, dealing with the Social Security System (SSS) (i.e., loans and retirement processing),[197] and getting an "exit clearance"

[195] See World Bank (2009b) for more discussion.
[196] Rankings are from 1 (best) to 185 (worst).
[197] In the case of SSS pension, pensioners must report annually to the SSS or their respective banks before pension benefits can continue. Failure to report means that pension is discontinued.

from the Philippine Overseas Employment Administration (POEA) in the case of overseas Filipino workers. There is little use of the internet or other modern technology to reduce transaction costs, and efforts to reduce the number of personal appearances, steps, and requirements for routine transactions are lacking.

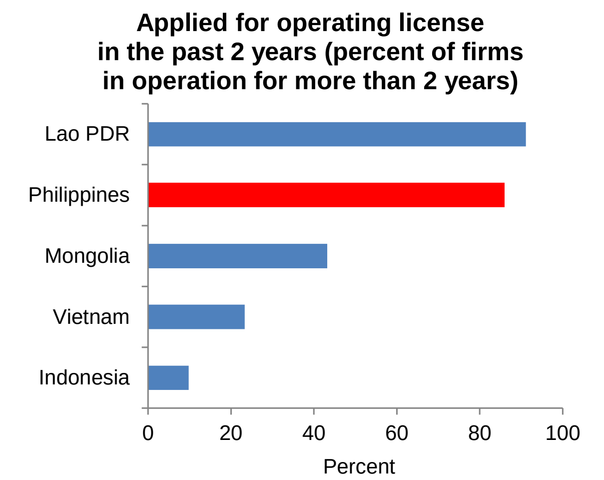
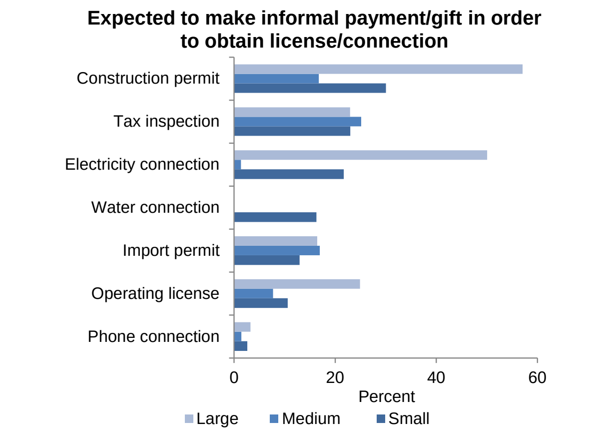
Table 7.2 Rank (and percentile rank)[1] in Doing Business 2013 and selected sub-indicators

Components	Philippines	Indonesia	Malaysia	Thailand
Overall ease of doing business	**138 (75)**	**128 (69)**	**12 (6)**	**18 (10)**
Starting a business	**161 (87)**	**166 (90)**	**54 (29)**	**85 (46)**
Number of procedures	16	9	3	4
Number of days	36	47	6	29
Cost (percent of per capita income)	18	23	15	7
Dealing with construction permits	**100 (54)**	**75 (41)**	**96 (52)**	**16 (9)**
Employing workers[2]	**115 (63)**	**149 (81)**	**61 (33)**	**52 (28)**
Registering property	**122 (66)**	**98 (53)**	**33 (18)**	**26 (14)**
Number of procedures	8	6	5	2
Number of days	39	22	14	2
Cost (percent of property value)	5	11	3	6
Getting credit	**129 (70)**	**129 (70)**	**1 (1)**	**70 (38)**
Protecting investors	**128 (69)**	**49 (26)**	**4 (2)**	**13 (7)**
Paying taxes	**143 (77)**	**131 (71)**	**15 (8)**	**96 (52)**
Number of payments per year	47	51	13	22
Hours per year	193	259	133	264
Total tax rate (percent of profit)	47	35	25	38
Trading across borders	**53 (29)**	**37 (20)**	**11 (6)**	**20 (11)**
Enforcing contracts	**111 (60)**	**144 (78)**	**33 (18)**	**23 (12)**
Resolving insolvency	**165 (89)**	**148 (80)**	**49 (26)**	**58 (31)**

Source: Doing Business 2013 report (World Bank and IFC 2012)

Notes: 1. Rankings and percentile ranks are given in boldface. Rankings are based on a total sample of 185 economies. Percentile ranks (1=best, 100=worst) are given in parentheses and are computed using Stata by WB staff.

2. "Employing workers" data are excluded in the 2013 rankings on the ease of doing business. "Employing workers" data shown here are from the Doing Business 2010 Report (World Bank and IFC 2009) which covers 183 economies.

Figure 7.3 Firms in the Philippines need to apply for licenses more often.	Figure 7.4 Firms report the need to pay bribes or give gifts to obtain permits.
 Source: Enterprise Survey 2009	 Source: Enterprise Survey 2009 Note: In this figure, firm sizes are based on definitions used by the Enterprise Survey. Large firms have 100 or more workers. Medium firms have 20 to 99 workers. Small firms have 5 to 19 workers.

185. **Finally, a weak bankruptcy resolution regime makes it particularly difficult for inefficient or unprofitable firms to exit the market**. The recovery rate from a failed business in the Philippines averages only four cents to a dollar, compared to more than 30 cents in Malaysia or Thailand, causing potential firms to think twice before entering the market.

Paying taxes

186. **Paying taxes is also cumbersome in the Philippines.** According to the Doing Business 2013 report, the Philippines' rank in paying taxes, which focuses on administrative complexities of making various tax payments by enterprises, is the highest (i.e., worst) in the ASEAN region at 143 among 185 economies. This weak performance is largely attributed to the country's high total tax rate[198] equivalent to about 47 percent of profit—the highest among the three comparator countries—and the number of payments per year at 47, which is more than three times higher than that in Thailand, more than double that in Malaysia, and only four payments lower than Indonesia. The Philippines performed better only in the number of hours to comply with tax requirements[199] at 193 hours, compared to 264 in Thailand and 259 in Indonesia. In Malaysia, compliance takes only 133 hours. However, these figures do not adequately measure the full compliance costs faced by Filipino taxpayers, given alleged systemic corruption in the tax system.

[198] The indicator on total tax rate measures all taxes and contributions that are government mandated at all levels (i.e., federal, state, and local), apply to standardized businesses, and have an impact on their income statements. It excludes value-added tax, sales tax, and other goods and service tax because they do not affect the accounting profits of the business, that is they are not reflected in the income statement (Source: Doing Business 2013 report).

[199] The indicator on hours per year for paying taxes "measures the time taken to prepare, file, and pay three major types of taxes and contributions: the corporate income tax, value-added or sales tax, and labor taxes, including payroll taxes and social contributions" (Source: Doing Business 2013 report).

Access to finance

187. **Another key constraint to firm entry and expansion in the Philippines is limited access to finance.** This issue weighs heavily on small and medium-size enterprises (SMEs),[200] preventing majority of micro and small rural enterprises from growing. It is also a main obstacle to rural development. A large number of these enterprises are involved in adding value to primary crops but they are constrained by low-productivity technologies that hardly meet the emerging standards for quality and food safety required by the domestic market and foreign importers. Only about a fourth of these enterprises have access to reliable sources of credit such as rural banks, credit unions, cooperatives, and non-profit microfinance institutions. Because they often lack acceptable forms of collateral and transparent accounting practices, small rural enterprises are considered risky and are often turned down.

188. **A 2007 study by the International Finance Corporation (IFC)[201] suggests that the annual unmet demand for SME loans ranged from PHP 67 billion to PHP 180 billion.** The government has tried to address this problem by imposing a minimum amount on bank lending to SMEs. However, instead of encouraging SME development, the requirement has led to re-labeling or re-categorizing of loans by banks, in order to comply with the requirement without venturing into new SME markets or taking new SME clients. This appears to be a common practice among banks in the Philippines.[202]

189. **Limitations in bank regulation and supervision framework have also affected credit growth for SMEs.** Lack of legal protections for bank supervisors and an inadequate bank resolution framework result in an overly conservative stance of the regulators in setting guidelines for credit operations. Addressing this issue would facilitate the shift toward a more risk-based approach to supervision and would lead to the development of a more dynamic financial sector by enabling a more effective and less costly mechanism for weaker firms to exit.

190. **Access to credit is also hampered by a relatively high credit repayment risk.** SME access to loans is inversely related to the average time it takes to complete bankruptcy proceedings and bankruptcy costs, and positively related to the expected creditor recovery rate on bad loans. It is therefore unsurprising that the share of SMEs with bank loans (at 17 percent) is so low, considering that the bankruptcy process is extremely slow (i.e., it takes around six

[200] *Bangko Sentral ng Pilipinas* figures show that between 2000 and 2006, total nominal lending volume to MSMEs rose from PHP 986 billion to PHP 1,228 billion, an average increase of only 3.7 percent per annum. According to the United Parcel Service, Inc. (UPS) Asia Business Monitor Report (2009), access to funding is the second most important factor limiting the competitiveness of Philippine SMEs (as mentioned by 67 percent of respondents), next to lack of government support at 74 percent.

[201] See Vaillancourt (n.d.) for more discussion.

[202] Enforcement of mandatory lending targets relies on self-reporting and on the regulator's capacity to supervise, which is usually overstretched. Moreover, lending to microfinance institutions also counts toward meeting the mandatory minimum SME target — a common loophole that results in little or no additional SME lending.

years to complete a bankruptcy case), bankruptcy administration costs are high (38 percent of assets), and expected creditor recoveries are much lower at around four cents to a dollar, as mentioned earlier. Moreover, bankruptcy procedures are so inefficient that creditors hardly ever use it.[203] These factors make SME financing a very risky exercise in the Philippines.

191. **The lack of accessible information on payment histories adds further to creditor risks.** The ability of financial institutions to provide cost-effective services depends largely on the availability of information necessary to assess the creditworthiness of their clients. The scope, accessibility, and quality of credit information through public or private bureaus in the Philippines are very low, and the implementation of a recent law creating a centralized credit bureau (Republic Act 9510 "Credit Information System Act") has been delayed.

192. **Moreover, the land registration and titling system is fragmented into different registries, making debtor searches and financing difficult, and property rights insecure.** The current system for registering land titles is inadequate. The data are not centrally filed and are not available online. The absence of reliable cadastral surveys leaves large tracts of land without enforceable titles. Uncertainties surrounding land ownership in rural areas brought about by delays in the agrarian reform program and restrictions on the transfer of land further discourage investments in agriculture.

193. **Finally, significant deficiencies also abound in the registration of moveable collateral (i.e., chattel).** This is often the only type of collateral available to small and medium-size enterprises. Information in the various Registry of Deeds is not centralized, registration of chattel is often extremely time-consuming and costly, and financial institutions often cannot verify if a particular chattel is registered.

Conclusion

194. **The country's weak investment climate and costlier business regulations have contributed to weak employment generation.** Concerns about corruption and inefficient bureaucracy have raised transaction costs, limited firm expansion, and have forced many workers to remain in the informal sector. The high cost of doing business has hindered gainful entrepreneurship as an alternative to wage employment. Reforms to simplify business and tax regulations, improve access to credit, and strengthen governance would all help to create an environment that is more conducive to job creation. These recommendations are discussed in Part III.

[203] An up-to-date bankruptcy framework, Republic Act 10142 "Financial Rehabilitation and Insolvency Act," which aims for a faster and more orderly rehabilitation or liquidation of financially distressed companies and individuals was passed in 2010. Implementation, however, has not begun, given delays in crafting the law's implementing rules and regulations.

Labor regulations[204]

195. **Though most surveys do not find labor regulations to be major constraints in the Philippines, many stakeholders are nevertheless concerned about how labor regulations affect their welfare.** Employers are concerned mainly about the negative effects of high minimum wages, restrictions on the use of flexible contracts, and the *de facto* high cost of termination on the viability of their businesses. These policies can make businesses hesitant to expand or to exploit new business ideas. They can also force the closure of some businesses. When this happens, existing workers lose their jobs. On the other hand, employees have valid concerns about adequate living wages and security of tenure, especially when there are few job options available. When workers lose their jobs or when food prices rise faster than nominal wages, their real incomes fall, driving some into poverty and others to cut their investment in human capital (i.e., health and education) — both with dire consequences on their future employability. Given these opposing and yet valid concerns, labor regulations need to strike a balance between firms' need to be competitive and workers' need for protection.

196. **An important question for policymakers is whether Philippine labor regulations are promoting the creation of good jobs.** From an economy-wide perspective, labor regulations should allow for efficient reallocation of labor from non-productive activities to more productive activities and in the process create more and better jobs. However, inappropriate or rigid labor regulations may raise the cost of labor to firms. If an increase in labor cost is not passed on to workers in the form of lower wages or to consumers in the form of higher prices, firms may adjust by reducing employment, especially when terminating workers is difficult, to avoid having to keep a large and costly workforce when business is down. For some firms that cannot easily substitute capital for labor, rigid labor regulations can result in lower output or even closure of labor-intensive firms, as it seems to be the case in the Philippines. From the perspective of workers, rigid labor regulations are good for existing workers in the formal sector. However, it can harm informal sector workers and the unemployed who are trying to find jobs in the formal sector or trying to start businesses. These workers may be willing to have some gainful work even for a fixed term or at lower wages, rather than having no work at all.

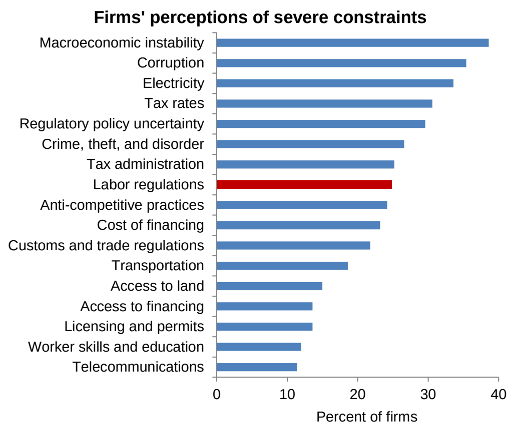
What surveys say

197. **Surveys of existing firms find that labor regulations are not the biggest constraints to business operation or expansion.** In the 2005 Enterprise Survey, firms identified macroeconomic instability, corruption, and high cost and unreliable supply of electricity as the main constraints. Less than 30 percent of firms identified labor regulations as major or severe constraints (Figure 7.5). Similarly, in the 2009 Enterprise Survey, firms in general did not find labor regulations to be major or severe obstacles to business operation. Only five percent of firms find labor regulations to be major or severe obstacles (Figure 7.6). Instead, the surveyed

[204] This section draws in part from the background papers of Aldaba (2012), Lanzona (2012), Murata (2012b), Olfindo and Okamura (2012), Ofreneo and Hernandez (2012a and 2012b), and Pierre (2012).

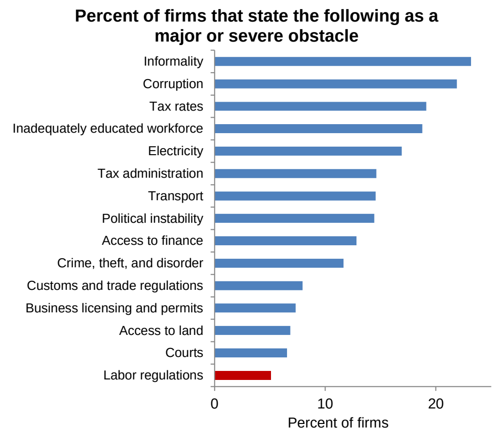
firms found informality (23 percent of firms), corruption (22 percent of firms), tax rates (20 percent of firms), and lack of skills (19 percent of firms) as bigger concerns. The 2012 Executive Opinion Survey as cited in the 2012-2013 Global Competitiveness Report (GCR) found labor regulations to be the most problematic for only six percent of respondents compared to corruption (19 percent), inefficiency in the bureaucracy (17 percent), and lack of infrastructure (16 percent) (Figure 7.1).

Figure 7.5 Labor regulations were not major or severe constraints in 2005 …



Source: Enterprise Survey 2005

Figure 7.6 … and also in 2009. However, serious concerns about informality could indicate that labor regulations are indirect constraints.



Source: Enterprise Survey 2009

198. **Relative to its neighbors, the Philippines does not stand out as having significantly more restrictive labor regulations except in hiring and firing practices** (Table 7.3). The 2012-2013 GCR puts the Philippines at a percentile ranking of 71, compared to 83 for Indonesia, 53 for Thailand, and 16 for Malaysia in the labor efficiency pillar.[205] Among the sub-indicators of flexibility, the Philippines scores best on cooperation in labor-employer relations. On flexibility of wage determination, its percentile rank is not significantly higher than Indonesia's, but its higher percentile rank in the pay and productivity sub-indicator reflects the weak correlation between productivity and minimum wages. It does very poorly in hiring and firing practices, with a percentile rank of 75, which is significantly worse than those of its three neighbors. The country's redundancy cost[206] is comparable to those of its neighbors, which suggests that its high score in hiring and firing practices can be attributed to high transaction costs associated with employment termination, such as legal expense and compliance costs.

[205] According to the GCR 2012-2013, an efficient and flexible labor market allocates workers to "their most effective use in the economy" and gives them "incentives to give their best effort in their jobs."
[206] Redundancy costs are "[n]otice requirements, severance payments, and penalties due when terminating a redundant worker, expressed in weeks of salary" (Source: Doing Business report).

Table 7.3 Percentile rankings in selected labor market efficiency indicators

	Labor market efficiency							
	Philippines		Malaysia		Indonesia		Thailand	
	Percentile rank[1]	Value[2]	Percentile rank	Value	Percentile rank	Value	Percentile rank	Value
Overall	**71**	**4.0**	**16**	**4.8**	**83**	**3.9**	**53**	**4.3**
A. Flexibility	**82**	**4.0**	**24**	**4.9**	**93**	**3.5**	**84**	**4.0**
Cooperation in labor-employer relations	26	4.7	10	5.2	42	4.4	28	4.7
Flexibility of wage determination	81	4.3	15	5.6	79	4.4	67	4.7
Hiring and firing practices	75	3.4	23	4.5	36	4.2	28	4.3
Redundancy costs	83	27.4	75	23.9	95	57.8	90	36.0
B. Efficient use of talent	**61**	**4.0**	**21**	**4.7**	**48**	**4.2**	**24**	**4.7**
Pay and productivity	39	4.1	2	5.3	23	4.4	19	4.5
Reliance on professional management	26	4.9	16	5.3	36	4.5	49	4.2
Brain drain	49	3.4	15	4.7	29	4.0	25	4.1
Women in labor force	76	0.6	82	0.6	78	0.6	43	0.8

Source: Global Competitiveness Index 2012-2013 data platform

Notes: 1. Percentile rankings (1 = best, 100=worst) are calculated using Stata and are based on actual rankings out of 144 countries.

2. Values are scores (1=worst, 7=best), except for redundancy costs (values of which are weeks of salary) and women in labor force (values of which are ratio to men).

199. **Some segments of firms find labor regulations to be more problematic.** According to the 2009 Enterprise Survey, firms with foreign equity participation are more concerned than purely domestic firms about labor regulations. Among domestic firms with some foreign ownership (at most 40 percent foreign equity), 84 and 38 percent of micro[207] and medium-size[208] firms, respectively, find labor regulations to be moderate to severe obstacles to business operations (Figures 7.7 and 7.8).[209] Among large[210] foreign-owned firms (with at least 60 percent foreign equity), 52 percent find labor regulations to be moderate to severe obstacles (Figure 7.9). Large foreign investors' perception or experience of more restrictive labor regulations, even if only *de jure*, could have contributed to weak employment generation in the Philippines given the country's low levels of FDI.[211] A regression of FDI inflows on the gap between the Philippines' and other countries' hiring and firing practices score in the GCR indicates that the Philippines' high cost of hiring and firing relative to its neighbors is associated with lower FDI inflows.[212] However, as in other countries, labor regulations are not the only

[207] Micro firms are defined to have less than 10 employees.

[208] Medium-size firms are defined to have 100 to 199 employees.

[209] Among purely domestic firms, labor regulations do not appear to be a major concern. This is because most domestic firms are small and informal in nature and are thus not effectively covered by labor regulations. Instead, like large domestic firms, they are more concerned about informality, electricity, and political instability.

[210] Large firms are defined to have 200 or more employees.

[211] According to industry experts, most multinational companies have high corporate governance standards and are unwilling to do business when local rules are waived or bent, even if it is standard practice (e.g., paying below minimum wages in export processing zones).

[212] See Murata (2012b) for more discussion.

factor that drives firms' decision to invest. Factors such as business regulations and infrastructure are also important.[213]

200. **However, concerns about informality might indicate that labor regulations are indirect problems.** Informality was identified by the 2009 Enterprise Survey as the top obstacle to business operation across firm sizes.[214] Micro and small firms had the biggest concerns about informality (Figure 7.10). High informality is a major consequence of the high cost of doing business. Rigid labor regulations, such as high minimum wages and restrictions in the use of flexible contracts, can also push firms to the informal sector. Since these firms are often not registered and do not comply with labor regulations, they can undercut the competitiveness of registered firms in the formal sector, making informality a major concern.

Figure 7.7 Labor regulations are among the top concerns for majority-owned Filipino micro-size firms …

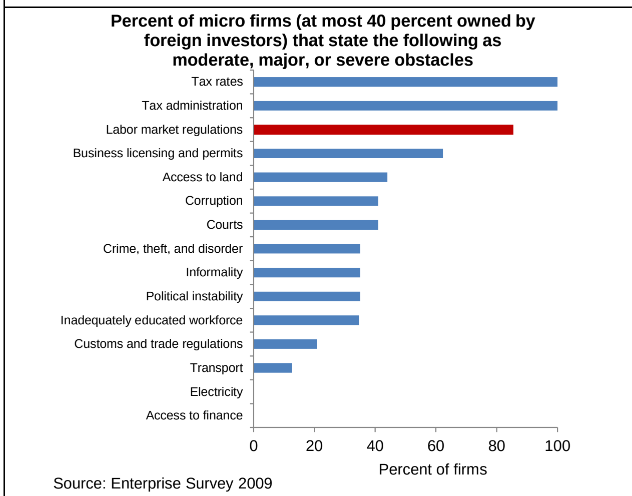
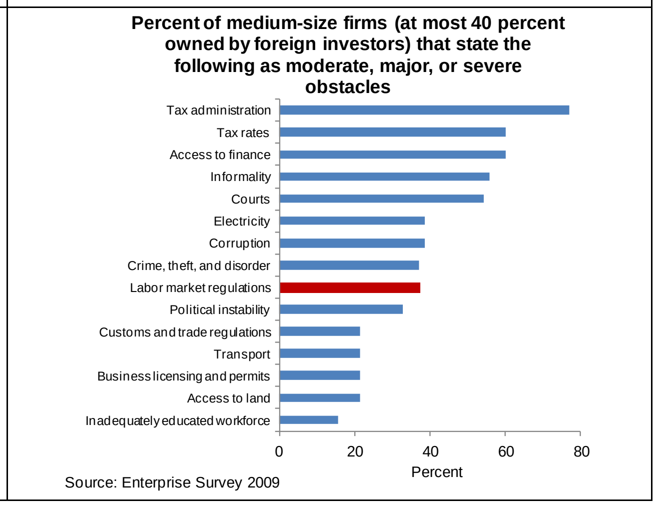


Figure 7.8 … but not for medium-size firms.

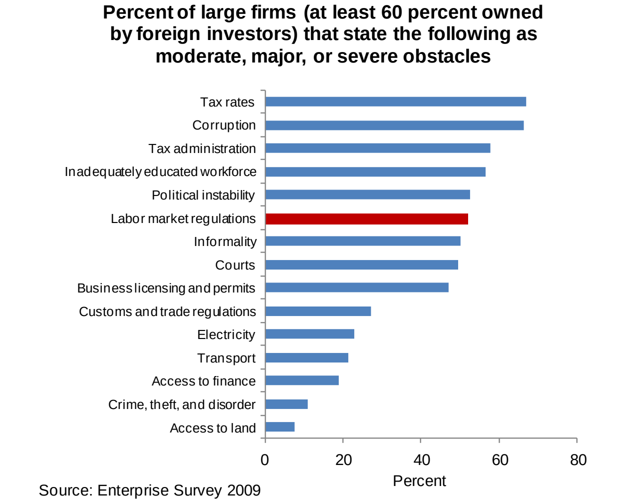


---

213 The experience of Indonesia, which has much higher inflows of FDI than the Philippines, supports the fact that labor policies are often not the major constraints to investment. World Bank (2010a) finds that minimum wages have little impact on FDI inflows. It also finds that province-specific factors, such as infrastructure or regulations, appear to drive up firms' labor input rather than provinces' minimum wage levels.

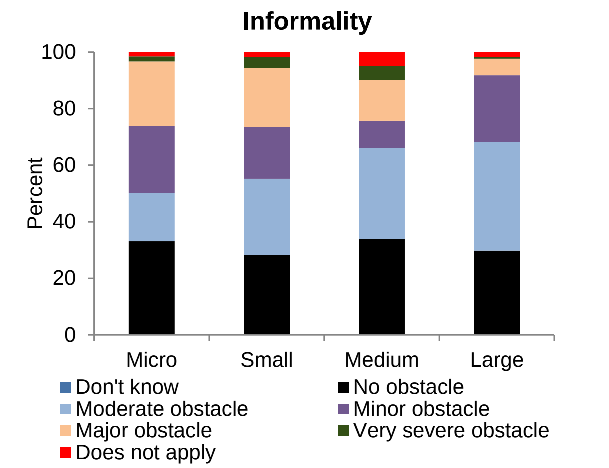
214 In the 2009 Enterprise Survey, problems with informality refer to uncompetitive practices of informal sector firms. The Enterprise Survey considers firms that started operation without being formally registered as informal.

Figure 7.9 Labor regulations are somewhat more problematic for large foreign firms.



Source: Enterprise Survey 2009

Figure 7.10 Micro and small firms have the biggest concerns about informality.



Source: Enterprise Survey 2009

201. **Among the various types of labor regulations, firms find restrictions on worker dismissal and minimum wage setting to be the biggest concerns.** Using a more detailed survey which asks questions on various types of labor regulations across different characteristics of firms, Sicat (2009) finds that manufacturers, exporters, firms operating for not more than five years, and firms not receiving fiscal incentives saw the minimum wage setting process as not being consultative enough and severance pay being too costly (Table 7.4). Labor dispute settlements and limitations on fixed-term contracts are also problematic. While useful sources of information, surveys have limitations. Box 7.1 discusses some limitations of surveys.

Table 7.4 Firms' perception of labor policy rigidity

Mean scores ranked from highest to lowest scores[1]		
Rank	**Description of labor policy**	**Mean**
1	Policy on hours of work	4.09
2	Policy on payment of overtime	4.03
3	Quality of local vocational schools	3.97
4	Industrial relations process	3.94
5	Role of public employment placements	3.92
6	Training of labor in service	3.89
7	Labor policy on holidays in general	3.75
8	Labor policy on other holidays	3.59
9	Limitations on fixed term contracts	3.59
10	Payment of severace costs	3.55
11	Settlement of labor disputes	3.38
12	Labor inspections	3.30
13	Minimum wage setting process	3.28
14	Restrictions on worker dismissal	3.27

Source: Sicat 2009

Note: 1. The lowest possible score is 1 (very poor), while the highest is 5 (excellent).

Box 7.1 Limitations of surveys

While surveys are useful sources of information, they have limitations and thus restrict the extent to which conclusions can be made from their data. Attrition in respondents, difference between *de jure* and *de facto* coverage, and seemingly conflicting laws can affect how firms perceive labor regulations.

A key problem with surveys is that by design, only existing firms are surveyed. Firms that have closed down are not surveyed and thus their views are not captured. If they happen to be labor-intensive firms and they closed down because of high labor cost, then surveys systematically underreport labor regulation as a major constraint. Official and industry statistics suggest that many firms have become more capital-intensive over time and many labor-intensive firms have closed down. As discussed in Chapter 6, between 1989 and 1997, a large number of labor-intensive manufacturing firms closed down or shifted to more capital-intensive production technologies. According to the NSO's listing of establishments, a net of 50,000 establishments (equivalent to six percent of total establishments in 1999) closed down between 1999 and 2010. Among manufacturing establishments, a net of 19,000 establishments (15 percent of total manufacturing establishments) closed down in the same period. More than 80 percent of these establishments are small and labor-intensive (e.g., subcontractors of garments, footwear, furniture, etc.). In the same period, industry records, such as those from the garments sector, show that a significant number of garment firms also closed down. The decline in labor-intensive firms may be a major reason why labor regulations are not listed among the top concerns of firms.

Second, surveys often do not capture the difference between *de jure* and *de facto* coverage of a regulation. An example of this is the minimum wage policy. High minimum wages can be costly on paper but not in practice, since coverage and compliance are low and enforcement is weak. In 2011, 91 percent of establishments in the NSO's listing of establishments are micro firms with less than 10 workers. Workers in these firms account for about a third of total establishment workers. Under the law, these firms can apply for minimum wage exemption.[215] In reality, very few micro firms apply for exemption and since they are not inspected at all, noncompliance is very high.[216] Small and medium-size firms (i.e., 10 to 199 employees) are inspected for labor compliance, but they account for only around nine percent of total firms and 33 percent of total establishment workers. The probability of being inspected is low. There

[215] Exemption is provided by Republic Act 6727 "Minimum Wage Decentralization Law" and Republic Act 9178 "Barangay Micro Business Enterprises Act of 2002." See the section on minimum wages in this chapter.

[216] According to the Department of Labor and Employment, the number of applications for exemption declined from 525 in 2005 to 190 in 2012. In the past two years, the Regional Tripartite Wages and Productivity Boards received fewer than 200 annual applications for exemptions, of which around 60 percent applied for exemption as distressed establishments. Fewer than 100 micro-enterprises applied for exemption in 2012.

are at most 200 field inspectors,[217] or one inspector for every 370 firms covered for inspection. This number is too small to ensure compliance.[218] Among inspected firms, the non-compliance rate for minimum wage is relatively low at 20 percent but non-compliance with other core labor standards is higher at 50 percent.[219] Given these, firms can find the minimum wage policy (or any other labor policy, for that matter) less binding and report labor regulations as less problematic.[220] In addition, surveys often do not capture transaction costs associated with a policy. For example, while severance pay is not costly, dispute arising from dismissal can drag a case for several years, making the legal process very costly to firms.

Finally, seemingly conflicting regulations can be interpreted differently by different firms. For example, the Labor Code largely protects employees' right to security of tenure but court jurisprudence gives management a wide range of prerogatives to decide on all aspects of employment. Depending on firms' experience and interpretation, they can report labor regulations as a major or minor constraint.

Selected labor issues

Legal framework

202. **The foremost issue with Philippine labor regulations is that they are complex and difficult to comply with.** A large number of regulations, such as legislative acts, executive orders, department orders, and court jurisprudences, govern various and sometimes overlapping and conflicting areas of labor policy.[221] This complexity has led to high rates of non-compliance with various labor standards (as high as 50 percent among inspected firms), high *de facto* cost of keeping workers, and lower formal sector employment generation. Moreover, excessive regulation has exacerbated the dualism between the formal and informal sectors. This barrier has prevented many informal sector workers from moving up the job ladder.[222]

[217] Source: Hirose and Vitasa (2007)

[218] The International Labour Office (2006) recommends at least one labor inspector per 40,000 workers in developing countries. Given that there are around 20 million wage workers in the Philippines, the country would need around 500 labor inspectors or more than double the current number.

[219] Source: Bureau of Labor and Employment Statistics (BLES)

[220] Another example is the allegation that many labor regulations are suspended in export processing zones.

[221] The Labor Code is composed of seven books with a total of 302 articles. It is supported by around 80 implementing rules and regulations, which are revised from time to time. In addition, the Supreme Court (SC) has a multitude of jurisprudences on labor policy. Aside from the Labor Code and SC jurisprudences, there are many laws that also cover various aspects of labor, such as the social security law, health insurance law, technical and vocational law, among others, all of which tend to complicate enforcement and reduce compliance especially among micro firms that find compliance with labor regulations and other business regulations too costly.

[222] In Mexico for example, Maloney and Ribiero (1999) find that labor market policies impose implicit taxes on workers and produce other forms of inefficiencies, causing workers to engage instead in the informal sector.

203. **In general, Philippine labor laws are *de jure* designed to protect workers.** The Labor Code gives preferential treatment to workers when there are doubts in the implementation and interpretation of the law. Article 4 of the Code states that "all doubts in the implementation and interpretation of the provisions of this Code, including its implementing rules and regulations, shall be resolved in favor of labor." Sicat (2004) argues that labor policies enacted during the martial law period gave priority to labor standards and protection over job creation in order to compensate workers affected by macroeconomic shocks (e.g., the 1973 oil price shock) and to generate support for the Martial Law regime.

204. **However, the Labor Code largely covers and protects only formal sector wage and salaried workers.** Its coverage of informal sector wage workers and non-wage workers is weak. As discussed in Chapter 2, wage workers comprise only 55 percent of total employment. Moreover, about a third of wage workers work for micro enterprises that are not inspected by the government. In effect, only about a third of workers are protected by the Labor Code, and the figure becomes even smaller if weak enforcement and non-compliance are factored in.

205. **Some Labor Code provisions grant employers some amount of flexibility.** For instance, Article 280 of the Code recognizes different categories of workers (i.e., probationary, regular, project, seasonal, casual, and fixed-period employees) and provides ways in which their services can be terminated. To the extent that employers can justify the choice of contract, labor regulations need not be rigid. However, in practice, some firms find the process to be rigid and costly, as employers need to justify termination, follow due process, and comply with tedious procedural requirements. In addition, protracted legal proceedings arising from worker dismissal can be very costly. This inflexibility makes it difficult for firms to make the necessary adjustments that are crucial to their survival or growth.

206. **Laws favoring employers are largely found in court jurisprudences.** While the Labor Code is more protective of employees, Supreme Court jurisprudences, which have the same effect as legislative acts, recognize the right of employers to a return on their investment and guarantee the right of employers to exercise management prerogatives as long as they are exercised in good faith. The key jurisprudence[223] reads as follows:

> "Except as limited by special laws, an employer is free to regulate, according to his own discretion and judgment, all aspects of employment, including hiring, work assignments, working methods, time, place and manner of work, tools to be used, processes to be followed, supervision of workers, working regulations, transfer of employees, work supervision, lay-off of workers and the discipline, dismissal and recall of work.

---

[223] This jurisprudence is taken from the landmark case "San Miguel Brewery Sales Force Union versus Blas Ople and San Miguel Corporation, Feb. 8, 1989."

"Even as the law is solicitous of the welfare of the employees, it must also protect the right of an employer to exercise what are clearly management prerogatives. The free will of management to conduct its own business affairs to achieve its purpose cannot be denied."

207. **However, management prerogatives have not been clearly defined, unlike other Labor Code provisions, such as conditions when workers can go on strike.** This ambiguity opens them to various interpretations and abuses, making them one of the key complaints of labor organizations. Among the prerogatives of management, the right to subcontract work and the right to dismiss workers are the most contentious for workers.

Minimum wage

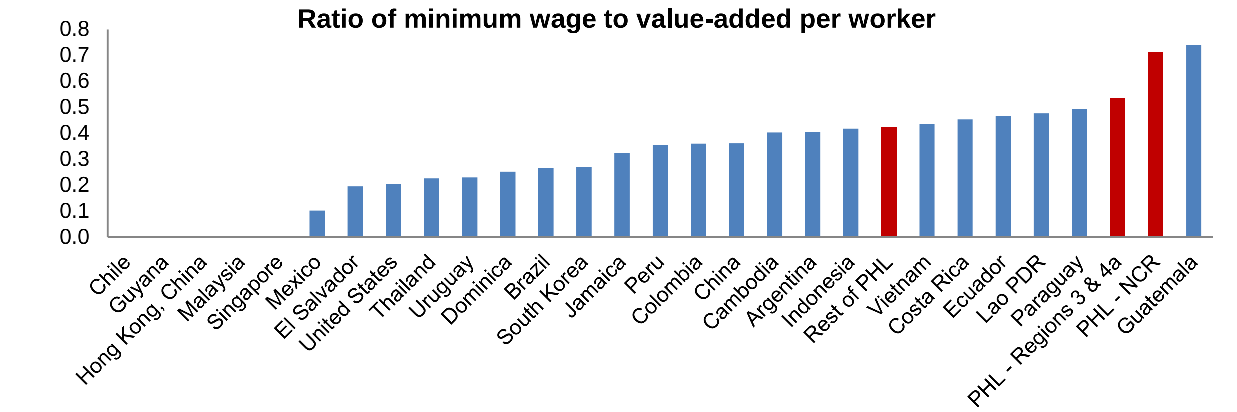
208. **Philippine minimum wage rates are high by various standards.** In nominal dollar terms, it is the highest among developing East Asian countries (Table 7.5). The ratio of minimum wages to value-added per worker at 0.66 is also very high (Figure 7.11). It is about twice the value in Brazil, China, Colombia, and South Korea and four times the value in Thailand. The Philippines' high nominal minimum wage rate is a major contributing factor to the country's lack of competitiveness in labor-intensive manufacturing.

Table 7.5 Minimum wage rates in selected countries (USD per day)

Country/City	Daily min wage, USD		Country/City	Daily min wage, USD	
	Min	Max		Min	Max
Vietnam	1.39	1.74	Guangzhou, China	5.43	5.43
Cambodia	1.67	1.67	NCR, Philippines	8.80	8.80
Jakarta, Indonesia	2.00	3.73	Taiwan	17.96	17.96
Bangkok, Thailand	4.55	6.24	South Korea	26.53	26.53
Delhi, India	4.45	4.93	Japan	56.31	70.82
Shenzhen, China	5.37	5.37			

Sources: Joint Foreign Chambers of the Philippines (2010) citing the following: "[National Wages and Productivity Commission] NWPC; As of August 2010 and related news reports, www.qppstudio.net, AmCham offices and respective national agencies."

Figure 7.11 Philippine minimum wages relative to value-added per worker are at the higher end of the country's comparator group.



Sources: Doing Business Database (2012), WB staff estimates using National Wages and Productivity Commission (NWPC) data
Notes: The first 5 countries either have no minimum wage or have minimum wages close to zero.
"PHL" stands for "Philippines." "NCR" stands for "National Capital Region."

209. **Philippine minimum wage setting is decentralized.** In 1989, the Congress delegated its power to set minimum wages to the various Regional Tripartite Wages and Productivity boards. According to Republic Act 6727, the minimum wage rate can be adjusted under the following reasons: i) demand for living wages, ii) wage adjustment vis-à-vis the consumer price index, iii), cost of living, iv) needs of workers and their families, v) need to induce industries to invest in the countryside, vi) improvements in the standard of living, vii) prevailing wage levels, viii) fair return on the capital invested and capacity to pay of employers, ix) effects of employment generation and family income, x) equitable distribution of income and wealth, and xi) productivity.

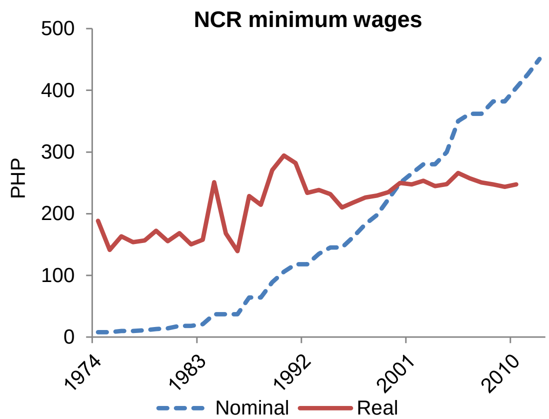
210. **Decentralization of minimum wage setting, while promoting a more consultative and participatory approach to wage setting, has inadvertently made Philippine minimum wages rather complex.** At present, there are more than 200 minimum wage rates around the country. Each of the 17 administrative regions can set its own minimum wage rate, and within a region, minimum wages are set for various sectors. Republic Act 6727 allows many exemptions. For example, the following firms can be temporarily exempted from paying minimum wages: i) firms with less than 10 employees, ii) firms less than three years of age, iii) firms having economic difficulties, iv) firms that have suffered from disasters, and v) worker-owned firms. In addition, since 2002, the Barangay Micro Business Enterprises law (Republic Act 9178) excludes registered *barangay* micro business enterprises from coverage of minimum wage. Given these, it is estimated that only about a third of workers are effectively covered by minimum wages.[224]

211. **Minimum wages have tended to compensate for inflation.** As discussed above, minimum wages can be adjusted for a variety of reasons, including cost of living and

[224] This is computed as the sum of wage workers in micro firms, own account workers, and unpaid family workers.

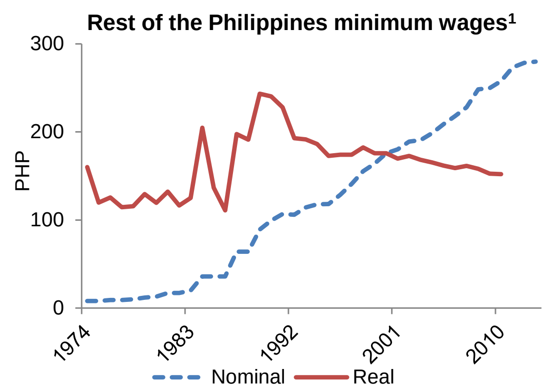
productivity. However, almost all adjustments were driven by cost of living considerations, in particular food and oil prices.[225] Since 1989, when Congress decentralized minimum wage setting to the regions, minimum wages have been adjusted almost every year.[226] The minimum wage in NCR was adjusted 17 times in the past 22 years. In several regions, minimum wages are now set too close to average wages. For example, in 2012, the minimum wage in NCR reached 90 percent of the average wage, resulting in significant wage distortion (i.e., a worker who has 20 years of experience is paid not much higher than an 18-year-old minimum-wage earner). In real terms, however, minimum wages have been flat or falling, as nominal adjustments fall short of inflation (Figure 7.12 and 7.13). The almost annual increase in minimum wages has meant that more firms are seeking to be exempted given their inability to cope with the increase.

Figure 7.12 Real minimum wage in NCR was largely stagnant after decentralization.



Source: WB staff estimates using NWPC data
Note: Base year is 2000.

Figure 7.13 Real minimum wage outside NCR declined after decentralization.



Source: WB staff estimates using NWPC data
Note: Base year is 2000.
1. These are annual averages of regional minimum wages excluding NCR.

212. **Given its complexity and limited coverage, the impact of minimum wage on poverty alleviation is very weak.** Majority of workers — the poor and low-income earners — work in micro firms or in the informal sector and do not receive the minimum wage because of employer exemptions or non-compliance. The average household income of the lowest three deciles is less than half the statutory minimum wage rate, and households in the next three deciles still earn below the minimum wage. According to Del Carpio et al. (2012a), a moderate

[225] The regular increase in the minimum wage also reflects the decline in the use of collective bargaining agreements. Many unions are represented in regional wage boards and have used the wage-setting process as a proxy for collective bargaining, given the declining use of collective bargaining as a means of setting wages at the firm level.

[226] According to DOLE, over time, the various RTWPBs have adopted a policy of granting regular, predictable and moderate increases in minimum wages to reduce uncertainties and level expectations about minimum wages. Government representatives in the regional wage boards often agree to labor unions' demand for a wage increase but they temper the increase to no more than the rate of inflation or agree to the increase but in the form of a cost-of-living allowance adjustment instead of a base pay adjustment to avoid increasing benefits all together.

increase in the minimum wage at, say, less than 10 percent, has a very small positive impact on income and poverty but if minimum wages were to be increased dramatically by, say 80 percent, then it is estimated to have very negative consequences.

213. **There is evidence that Philippine minimum wages are associated with lower employment in manufacturing.**

- Using the Labor Force Survey (LFS) data, the elasticity of manufacturing employment to real minimum wage is negative and significant across specifications (Appendix 7.1 gives the methodology and detailed results). The elasticity of manufacturing employment to minimum wage is -0.33 at the regional level and -0.31 at the provincial level, implying that a 10-percent increase in the real minimum wage rate reduces manufacturing employment by around three percent. Regressions at the sub-group levels show that the negative relationship is stronger for the following subgroups: wage-earning workers, workers with only a high school degree, workers who did not finish college, and workers aged 25 to 34.

- Regressions using panel data from the LFS find that higher minimum wages increase the probability of not being employed among spouses (mostly women) of household heads and the youth by around three percent. This is consistent with the trends in the LFS and is in accord with other empirical research, which finds that more vulnerable groups — women and youth — are among the first to be affected by minimum wage-related job cuts.

- Regressions using the Philippine manufacturing survey and following a methodology similar to Del Carpio et al. (2012b) also show a significant negative relationship across most specifications. At around -0.82 at the firm level, the elasticity of formal sector manufacturing employment to minimum wage is quite high relative to those in other countries.[227] This means that a 10-percent increase in real minimum wage is associated with an eight-percent decline in employment at the firm level. This can be explained by the fact that the ratio of minimum wage to average wage is much higher in the Philippines than in other countries, say, Indonesia (i.e., 60 percent in the Philippines, compared to 15 percent in Indonesia as estimated by Del Carpio et al. 2012b). This indicates that firms in the Philippines are much more sensitive to minimum wages than firms in Indonesia. The decline of Philippine manufacturing, in particular labor-intensive manufacturing (by over 65 percent) in the last four decades is a testament to this. Furthermore, higher elasticities in the firm-level analysis than in the LFS analysis suggest that some jobs are transferred from formal to informal manufacturing.

[227] This very high elasticity has to be tempered by the fact that it represents only a very small panel of firms, given restriction on using firm-level data and its unavailability prior to 1996. A longer and bigger panel dataset of firms would make the analysis more robust and more applicable to the entire economy.

214. **These findings are ultimately traced to the high marginal cost of production, which contributes to the decline in the number of production workers.** Industry information corroborates this finding. For example, according to the Annual Survey of Philippine Business and Industry (ASPBI) of the NSO, the number of establishments in the garments industry with at least 10 workers fell from 1,556 in 1988 to 931 firms in 2000. In 2009, the ASPBI surveyed only 81 garment establishments with at least 20 employees. The garments industry estimates that total employment declined by over 50 percent in the last two decades. Philippine garments players blame the high minimum wage rate as a major factor in the decline of the industry.

215. **In response to businesses' clamor to reduce pressures to increase the minimum wage rate, the Department of Labor and Employment (DOLE) has begun to introduce a two-tiered wage system.[228]** The first tier is a mandatory fixed "floor wage" set by the regional wage boards based on the poverty threshold and average wage, among others. The second tier is an industry or firm-specified optional amount that is based on productivity. Implementation of the two-tiered wage system has begun in selected industries such as public transport and in regions such as Calabarzon. Businesses have generally welcomed this policy and indicated that they are willing to pay more if productivity is higher, but they are concerned about how the new system will be implemented and enforced, especially how the first-tier wage will be set. On the other hand, unions have mixed views. Some labor unions welcome this policy while others are pushing for a single national minimum wage rate based on the NCR rate (the highest rate).

Termination cost and dispute settlement

216. **Although basic severance pay is comparable to those in other countries, the actual termination cost can be much higher because of the tedious process of termination and legal cases that may arise from termination.** Under the Labor Code, termination for authorized causes[229] must be justified by employers. They must also follow the prescribed procedures and due process. Advance notice to DOLE is not needed. The procedure for terminating an employee is considered by many Filipino employers to be tedious. As a result, many employers inadvertently miss some steps, which are counted as violations of due process, and the employers are fined. In fact, many cases at the level of the arbiter or the National Labor Relations Commission (NLRC) proper are ruled in favor of employees because of employers' lack of adherence to due process and procedural requirements, even if the employer has a strong case. Moreover, the Labor Code, as amended by Republic Act 6715, mandates employers to pay full back wages to the concerned employee if the latter wins his or her case.[230] As there is incentive for both the arbiter and employee to prolong the case to extract a larger severance pay (especially since there is no filing fee for the employee), the true cost of severance pay, including legal fees and opportunity cost, can be prohibitive, thus putting the Philippines at the

[228] See National Wages and Productivity Commission (NWPC) Guidelines No. 02 (Series of 2012) on the implementation of the two-tiered wage system.
[229] These refer to economic-related causes such as redundancy, installation of labor-saving devices, etc.
[230] Prior to this, a three-year limit for back wages was granted by the Supreme Court.

high end of the *de facto* severance pay spectrum. As a result, some businesses resort to outsourcing non-core business lines and using short-term contracts, such as the rotating five-month contract, to avoid regularizing employees, which is legally mandated after the sixth month of employment.[231]

217. **The legalistic nature of the dispute settlement system also adds to the high cost of termination.[232]** Most cases of illegal termination involve lengthy legal proceedings. On average, the year-end case load between 2008 and 2012 numbered around 10,500 at the NLRC Regional Arbitration Branches and around 3,300 at the NLRC Commission proper. Decisions at the arbiter level can be appealed all the way to the Supreme Court.[233] Cases that reach the Supreme Court can take up to 10 years to resolve. If resolved in favor of the employee, the employee is awarded his or her full back wages from the date of termination. In contrast, there are, on average, fewer than 1,000 cases per year for conciliation, mediation, and voluntary arbitration.

218. **Both unions and employers agree that the dispute settlement system is too legalistic and very costly.** They argue that labor arbiters and the NLRC tend to follow regular court proceedings instead of streamlined processes to hasten litigation (as originally intended by the law creating the NLRC). Filing a case is also costly even for cases without money claims.[234] This tedious process has consequences for both employers and employees. For employers, this long period of uncertainty poses serious problems for business expansion. For employees, this long wait can hamper skills accumulation and future employment prospects. Both unions and employers agree that the dispute settlement system needs to be overhauled by reducing legalism to speed up the pace of dispute resolution.

---

[231] The Labor Code mandates employers to regularize probationary employees after their sixth month of service. Regularized employees have the right to full benefits and security of tenure, and can only be removed under just or authorized causes. Other workers may be terminated after their contracts have expired. In the last decade, employers have increasingly used short-term contracts or resorted to outsourcing. Relative to other countries, the Philippines does not have too many workers under short-term contracts. Majority of wage and salaried workers in the formal sector have security of tenure.

[232] See for example Bitonio (2008) who discusses evidence that procedures that permit worker dismissal in the Philippines are complex and unduly technical and legalistic.

[233] At present, all cases are first heard at the "single entry desk" for conciliation and mediation. If both parties cannot be reconciled, the case is brought before a labor arbiter in the NLRC. Appealed cases are heard by the NLRC Commission Proper, the Court of Appeals, and finally the Supreme Court. Each step can last for up to two years. According to NLRC, about half of the cases decided by labor arbiters are appealed, with a third going all the way to the Supreme Court. Appeal to the Court of Appeals and Supreme Court are provided by law (Judiciary Act of 1948, Batas Pambansa No. 129, and the Rules of Court), and jurisprudence (e.g., St. Martin Funeral Homes vs. NLRC [1999] and similar cases). The resolution period in the judiciary branch is beyond the control of the executive branch.

[234] For example, unions find it very costly to file cases of unfair labor practice, as this requires many steps and presentation of evidence beyond a certain level of reasonableness.

219. **DOLE and NLRC have begun to improve the dispute settlement system.** In 2011, NLRC promulgated the 2011 Rules of Procedure[235] in an effort to streamline the dispute settlement system. Moreover, improvements are being considered in an ongoing comprehensive review of the Labor Code (the Labor Code Reform Project). A Labor Education Program is being implemented to ensure that employees and employers are aware of the requirements and due process relating to labor disputes settlement. Finally, according to NLRC, under Project Speedy and Efficient Delivery of Labor Justice (SpeED), disposition rate (i.e., cases resolved within the nine-month prescribed period) improved to 98 percent of the target pending cases.

Use of flexible contracts

220. **Subcontracting, outsourcing, and the use of fixed-term contracts are the most contentious among labor regulations.** DOLE has been treading carefully on what constitutes valid grounds for outsourcing and subcontracting. In the past decade, DOLE department orders were amended several times and bills were introduced in Congress to regulate these forms of flexible contracts. The current regulation, Department Order 18-A, recognizes subcontracting as a legitimate business exercise. To avoid abuse, it sets minimum requirements and conditions for which subcontracting is permissible.[236] In recent years, some groups have moved to further regulate subcontracting. Bills have been filed in Congress to regulate the use of subcontracting and outsourcing.[237] Regulations on fixed-term contracts have yet to be clarified by DOLE.

221. **On the one hand, employers are concerned about lack of flexibility in managing their businesses.** In the last two decades, the global economy has become more integrated. Products are now sourced from and assembled in many countries. Globalization has led to stiffer competition, and many businesses see job contracting and outsourcing as unavoidable. Even among firms that produce goods and services for domestic consumption, competition is also stiff. While court jurisprudence gives businesses some flexibility in managing their human resources, they argue that these are not enough. For example, the Labor Code prohibits firms from reducing compensation and benefits during an economic crisis (unlike countries such as Malaysia that permit temporary reduction in benefits during a crisis). They also argue that restrictions in the use of flexible contracts and outsourcing have made them less competitive. They contend that for the Philippines to be competitive, the Labor Code needs to be modernized to make it more responsive to changing economic conditions.

[235] See 2011 NLRC Rules of Procedure, as amended by En Banc Resolution No. 11-12, Series of 2012, and the 2012 NLRC Sheriffs' Manual on Execution of Judgment (En Banc Resolution No. 10-12, Series of 2012).

[236] One provision of the law limits subcontracting to firms with paid-up capital of at least PHP 3 million in order to weed out fly-by-night contractors. However, many industries that rely on small subcontractors complain that this provision is discriminatory against legitimate small subcontractors. DOLE argues that this minimum paid-up capital is needed to protect workers of subcontractors from abuse, such as delay in payment of wages.

[237] For instance, House Bill (HB) 4853 filed in the 15th Congress and known as "The Security of Tenure Bill" puts a limit on subcontracted employees at 20 percent of the total workforce in the business, defines what constitutes legitimate subcontracting, and provides penalties for violation.

222. **On the other hand, unions are particularly concerned about the effects of subcontracting on security of tenure and freedom of association.** While they understand that subcontracting and outsourcing are global trends, they are concerned about their proliferation and potential abuse by management. They are also not convinced that flexibility can be compensated by adequate social protection. Some unions see job contracting and outsourcing as violations of basic labor rights, specifically the right to security of tenure and enjoyment of various labor standards and benefits. Moreover, they are also concerned that the use of flexible contracts can further diminish union strength and collective bargaining.[238] They argue that outsourcing and subcontracting have made union formation more difficult, as subcontracted workers usually have non-regular status.[239] Subcontractors in turn are hesitant to keep a large pool of regular workers, given fluctuating demand and tight competition. Finally, some unions claim that subcontracting is being used as a front to bust unions, especially jobs occupied by union members. All trade unions regardless of politico-ideological persuasions and their non-governmental allies support proposals restricting various forms of subcontracting and outsourcing. Their proposals range from strict regulation to an outright ban and criminalization of outsourcing.

Enforcement

223. **As a result of these complexities, compliance and enforcement rates are low.** Among formal sector firms, around half of inspected firms do not comply with at least one core labor standard.[240] While this is typical of many developing countries, especially when compared to Latin American countries, the Philippines stands out as the country in East Asia with the lowest effective compliance rate, mirroring the relative complexity of the Labor Code. Only about a third of workers, mostly formal wage and salaried workers, are *de facto* covered and protected by labor regulations. The informal sector and informal workers in the formal sector are largely left out and are not protected from job and income losses.

224. **DOLE continues to strengthen its efforts to improve compliance.** Part of DOLE's continuing strategy to improve compliance with labor standards is the promotion of voluntary compliance and industry self-regulation through the i) adoption of voluntary codes of good practices by industry tripartite councils to minimize disputes and lessen government

[238] Union membership in the Philippines declined in the last two decades. Unions now number about 18,000 with membership down to about 1.7 million in 2010 from 3.7 million in 1998. Workers covered by collective bargaining agreements in 2010 represented only 4.7 percent of the total employed and 8.7 percent of the total wage and salary earners. The decline in the number of Philippine unions is largely traced to the decline of the manufacturing sector, in particular large manufactures, the sector where unions are traditionally strong. Moreover, liberalization in the services sector has also weakened unions in former monopolies and oligopolies. Newer firms, such as BPOs, tend to discourage union formation, and many of their younger workers do not see the benefit of joining unions, given higher wages and faster turnover in the industry. Finally, globalization, outsourcing, and subcontracting have made organizing unions more costly.
[239] Organizing is usually done within the framework of collective bargaining. Non-regular employees, short-term hires, project employees, and casual workers are normally excluded from the bargaining unit.
[240] Source: BLES

intervention in workplace relations, and ii) "Incentivizing Compliance Program," which recognizes compliant firms through a "ladderized" award system called the Tripartite Seal of Excellence Award. Moreover, DOLE continues to increase the number of labor standards compliance officers to strengthen its enforcement and compliance program.

Conclusion

225. **In summary, though labor regulations are not the biggest constraints to growth and employment generation in the Philippines, they nevertheless impose substantial costs on some firms and have contributed to the decline of the manufacturing sector.** To make labor policy work for the millions of unemployed and underemployed, a careful balance between flexibility and protection is needed. Making labor policies more flexible can help bridge the gap between the formal and informal sectors, which would allow more informal workers to move up the job ladder and acquire more gainful employment in the formal sector. Flexible policies can also promote entrepreneurship and, counter-intuitively, bring more security to millions of irregular workers with five-month contracts. To prevent abuse, enforcement is critical. To ensure that displaced workers would not be unduly affected, government effort to improve social protection and skills upgrading are essential. These recommendations are discussed in Chapter 9.

Appendix 7.1 The impact of Philippine minimum wages on manufacturing employment[241]

Summary of methodology and results

This study investigates the effect of minimum wages on manufacturing employment, using data from the Philippine manufacturing survey and labor force survey. In particular, it looks at the effect of minimum wages on i) aggregate employment of all manufacturing workers at the regional and provincial levels, and by worker profile (using labor force data), ii) aggregate regional employment of formal sector manufacturing workers (using manufacturing survey data), and iii) within-firm employment (using a panel of manufacturing survey data).

Using the labor force survey from 1997 to 2011, the study finds that higher minimum wages are associated with lower employment of manufacturing workers at the regional and provincial levels. Regressions by worker profile show that the negative relationship is higher for the following subgroups: wage-earning workers in the private sector, workers with only a high school degree, workers who did not finish college, and workers aged 25 to 34. The negative relationship for wage-earning men and women are about the same.

Using a small panel dataset of individuals from the labor force survey from 2003 to 2010, the study finds that spouses (who are mostly females) of household heads and young workers (age 15 to 24) are more likely to be unemployed or leave the labor force given higher minimum wages.

Finally, using the manufacturing survey data from 1996 to 2008, the study also finds a negative relationship between minimum wages and employment of production workers at the regional level (though not significant) and at the firm level (very significant). Among firms, medium-sized firms exhibit the highest negative elasticity, reflecting government policy of focusing labor compliance inspection on medium-size firms.

Data

The study uses both labor force survey (LFS) data and manufacturing survey data. The former includes manufacturing workers in both formal and informal sectors while the latter covers formal sector firms with 20 or more employees. The manufacturing survey is part of the Annual Survey of Philippine Business and Industry (ASPBI)[242] conducted by the National Statistics Office (NSO). The manufacturing survey has regional disaggregation while the LFS has up to provincial

[241] This section is partly based on the background paper of Lanzona (2012).
[242] The ASPBI was known as the Annual Survey of Establishments (ASE) prior to 1998. Every five years, the Census of Philippine Business and Industry (Census of Establishments prior to 1998) is conducted in lieu of the ASPBI.

disaggregation. From these surveys, regional and province panel data can be constructed. The advantage of using the LFS is that it captures both formal and informal employment. Movement of workers from the formal to the informal sector can be inferred using changes in the number of wage workers in the LFS and manufacturing survey, and the difference in the elasticity computed using the LFS and the elasticity computed using the manufacturing survey.

From the LFS, a small panel dataset of workers is used to explore the effects of minimum wages on employment of the same individuals over time. The dataset consists of 8,357 individuals from around 1,500 households, who appear in 11 quarters from 2003 to 2010.[243] Individual characteristics, such as sex, education, and age, are used as control variables. A larger dataset is not available as of the time of the analysis.

From the manufacturing survey, a small panel dataset of manufacturing firms is used to explore the effect of minimum wages on within-firm employment over time. The dataset is composed of 385 firms (all with at least 20 workers) surveyed from 1996 to 2008. A larger dataset is not available as of the time of the analysis.

Minimum wage data are taken from the National Wages and Productivity Commission. Data are available from 1951 to 1989 at the national level and from 1990 to 2010 at the regional level.[244] Minimum wages are expressed in real terms, using the published national and regional consumer price indices from NSO.

Methodology

Using the LFS, the impact of minimum wages on manufacturing employment, controlling for province, region, and time fixed effects, is estimated using the following equation:

$$\ln(E_{prt}) = \alpha_p + \alpha_r + \alpha_t + \beta_1 \ln(W_{rt}) + \varepsilon_{prt} \qquad (1)$$

The variables are defined as follows: $\ln(E_{prt})$ is the natural log of manufacturing employment in province p or region r in year t and $\ln(W_{rt})$is the natural log of real minimum wage in region r in year t.

The coefficients are defined as follows: The alphas are province (p), region (r), and year (t) fixed effects. The coefficient β_1 measures the elasticity of manufacturing employment to real minimum wage. For regression using ordinary least squares (OLS), the alphas are replaced with

243 See Box 2.3 of Chapter 2 for more details.

244 The breakpoint is due to the change in the minimum wage setting regime. In July 1989, Congress enacted Republic Act 6727, which delegates Congress' power to set minimum wages to the newly created Regional Tripartite Wages and Productivity Boards (RTWPBs). The RTWPBs are mandated to prescribe minimum wage rates for their respective regions, taking into account respective regional conditions.

respective dummy variables. For fixed effects (FE), the alphas are retained depending on the specification.[245]

Using the LFS panel dataset, a random effects panel logit model is used to estimate the probability of being unemployed/out of the labor force as a result of higher minimum wages using workers' characteristics as controls. The probability function is as follows:

$$\mathrm{P}(E_{imrt} = j \mid W_{rt}, \boldsymbol{X}_{imrt}) = \frac{\exp(\beta_1 \ln(W_{rt}) + \boldsymbol{\gamma X}_{imrt} * \ln(W_{rt}))}{\sum_{\forall\, j} \exp(\beta_1 \ln(W_{rt}) + \boldsymbol{\gamma X}_{imrt} * \ln(W_{rt}))} \qquad (2)$$

The interpretation is as follows: the probability that worker i in subgroup m in region r in time t is employed ($j = 1$ for employed, $j = 0$ otherwise) is a function of the minimum wage and individual characteristics $\boldsymbol{X}_{imrt}$. All other variables have the same meaning as Equation (1). The results are presented in terms of odds ratios. An odds ratio smaller than one implies a negative relationship (i.e., higher probability of being unemployed or being out of the labor force due to higher minimum wages).

Next, using the manufacturing survey, the following equation is estimated:

$$\ln(E_{rt}) = \alpha_r + \alpha_t + \beta_1 \ln(W_{rt}) + \boldsymbol{\gamma X}_{rt} + \varepsilon_{rt} \qquad (3)$$

The interpretation of the variables and coefficients is similar to (1) with the addition of the time varying regional control vector $\boldsymbol{X}_{rt}$, which includes variables such as the share of exports to revenue, the share of electricity to total cost, and the natural log of capital spending.

Finally, Equation (4) is used for the manufacturing firm panel dataset. The general regression equation is as follows:

$$\ln(E_{irt}) = \alpha_i + \alpha_r + \alpha_t + \beta_1 \ln(W_{rt}) + \boldsymbol{\gamma X}_{irt} + \varepsilon_{irt} \qquad (4)$$

The interpretation of the variables and coefficients is similar to Equation (3) with the addition of the firm index i.

To check whether random effects (RE) estimation is more appropriate for the analysis, Hausman tests are conducted for each specification. The tests find that for the panel regressions, FE and RE are significantly different in all specifications. This is expected as FE estimation is more appropriate for the panel datasets as the observations are not necessarily random draws from the population.[246] To arrive at more robust estimates, heteroskedasticity-robust and clustered standard errors are used at the region, province, and firm levels.[247]

---

[245] The regression results in Tables A, C, and D show more explicitly the fixed effect specification.

[246] See Wooldridge (2009) for more discussion.

[247] The effect of using this kind of standard error is that the significance of the estimates decreases from one percent to between five and 10 percent in some regressions.

Results

The estimated fixed effects regressions using LFS data show a significant negative relationship between real minimum wages and manufacturing employment at both province (elasticity of -0.33) and regional (elasticity of -0.31) levels (Table A.1). The results imply that a 10-percent increase in real minimum wages reduces total manufacturing employment at the provincial and regional level by about three percent. This estimate is comparable to those found in other countries.[248]

Regressions by worker profile (Tables A.2 to A.5) show that the negative relationship is higher for the following subgroups: wage-earning workers in the private sector, workers with a high school degree, workers who did not finish college, and workers aged 25 to 34. These results are broadly consistent with the literature, which finds that younger and less educated workers are more vulnerable to minimum wage increase. The negative relationship for wage-earning men and women are about the same.

Using the LFS panel dataset, the study finds that a higher minimum wage decreases the likelihood of being employed for some worker groups although the effect is very small (Table B shows the odds ratio with values below one for some interacted variables, implying a negative relationship). Among the subgroups, spouses (who are mostly females) of household heads and the youth are more likely to be unemployed or exit the labor force by one to three percent. This is broadly consistent with the trends in the LFS and is in accord with other empirical research that finds that more vulnerable groups — women and youth — are among the first to be affected by minimum wage related job cuts.

The regression using the manufacturing survey also shows negative elasticities in the formal sector. Table C shows that employment within regions decline with higher minimum wage, albeit not significant at the 10 percent level.

Finally, the negative elasticities are much higher for manufacturing firms that remain in business year after year. The firm panel data regressions show a significant negative relationship between minimum wages and within-firm employment of production workers. The estimated regression shows a significant elasticity of around -0.82 (Table D.1). The results are robust under different controls and time-varying variables. The higher elasticity of the manufacturing survey regressions compared to the LFS regressions suggests that some jobs are transferred from formal to informal manufacturing as minimum wages increase.

[248] See Castillo-Freeman and Freeman (1992), Lemos (2005), Leigh (2004), and Dickens et al. (1999) for more discussion. See also Neumark and Wascher (2007) for a comprehensive review of studies about the impacts of minimum wage.

Regression by firm size[249] (i.e., small, medium, and large) (Table D.2) shows that the large negative elasticity is driven by medium-sized firms (i.e., firms with 100 to 199 workers) with elasticities between -1.16 and -1.23 (though not significant when controls are included). Large firms (i.e., firms with 200 or more employees) have lower elasticities between -0.63 to -0.66. Small firms have positive elasticities between 0.2 and 0.31 but they are not significant. These results are consistent with the observation that medium-sized firms are the most sensitive to minimum wages, because they fall in the group that is regularly inspected by the authorities.[250]

The results in Tables D.1 and D.2 are comparable to the results for Indonesia.[251] In particular, the OLS runs show positive effects, while fixed effects controlling for firm show negative effects. However, the elasticity in the Philippines is much higher than that in Indonesia (around -0.80 in the Philippines versus -0.04 in Indonesia).[252] This can be explained by the fact that the ratio of minimum wage to average wage is much higher in the Philippines than in Indonesia (60 versus 15 percent). This indicates that firms in the Philippines are much more sensitive to minimum wages than firms in Indonesia. The decline of Philippine manufacturing, in particular labor-intensive manufacturing (by over 65 percent) in the last four decades is a testament to this.

[249] Firm size is defined as the size of the firm at the start of the panel period. Many firms show attrition in the number of workers over time.
[250] Philippine labor inspectors inspect only firms with employment sizes of between 11 and 199 and are more likely to focus on the larger of these firms. Firms with less than 10 workers are not inspected. Firms with 200 or more workers accomplish a self-report card.
[251] See Del Carpio et al. (2012b).
[252] This very high elasticity has to be tempered by the fact that it represents only a small panel of firms, given restriction on using firm-level data and its unavailability prior to 1996. A longer and bigger panel dataset of firms would make the analysis more robust.

Table A.1 Pooled OLS and fixed effects (FE) panel regressions using LFS (Workers are aggregated at the regional or provincial level)

	Dependent variable: ln(*manufacturing employment*)			
	(1) Pooled OLS - Province	(2) Pooled OLS - Region	(3) FE	(4) FE
ln(*real minimum wage)*	4.729***	5.371***	-0.307*	-0.334*
	(0.669)	(0.873)	(0.124)	(0.172)
Fixed effects	No	No	Province	Region
Year effects	Yes	Yes	Yes	Yes
Observations	1,256	240	1,256	240
Number of provinces/regions	85	16	85	16
R-squared	0.191	0.497	0.136	0.365

Notes:
1. The data used are manufacturing employment at the provincial and regional levels from the LFS.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** p < 0.01, ** p < 0.05, * p < 0.1

Table A.2 FE panel regressions using LFS (Workers by class aggregated at the regional or provincial level)

	Dependent variables:									
	ln(*wage and salaried*)		ln(*wage and salaried - private*)		ln(*self-employed*)		ln(*employers*)		ln(*unpaid*)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
ln(*real minimum wage)*	-0.766***	-0.643***	-0.898***	-0.722***	0.048	0.087	-0.355	0.204	-0.195	0.258
	(0.173)	(0.124)	(0.169)	(0.118)	(0.178)	(0.234)	(0.280)	(0.342)	(0.305)	(0.373)
Fixed effects	Province	Region	Province	Region	Province	Region	Province	Region	Province	Region
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,247	240	1,245	240	1,255	240	1,113	239	1,185	240
Number of groups	85	16	85	16	85	16	85	16	85	16
R-squared	0.155	0.385	0.151	0.381	0.052	0.168	0.094	0.400	0.022	0.172

Notes:
1. The data used are manufacturing employment at the provincial and regional levels from the LFS.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** p < 0.01, ** p < 0.05, * p < 0.1

Table A.3 LFS data – FE panel regressions using LFS
(Workers by sex aggregated at the regional or provincial level)

	Dependent variables:							
	ln(*men*)		ln(*women*)		ln(*wage and salaried - men*)		ln(*wage and salaried - women*)	
ln(*real minimum wage)*	-0.594***	-0.550***	-0.145	-0.143	-0.830***	-0.665***	-0.827***	-0.608**
	(0.136)	(0.106)	(0.203)	(0.283)	(0.164)	(0.126)	(0.215)	(0.190)
Fixed effects	Province	Region	Province	Region	Province	Region	Province	Region
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1250	240	1251	240	1243	240	1183	240
Number of groups	85	16	85	16	85	16	85	16
R-squared	0.133	0.370	0.136	0.337	0.138	0.365	0.155	0.396

Notes:
1. The data used are manufacturing employment at the provincial and regional levels from the LFS.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table A.4 FE panel regressions using LFS
(Workers by age aggregated at the regional or provincial level)

	Dependent variables:									
	ln(*15 to 24 years old*)		ln(*25 to 34 years old*)		ln(*35 to 44 years old*)		ln(*45 to 54 years old*)		ln(*55 to 65 years old*)	
ln(*real minimum wage)*	-0.301*	-0.247	-0.689***	-0.809**	-0.258	-0.137	-0.305*	-0.234	-0.792**	-0.520
	(0.169)	(0.177)	(0.181)	(0.211)	(0.168)	(0.167)	(0.183)	(0.194)	(0.253)	(0.363)
Fixed effects	Province	Region	Province	Region	Province	Region	Province	Region	Province	Region
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1239	240	1242	240	1244	240	1248	240	1214	240
Number of groups	85	16	85	16	85	16	85	16	85	16
R-squared	0.137	0.351	0.142	0.373	0.134	0.396	0.101	0.355	0.072	0.229

Notes:
1. The data used are manufacturing employment at the provincial and regional levels from the LFS.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table A.5 FE panel regressions using LFS
(Workers by educational attainment aggregated at the regional or provincial level)

	Dependent variables:									
	ln(*elementary or no education*)		ln(*high school undergraduate*)		ln(*high school graduate*)		ln(*college undergraduate*)		ln(*college graduate*)	
ln(*real minimum wage)*	0.510**	0.587*	-0.778***	-0.727**	-1.094***	-1.061***	-1.091***	-0.803***	-1.077***	-0.722*
	(0.176)	(0.218)	(0.187)	(0.221)	(0.168)	(0.185)	(0.223)	(0.189)	(0.247)	(0.285)
Fixed effects	Province	Region	Province	Region	Province	Region	Province	Region	Province	Region
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1252	240	1236	240	1245	240	1229	240	1159	240
Number of groups	85	16	85	16	85	16	85	16	85	16
R-squared	0.074	0.226	0.090	0.253	0.145	0.359	0.127	0.391	0.136	0.453

Notes:
1. The data used are manufacturing employment at the provincial and regional levels from the LFS.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table B. Pooled logit, and FE and RE panel regressions using LFS panel data

Random Effects	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Pooled logit	Pooled logit	FE	FE	RE	RE
Real minimum wage	0.990***	1.022***	0.974***	0.947***	0.977***	0.985***
	(0.001)	(0.002)	(0.004)	(0.010)	(0.003)	(0.004)
Age * *Real minimum wage*		0.999***		1.000		0.999***
		(0.000)		(0.000)		(0.000)
Female * *Real minimum wage*		0.983***		0.997		0.971***
		(0.001)		(0.011)		(0.002)
Married * *Real minimum wage*		1.014***		1.013***		1.021***
		(0.001)		(0.002)		(0.002)
Household head * *Real minimum wage*		1.017***		1.121***		1.048***
		(0.001)		(0.014)		(0.003)
Spouse of household head * *Real minimum wage*		0.993***		0.986**		1.002
		(0.001)		(0.004)		(0.003)
Youth * *Real minimum wage*		0.968***		0.983***		0.969***
		(0.001)		(0.002)		(0.002)
College graduate * *Real minimum wage*		1.010***		1.040***		1.028***
		(0.001)		(0.003)		(0.002)
College undergraduate * *Real minimum wage*		0.992***		1.014***		1.002
		(0.001)		(0.002)		(0.002)
High school graduate * *Real minimum wage*		0.998***		1.013***		1.006***
		(0.001)		(0.002)		(0.001)
Elementary graduate * *Real minimum wage*		0.997***		1.002*		0.998*
		(0.001)		(0.001)		(0.001)
No. of observations	70,687	70,682	37,083	37,079	70,687	70,682
No. of individuals	7,030	7,030	3,573	3,573	7,030	7,030
Pseudo R-squared	0.001	0.181				
Controls						
Individual	No	No	Yes	Yes	Yes	Yes
Time	Yes	Yes	Yes	Yes	Yes	Yes

Notes:

1. The sample includes individuals surveyed in different LFS quarters from 1997 to 2010. See list of quarters in Table 2.10 in Part I of this report.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table C. Pooled OLS and FE panel regressions using manufacturing survey (Employment aggregated at the regional level)

	Dependent variable: ln(*production employment*)			
	(1) Pooled OLS	(2) Pooled OLS	(3) FE	(4) FE
ln(*real minimum wage)*	8.509***	3.221***	-0.554	-0.438
	(0.856)	(0.668)	(0.500)	(0.543)
ln(*capital spending*)		0.621***		0.012
		(0.049)		(0.008)
Direct export share to revenue		0.830		0.071
		(0.472)		(0.091)
Electricity share to cost		8.744		0.934
		(4.900)		(1.130)
Fixed effects	No	No	Region	Region
Year effects	Yes	Yes	Yes	Yes
Observations	104	104	104	104
Number of regions	13	13	13	13
R-squared	0.479	0.801	0.435	0.061

Notes:

1. The data used are regional aggregates from the manufacturing firm survey.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table D.1. Pooled OLS and FE panel regressions using firm panel data (all firms)

	Dependent variable: ln(*production employment*)				
	(1)	(2)	(3)	(4)	(5)
	Pooled OLS	FE	FE	FE	FE
ln(*real minimum wage)*	1.228***	-0.824***	-0.815**	-0.833***	-0.793**
	(0.211)	(0.125)	(0.141)	(0.119)	(0.194)
ln(*capital spending*)			0.028		0.155*
			(0.02)		(0.05)
Direct export share to revenue			-0.004		0.622***
			(0.09)		(0.05)
Electricity share to cost			-0.162		0.365
			(0.25)		(0.15)
Fixed effects	No	Firm	Firm	Region	Region
Year effects	Yes	Yes	Yes	Yes	Yes
Observations	3,066	3,066	2,586	3,066	2,586
Number of firms	383	383	323	383	323
R-squared	0.020	0.860	0.865	0.199	0.289

Notes:

1. The sample includes manufacturing firms that were continuously surveyed from 1996 to 2008.
2. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
3. *** p < 0.01, ** p < 0.05, * p < 0.1

Table D.2 FE panel regressions using firm panel data (by firm size)

	Dependent variable: ln(*production employment*)					
	(1)	(2)	(3)	(4)	(5)	(6)
	Large firms		Medium firms		Small firms	
ln(*real minimum wage)*	-0.631**	-0.658**	-1.233*	-1.164	0.311	0.205
	(0.122)	(0.111)	(0.487)	(0.746)	(0.370)	(0.518)
ln(*capital spending*)		0.018		0.049		0.03
		(0.019)		(0.045)		(0.021)
Direct export share to revenue		-0.001		-0.221		0.039
		(0.085)		(0.201)		(0.096)
Electricity share to cost		-0.128		-0.055		-0.085
		(0.245)		(0.742)		(0.469)
Fixed effects	Firm	Firm	Firm	Firm	Firm	Firm
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2410	2018	296	256	360	312
Number of firms	301	252	37	32	45	39
R-squared	0.821	0.804	0.679	0.661	0.764	0.764

Notes:

1. The sample includes manufacturing firms that were continuously surveyed from 1996 to 2008.
2. Large firms have employment size of 200 or more workers, medium firms have 100 to 199, and small firms
 have more than 10 but less than 100. The numbers in parentheses are heteroskedastic-robust and
3. The numbers in parentheses are heteroskedasticity-robust and clustered standard errors.
4. *** p < 0.01, ** p < 0.05, * p < 0.1

Part III – Seizing the window of opportunity

Chapter 8 – Working together toward a jobs agenda

A window of opportunity to create more and better jobs

226. **Today, a window of opportunity exists to accelerate reforms that will create more and better jobs.** The Philippines 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 telecommunications and air transport, are demonstrably benefiting from past reform efforts that opened them up to competition.

227. **The Aquino Administration 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.

A global and regional environment favorable to the Philippines

228. **Important opportunities for the Philippines come from its location in the most dynamic region in the world.** East Asia grew significantly faster than all other regions in the past four decades. Prior to the 2008 to 2009 global slowdown, it was growing at its swiftest pace since the 1997 financial crisis. Even during the current global slowdown, the region posted the highest growth rate and was largely shielded from the worst effects of the global financial crisis due to reforms that countries in the region implemented after the 1997 Asian Financial Crisis. The Philippines is within a few hours flight from all the economic hubs in the region and is easily accessible by sea. It is both a gateway to the region as well as a key market destination.

229. **Moreover, the global economic rebalancing is offering new sources of growth for the Philippines.** Increasingly over the past two decades, world economic growth has been driven by developing economies, particularly East Asian economies. The current global slowdown is speeding up the global economic rebalancing and, combined with strong growth prospects and lower operating costs in developing countries, is opening up opportunities for the Philippines to enhance its growth prospects. In particular, higher wages in East Asia are beginning to make

manufacturing less competitive. For instance, China is expected to shed a large share of its 85 million manufacturing jobs in the medium-term.[253] As East Asia grows and wages increase further, more and more multinational firms are expected to relocate to countries with lower production costs. The Philippines has already benefited from the movement of firms as evidenced by the success of its electronics and business process outsourcing (BPO) industries. It stands to gain from this regional rebalancing if it upgrades and accelerates efficient investment in infrastructure, skills and institutions, and embarks on the structural reforms that are discussed in the next chapter. Missing out on this opportunity to attract foreign direct investment and accelerate domestic private investment, as the country did in the late 1980s following the Plaza and Louvre Accords, would be a serious blow to the country's development prospects for inclusive growth.

230. **Aging demographics in high-income countries and in the East Asia region will also benefit the Philippines in the coming years.** The country has already seen rapid growth in overseas work and remittances in the last decade, thanks to these demographic changes. For example, the Philippines deployed more than 230,000 health workers from 1992 to 2010.[254] Many more workers can benefit from these changes if equipped with the right mix of skills. In addition to global employment opportunities, there are also opportunities in attracting retirees from high-income countries as medical tourists or permanent retirees. By building the necessary infrastructure and facilities, and leveraging on its world-class healthcare talents and other factor endowments, the country can develop a vibrant medical tourism and retirement services industry, and reverse the "brain drain."

Strong macroeconomic fundamentals

231. **The necessary condition for accelerating growth — macroeconomic stability — has been met.** In the last decade, low and stable inflation, falling debt ratios, healthy current account surpluses, higher reserves, and stable financial and corporate sectors increased the economy's resiliency and stability. This stability allowed the economy to grow faster and to weather the global financial crisis in 2008 and the ensuing global economic slowdown quite well. Investors' concern about macroeconomic instability, which had been at the forefront before 2006, has largely dissipated. Global recognition for the country's macroeconomic achievements led to sovereign credit rating upgrades to investment grade in 2013.[255]

[253] See Chandra, Lin, and Wang (2012) for more discussion.

[254] Using data from the Philippine Overseas Employment Administration, health workers are defined to include dentists, dental assistants, dietitians, public health nutritionists, doctors, medical assistants, midwives, nurses, optometrists and opticians, pharmaceutical assistants, pharmacists, physiotherapists and occupational therapists, and medical technicians such as X-ray technicians.

[255] The country's strong economic growth, robust external balances, and improving fiscal position led Fitch Ratings to raise in March 2013 its sovereign credit rating for the Philippines from "BB+" to "BBB-", giving the country its first-ever investment-grade rating. Standard & Poor's followed in early May, upgrading the country's credit rating to "BBB-" with stable outlook and citing the country's strengthening external position, moderating inflation, and declining reliance on foreign currency debt.

232. **Macroeconomic stability was achieved through a consistent effort by previous and current administrations, and the impact of a (limited) number of structural reforms undertaken in the last 25 years.** These include several liberalization programs between 1986 and 1997 to improve competitiveness (described in Chapter 6), coupled with financial and corporate regulatory reforms following the 1997 Asian Financial Crisis. And between 2004 and 2007, fiscal consolidation efforts significantly reduced the government's deficit and debt levels.

233. **The rapid growth of remittances has also contributed to the economy's stability.** Remittances from overseas Filipino workers constitute a growing supply of foreign exchange and an important source of consumer spending. They have contributed significantly to the reversal of the country's track record of recurring current account deficits. Even during the 2009 global slowdown, remittances held up well and shored up consumer spending. On average, remittances are equivalent to around 18 percent of total wage and entrepreneurial income. The number is even higher at 24 percent for the top two income deciles, which account for the majority of overseas Filipino workers.

A government committed to reform: Key achievements of the first three years

234. **The Aquino Administration came into power in July 2010 and set achieving inclusive growth as its goal.** This goal was first expressed in the President's "Social Contract" with the Filipino people during the electoral campaign and was subsequently elaborated in the Philippine Development Plan (PDP) 2011-2016. The PDP envisions a Philippines with "high growth that is sustained … that massively creates jobs … and reduces poverty." To achieve this vision, the government intends to: i) invest heavily in physical infrastructure, ii) improve governance, iii) enhance human development, and iv) accelerate employment generation.

235. **The government continues to pursue macroeconomic stability to provide a platform to support higher growth and to ensure resilience to external shocks. However, it is aware that structural reforms are needed if the country is to accelerate inclusive growth going forward.** In the past, the country's fiscal consolidation program largely relied on expenditure cuts and not on higher tax revenues. While this low-level equilibrium of low expenditure, low revenue, low deficit, and hence falling debt ratios had worked well for the country in terms of ensuring macroeconomic stability, this strategy has not led to the structural increases in revenues needed to sustainably increase spending on infrastructure and social services. To address the binding constraints to inclusive growth, the government has tabled a reform agenda to strengthen public finances, improve the investment climate, and enhance the delivery of social services. Reforms to strengthen public finances would create fiscal space to ramp up infrastructure and social service spending, while reforms to strengthen the investment climate would help the country rebalance growth from consumption to investment and lay a stronger foundation for long-term growth.

Public finance

236. **First, the government focused on improving public financial management (PFM) to ensure that public resources are spent properly.** In the first three years of the Aquino Administration, significant reforms in PFM were initiated, including: i) institutionalizing the evaluation of government programs, projects, and activities to ensure consistency between government priorities and budget allocation, and improve budget efficiency and effectiveness, ii) allowing the comprehensive release of budget allotments to all government agencies at the start of the year to fast-track budget execution; iii) strengthening central monitoring of execution of priority expenditure programs, iv) limiting the use of lump-sum funds[256] to Special Purpose Funds only, on condition of strict disclosure of its use at disaggregated levels, v) tightening the list of eligible spending under the congressional "pork barrel" fund and Special Purpose Funds, vi) regular posting of quarterly reports on budget execution (i.e., Statements of Allotments, Obligations, and Balances [SAOB]), vii) opening the budget preparation process to civil society organizations to solicit their inputs on how to improve the budgets of pilot departments and selected government-owned and/or controlled corporations (GOCCs), viii) harmonizing the chart of accounts and budget classifications across government agencies to allow end-to-end tracking of budget items from appropriations to disbursement, and ix) moving toward a treasury single account, an integrated financial management information system, and a national payroll system to establish better control of financial transactions and reporting. These efforts are paying off in terms of more effective and efficient public spending. However, they require a sustained effort to fully and irreversibly reform the institutions governing public financial management.

237. **Second, the government focused on raising revenues to fund its development programs.** Upon entering office, the Aquino Administration reinvigorated tax administration efforts aimed at boosting compliance. These measures include the various anti-tax evasion and anti-corruption programs (e.g., Run After Tax Evaders [RATE], Run After the Smugglers [RATS], and Revenue Integrity Protection Service [RIPS] programs), improvements in business processes such as electronic filing and payment, and enhancing transparency in the tax bureau through the reporting of key performance indicators to gauge performance. The rationale was to exhaust all administrative options in raising tax revenues first, before increasing tax rates.

238. **In December 2012, Congress passed a "Sin Tax Law", which increased the excise tax rates on tobacco and alcohol products.** This was the first tax policy measure undertaken by this administration. It was estimated to save a substantial number of lives, level the playing field among competitors by imposing the same tax rate for similar products, and generate around PHP 30 billion (0.3 percent of GDP) in additional revenues in the first year of implementation. Incremental revenues were earmarked for the Universal Health Care Program. Despite very strong rationale for its passage, the reform faced very strong opposition from the tobacco industry and its supporters. The law passed in the bicameral by only one vote and the original

---

[256]Starting from the 2012 budget preparation, proposals for lump-sum funds within agency budgets are no longer allowed. Instead, these lump-sum funds are required to be disaggregated into specific budget line items.

proposal to raise PHP 60 billion was halved to reduce resistance. The measure was seen as a litmus test of the administration's ability to pass difficult reforms, given the powerful vested interests in the sector, which had held up this measure for many years. To further complement tax administration efforts, the executive branch has pushed for the enactment of a fiscal incentives rationalization law to plug systemic leakages in tax revenues and of a mining tax to increase the government's share of the country's mineral wealth.

239. **To further strengthen macroeconomic stability, the government improved fiscal risk management.** Since 2010, the government has regularly published its assessment of its fiscal risk. A Fiscal Risks Statement (FRS) was prepared in 2010 and 2012.[257] The government has also begun to strengthen its capacity for debt management by improving its debt management strategy, setting up a dedicated office, and periodically conducting a debt sustainability analysis. To improve transparency and accountability of the larger public sector, the government has developed a new publicly accessible web-based financial monitoring framework for GOCCs. In addition, Congress enacted a law in mid-2011 creating the GOCC Governance Commission to promote financial viability and fiscal discipline in GOCCs, which in the past contributed to fiscal instability in the public sector.

Raising competitiveness

240. **The government took action on the country's lagging performance in the various Doing Business report indicators.** On starting a business, the government is close to implementing the Philippine Business Registry (PBR) at the national level[258] and streamlining and automating the Business Permits and Licensing System (BPLS) for sole-proprietorship companies at the local level. As part of the PBR, the Department of Trade and Industry successfully implemented the web-based "Enhanced Business Name Registration System" for sole proprietorships in 2010, bringing down the time required for registering a business name to under 15 minutes.

241. **The government addressed key infrastructure bottlenecks and governance issues in public investments.** In its first three years, the Aquino Administration embarked on an institutional reform of public infrastructure spending, which had previously been marred by allegations of systemic and large-scale corruption. The Department of Public Works and Highways (DPWH) Transformation Program substantially enhanced its capacity to execute high-quality public investment projects. It implemented a "no approved program of work, no

[257]The FRS contains quantitative and qualitative evaluations of fiscal risks for each of the major risk categories. It also includes the Government's ongoing efforts and plans to mitigate specific and overall risks.

[258]The Government envisions three stages for the PBR. Stage 1 aims to link the PBR with four national government agencies: the Bureau of Internal Revenue, the Social Security System, the Philippine Health Insurance Corporation, and Pag-IBIG Fund (the Home Development Mutual Fund). The PBR system would allow sole proprietorships to conduct national-level business registrations online. Stage 2 aims to connect the PBR with the BPLS, which would permit sole proprietors to complete both national and local-level business registrations online. Currently, the work on linking three cities to the system is ongoing. Stage 3 aims to link the PBR with the Securities and Exchange Commission (SEC) to allow corporations and partnerships to register online.

budget" policy. This policy required the preparation and approval of a detailed program and scope of work before the release of funds, enforced the procurement law (Republic Act 9184) on competitive public bidding more strictly, and combined smaller projects (e.g., sections of the same road) into one big contract package to improve efficiency and reduce opportunities for corruption. DPWH also defined a set of concrete performance targets, including paving 100 percent of the existing national road network (31,242 km) and making 100 percent of bridges along national roads permanent by 2016. DPWH has completed adjustments to the internal procedures to streamline project execution procedures while strengthening internal controls where warranted.[259]Meanwhile, the government's Tourism Convergence Program is intended to facilitate efficient and more coordinated efforts between the Department of Tourism and DPWH to identify, prioritize, and implement road networks leading to tourism destinations, based on sound technical plans with community inputs.

242. **Public expenditure allocation to agriculture and rural development increased, the importation of rice was opened up to the private sector, and conditional cash transfers replaced a poorly targeted rice subsidy scheme**. More funds are now allocated to irrigation, with the objective of using a more cost-efficient strategy of rehabilitation and restoration, with smart expansion to new areas around the existing schemes. The government has also been pursuing a transfer of irrigation management from the central National Irrigation Administration (NIA) to decentralized users of irrigation services, while rationalizing the functions of the NIA. The government has not reintroduced large-scale subsidies for seeds and fertilizers. Instead, it has focused on targeted programs to improve access of farmers to inputs based on a private sector development approach. Rice importation, previously monopolized by the National Food Authority (NFA), was opened to the private sector. This lowered price volatility and reduced the recurring losses of the NFA. A universal rice subsidy managed by the NFA, known in the past for its low effectiveness in reaching poor and high budget costs, was gradually replaced by the better-targeted and more cost-efficient conditional cash transfer (CCT) program.

Social service delivery

243. **The government embarked on an ambitious program to provide universal healthcare and education to all Filipinos.** In health, the government has begun to increase effective coverage i.e., enrollment, utilization, and financial protection) under the National Health Insurance Program (NHIP), or PhilHealth (Philippine Health Insurance Corporation) Program, and to improve access to quality health services for all Filipinos, especially poor households, which number around 5.2 million. According to PhilHealth, NHIP enrollment in 2012 reached 85 percent of the population, up from 62 percent in 2010. In education, budget allocation for basic education continues to grow as part of an overall reform agenda that includes curriculum and management reforms. To improve education quality and global competitiveness of Filipinos, the government has begun to implement the K to 12 Program. The program includes

[259]See DPWH (2010) for more discussion.

kindergarten and additional two years of high school as part of compulsory basic education beginning 2012.

244. **Finally, the government scaled up its support to the poor through the CCT program,[260] which continues to grow since its inception in 2008 and now receives a budget of over PHP 44 billion.** The program uses the National Household Targeting System for Poverty Reduction (NHTS-PR) to ensure fair selection of beneficiaries. The same system is also being used for targeting PhilHealth indigent beneficiaries and other social protection programs of the government. As of May 2012, the NHTS-PR had identified 5.2 million poor households, of which around three million are current beneficiaries including 6.5 million poor children who are now attending school on a regular basis. Impact evaluation of the program is being conducted regularly. Initial results show a good pro-poor targeting and strong positive impact on the lives of the beneficiaries. Beginning 2014, the government will expand the CCT to include high school students.

Conclusion

245. **The reforms undertaken in the first three years of the Aquino Administration signaled a break from the past.** They demonstrated the Administration's commitment to a reform agenda, which can put the country on a solid path towards more inclusive growth — growth that generates more and better jobs and reduces poverty.

246. **What is now needed is a clearer definition of the reform agenda and the creation of a broad coalition to support this agenda and take it forward beyond the term of this Administration.** The Filipino people now need to work together to agree on an agenda on job creation. In the following section, the report provides the rationale underlying the need for a broad reform coalition, based on an analysis of the particular political economy of the country, and suggests a menu of reforms with direct and indirect impact on job creation.

Implementing the Social Contract: working together toward 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).[261]

[260] The program grants up to PHP 1,400 (USD 33) per month to the mother of each beneficiary household, conditional on her children's attendance in school and their regular visits to health clinics.

[261] de Dios, et al.'s (2004) landmark paper on the need for fiscal reforms when the country was at the brink of a fiscal crisis in 2004 is a reminder of the need to work together to achieve a shared objective.

247. **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,"[262] 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 (see Box 8.1 for more discussion).

248. **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.**[263] 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.

Box 8.1 "Why Nations Fail" – Implications for the Philippines

The key to economic development is innovation. Innovation comes from people with talents, skills, ideas, creativity, and energy. In principle, such people are widely distributed in society. To harness this latent talent, a society needs a set of institutions (or rules) that create incentives and opportunities for people to use their talents. These types of institutions are called inclusive economic institutions. A society with inclusive economic institutions will prosper (e.g., the US patent system drove technological progress in the US). At the other end of the spectrum are extractive economic institutions that undermine incentives and block opportunities in order to create wealth and opportunities for a narrow subset of the population — the elite.

Economic institutions are the outcomes of political processes. Lying behind inclusive economic institutions are inclusive political institutions, which broadly distribute political power and benefit from a sufficiently centralized state. Extractive economic institutions are the result of

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

[263] 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.

extractive political institutions. The problem of poor countries is therefore fundamentally political. In order to create and sustain inclusive economic institutions, political institutions also need to become inclusive.

There is no single path to inclusive institutions. For example, South Korea moved to inclusive economic institutions while still under extractive political institutions. However, its economic growth was only sustained because it eventually also became inclusive politically. Conversely, in China, according to Acemoglu and Robinson (2012), the current combination of inclusive economic, but non-inclusive political institutions is not sustainable.

Though extractive political and economic institutions mutually reinforce one another, making change difficult in countries such as the Philippines, there are nonetheless several examples of successful institutional transitions. Transitions often come when those who are disadvantaged by extractive institutions manage to organize collectively to change institutions. Examples of this are the 1986 People Power Revolution in the Philippines and more recently the Arab Spring. But such “revolutions” may not lead to inclusive institutions. This depends on the nature of the forces that contest power.

Inclusive institutions are created by a broad coalition – a group that is multi-sectoral with many interests. Broad coalitions are needed for two reasons: first, they must adopt a strategy for winning which appeals broadly (i.e., an inclusive strategy), and second, the presence of a new coalition makes it difficult for one subgroup (e.g., the elite) to dominate and create a new extractive regime. In practice, such a coalition is hard to sustain because some members may be much more organized than others (e.g., tobacco lobby, political dynasties).

After a successful transition, like People Power, the main question is how to consolidate the movement toward inclusive economic institutions. One can attempt to do this in three ways: i) directly reforming institutions (e.g., improving transparency and accountability of the budget, accelerating justice delivery, and reforming campaign financing), ii) choosing policies or institutions which create constituencies vested in change (e.g., breaking up monopolies to allow new entrants), and iii) organizing and empowering civil society and communities that hitherto were mostly the victims of extractive institutions (e.g., Bottom-Up Budgeting, community-driven development).

Choosing good economic policies and institutions on their own will not guarantee this movement. Unless they have consequences for the distribution of political power, they can be reversed by future governments. One such example of sustained reform is the introduction of electronic voting in Brazil in 1990s, which greatly simplified procedures for illiterate voters and led to a large expansion of pro-poor expenditures, particularly education. For the Philippines to create more inclusive political and economic institutions, two questions need to be answered: What is the coalition for reform in the Philippines? And what reforms can be undertaken to make this coalition broader and stronger?

Source: James Robinson's briefing to the President and Cabinet of the Philippines (December 2012).

249. **To support President Aquino's Social Contract with the Filipino people, government, business, and labor, supported by civil society, need to engage in deeper social dialogue[264] and partnership, and agree on an agenda on job creation** (see Box 8.2 for excerpts of the Social Contract[265]). 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.

250. **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 anticompetitive 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 from 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.

251. **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 tradeoffs,[266] proportional sharing of responsibilities based on ability to shoulder the reform cost, short-term sacrifices on all sides, and mutual cooperation among the social partners that transcends the usual issues of rights, labor standards, and wages in order to address issues of productivity and competitiveness so that more people can benefit. Such cooperation has been the case in the Netherlands (See Box 8.3) and even in some companies in the Philippines, such as Yazaki-Torres (See Box 8.4). In the Netherlands, the tripartite bodies agreed to relax labor policies and improve training programs to provide more jobs to the unemployed. The Yazaki-

[264] 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.

[265] The Social Contract is elaborated in the Philippine Development Plan (PDP), Philippine Labor and Employment Plan, and the President's 22-Point Labor and Employment Agenda. The over-arching 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. Appendix 8.1 gives the full text of the 22-Point Agenda.

[266] Balancing trade-offs are 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.

Torres case is a prime example of how both union and management can benefit from mutual cooperation to improve both parties' welfare especially when changing market demand requires more flexibility.

252. **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 can then agree on how each tripartite member would contribute broadly to job creation.[267] The report recommends that the tripartite members agree on the following responsibilities:

Government

253. **For its part of the agreement, the government needs to enact policies that can broaden and strengthen the reform coalition and give rise to 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 (see also Box 8.5). 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. The details of these reforms and other related reforms are discussed in Chapter 9.

254. **The government would also need to lead by example, especially with regard to labor policies.** The government is the biggest employer in the country and has the largest procurement requirements. It will garner more support for the agreement on jobs if it leads by example. This includes ensuring that all non-regular workers employed by the government or by its service contractors receive at least the minimum wage, have written contracts, and are enrolled in social and health insurances.[268] In addition, it needs to ensure that casual and temporary workers in its premises are regularized after the allowable period when their work

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

[268] There is scope for the government to improve compliance with its own policies. According to data of the National Labor Relations Commission, five percent of total labor cases in 2011 (around 1,250 cases) came from the public sector.

proves to be permanent in nature. Government agencies should also not obstruct freedom of association in its premises, especially among non-regular workers and contractual workers. In addition, government compliance with the procurement law would ensure a more level playing field where all suppliers, whether big or small, can compete fairly for government contracts. This would help ensure the survival of legitimate firms, protect their workers, and allow these firms to expand and hire more workers. Better public investment planning can give workers in the construction sector, who are largely project-based workers, more regular work as project schedules become more predictable.

Business

255. **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, in particular 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.

256. **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. Employers would also need to make the first move to engage employees in meaningful dialogue on various labor issues to promote mutual trust and understanding. Businesses would 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 the firm's true financial conditions. To improve workers' productivity, industry associations would 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.[269] Linking workers' pay to productivity would send a strong signal that employers value the contribution of their workers.

257. **When companies 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 businesses to quickly adapt to changing

[269] There is ongoing dialogue among 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 the employability of around 800,000 young Filipinos working in the BPO industry today.

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

258. **Finally, 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 rotating five-month contracts would stand to see better job security with longer-term contracts. While some organized workers might be affected by this transition, this trade-off would need to be weighed against 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 would be critical.

259. **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," in which 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.

Box 8.2 Excerpts from President Aquino's Social Contract with the Filipino People[270]

1. An organized and **widely-shared rapid expansion of our economy** through a government dedicated to honing and mobilizing our **people's skills** and energies.

2. From a government that merely conjures economic growth statistics that our people know to be unreal to a government that **prioritizes jobs that empower the people** and provide them with opportunities to rise above poverty.

3. From relegating education to just one of many concerns to making **education the central strategy for investing in our people**, reducing poverty, and building national competitiveness.

[270] Bold phrases are emphases of the report.

4. From justice that money and connections can buy to a **truly impartial system of institutions** that deliver equal justice to rich or poor.

5. From government policies influenced by well-connected private interests to a leadership that **executes all the laws of the land with impartiality and decisiveness.**

6. From treating the rural economy as just a source of problems to **recognizing farms and rural enterprises as vital** to achieving food security and more equitable economic growth, worthy of re-investment for sustained productivity.

7. From a government that dampens private initiative and enterprise to a government that **creates conditions conducive to the growth and competitiveness** of private businesses, big, medium, and small.

8. From a government that treats its people as an export commodity and a means to earn foreign exchange, disregarding the social cost to Filipino families to a government that **creates jobs at home, so that working abroad will be a choice rather than a necessity;** and when its citizens do choose to become OFWs, their welfare and protection will still be the government's priority.

This platform is a commitment to change that Filipinos can depend on.

Source: Aquino (2010b)

Box 8.3 Dutch Disease and the Wassenaar Agreement of 1982:
Opting for less work rather than no work at all

The discovery of natural gas in the Netherlands in the 1960s led to an export boom and sharp increase in government spending. Public spending increased from 45 to 66 percent of GDP between 1970 and 1982. A large share of spending went to public welfare programs. The export of natural gas led to a sharp appreciation of the Dutch guilder. The oil price shocks of 1973 and 1979 accentuated the appreciation.

Over time, wages rose and the manufacturing sector became less competitive. This phenomenon came to be known as the Dutch Disease. By the second half of the 1970s, the manufacturing sector grew by a mere 0.7 percent from an average annual growth of 4.2 percent in the first half of the 1970s. By 1980, the Dutch economy was in recession. Unemployment rate reached 17.4 percent in 1984, the highest in 50 years.

To reverse the economy's decline, the government was compelled to implement a series of structural reforms to improve competitiveness. This included the 1982 Wassenaar Agreement, which was a tripartite agreement among the government, unions, and businesses, but initiated by the latter two, to remove wage indexation, reduce working hours, and allow flexible work contracts such as part-time and fixed-term contracts. To make the deal more acceptable, firms and schools promised to provide more training to upgrade workers' skills and make them more employable. Temporary help agencies, such as Randstad, facilitated the matching of labor with business needs. At the same time, social welfare programs ensured that the most vulnerable were protected. Between 1987 and 1995, part-time contracts increased by 46 percent while flexible job contracts increased by 60 percent.

The agreement was not without difficulty, as labor unions were initially against part-time jobs and flexible contracts. However, union leaders soon realized that these reforms had to be done to improve competitiveness and create jobs. This realization by union leaders was a crucial tenet for the Wassenaar Agreement to work (Visser and Hemerjik 1997, and Becker 1999).

These reforms put the Dutch economy back on track and significantly reduced unemployment. By 1983, the economy began to grow again. The unemployment rate, which had reached 11.9 percent in 1983, consistently declined and fell to a low of 2.1 percent in 2001. Unlike other European countries, the Netherlands has had no unemployment rate higher than eight percent since 1990.

Sources: Becker (1999), Gustafsson, Kenjoh, and Wetzels (2001), Hartog (1999), Khan and van den Brink (2012), and Visser and Hemerjik (1997)

Box 8.4 Mutual cooperation and welfare improvement at Yazaki-Torres

The Yazaki-Torres Manufacturing, Inc., a Filipino-Japanese joint venture that manufactures wire harnesses,[271] is an example of a company with a very good union-management relationship that is built on trust as exemplified by the willingness of both parties to adjust to changing market demand.

Despite having a large workforce with two unions, the company has never had a strike or any major industrial dispute for three decades. This is largely attributed to management's and the unions' consultative rather than confrontational approach when dealing with labor issues. Collective bargaining agreements (CBAs) are renewed regularly and take only about a day to negotiate, without need for lawyers. During growth years, CBAs included a generous package of benefits above what the industry was giving.[272] When the company was hit by the oil crisis in

[271]The Philippine wire harness industry produces 12 percent of Southeast Asia's output. Yazaki-Torres is the largest of such companies in the country.
[272]Benefits include performance-based pay, retirement benefits, health benefits, personal accident insurance, service leave, hospitalization coverage of up to five members of the immediate family, optional leave for female

the 1970s, 52 percent of its employees were laid off with the assurance that they would be rehired upon recovery. True to its word, management rehired the employees when demand for wire harnesses improved.

On account of the employees' growing benefits, the Japanese partners of the company noted that Yazaki-Torres had become uncompetitive by 2005. Wages of employees were about double compared to their counterparts. After six months of dialogue, management and the unions agreed to a 20 percent across-the-board wage cut, from the president down to the lowest ranking employee. However, Article 100 of the Labor Code of the Philippines prohibits diminution of existing wages, so management and the unions agreed instead on a "retire-and-rehire" scheme. The employees received non-contributory retirement benefits of one month's pay for every year of service and were rehired without loss of job security and seniority. A more flexible Labor Code could avoid the need to pursue these rather complex solutions.

In 2008-09, the company again faced decreased demand and had to cut down production. To remain in business and at the same time protect its workers, management and the two unions agreed to reduce work shifts, phase out overtime, adopt "lean training," job rotation, financial assistance for employees on "voluntary leaves," and salary loans. Up to today, the Yazaki-Torres unions and management continue to benefit from their past efforts to improve their mutual welfare.

Source: Ofreneo and Hernandez (2011)

Box 8.5. An example of a reform package to create more and better jobs

The broad coalition could agree on a package to increase real income and create more opportunities to move up the job ladder.

For its part, 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 so that food prices can fall without farm profits falling. Finally, it could commit to providing universal social and health insurance at higher quality and co-finance some training and apprenticeships programs, say, for disadvantaged groups or young workers.

As part of the same package, business could fully support freedom of association for workers and collective bargaining, commit to offering more training opportunities for labor, and linking wages to productivity.

employees as early as the first sign of pregnancy with pay up to 20 percent of gross pay per month, free transportation service for overtime work after 7 PM, and free meals.

For its part of the agreement, labor could agree to recognize valid forms of flexible contracts, including an expanded apprenticeship program. It could also agree to make less frequent calls to increase minimum wages as food prices fall.

Appendix 8.1 President Aquino's 22-point labor and employment agenda

Platform and policy pronouncements on labor and employment

Overarching goal: *Invest in our country's top resource, our human resource, to make us more competitive and employable while promoting industrial peace based on social justice.*

1. Review existing plans and programs in accordance with the principles of a "zero-based" budgeting system where budget allocations are shaped by their performance and their compliance with the Commission on Audit (COA) reports.

2. Address the labor-mismatch problem by promoting better coordination between employers, academia and government through strengthening both public (e.g., Public Employment Service Offices [PESO]) and private sector labor market information and exchange institutions, especially at the local levels.

3. Promote not only the constitutionally protected rights of workers but also their right to participate in the policymaking process.

4. Review and evaluate the Department of Labor and Employment (DOLE) ruling allowing the Philippine Airlines Management to outsource its critical operations, resulting in the possible mass layoff of some 3,000 employees.

5. Work with the private and labor sector to strengthen cooperation and promote industrial peace.

6. Reform labor arbitration and adjudication systems by streamlining procedures, removing red tape, and at the same time, restoring the integrity and fairness in the system. Ensure that 98 percent of all pending labor cases are disposed of with quality decisions by April of 2011.

7. Align our country's labor policies with international treaties and the International Labor Organization (ILO) conventions in a sound and realistic manner.

8. Work with relevant government agencies in enhancing social protection programs such as social security, workmen's compensation, health insurance, and housing for laid off workers while strengthening the Emergency Community Employment Program (ECEP) to create jobs immediately so people can still have income to spend for their basic needs.

9. Review the continued deployment of workers to countries, which are high-and medium-risk areas, as well as the continued deployment of workers in high-risk occupations.

10. Create an efficient "one-stop shop" for processing applications for overseas work and seeking redress for grievances.

11. Audit the Overseas Workers Welfare Administration to rationalize the management of its funds, in terms of the benefits provided as well as how the funds are invested.

12. Work with the Department of Foreign Affairs (DFA) to transform Philippine embassies, consular offices, and Philippine Overseas Labor Offices (POLOs) into centers of care and service for overseas workers by assigning more foreign service officers to posts where there are many overseas Filipino workers (OFWs) and train them in the needs of the communities they serve.

13. Invest in the formal and regular skills training and upgrading of our services workers with the Technical Education and Skills Development Authority (TESDA) and utilize returning OFWs to conduct training so that they may transfer skills learned abroad.

14. Fully implement the Anti-Trafficking in Persons Act of 2003. Pursue and prosecute those engaging in illegal and predatory activities, including fixers, scammers, and especially traffickers that target women and children.

15. Assist OFWs in achieving financial stability through training, investment, and savings programs.

16. Address the social costs of migration by working closely with communities and families of OFWs to provide effective social welfare services such as counseling and pre-departure orientation seminars. Support the creation or strengthening of community-based support groups for families of OFWs.

17. Improve the seafarers' upgrading program, credit/loaning program, self-insurance coverage program, which includes life insurance, burial, disability, and dismemberment benefits, and reintegration program.

18. Complete a global trading master plan than aims to establish worldwide trading posts that rely on the labor, knowledge and entrepreneurial spirit of OFWs.

19. Facilitate the reintegration of returning OFWs by favorable terms of investment, tax incentives, access to government financial institutions, and other benefits that are offered to foreign investors.

20. Regularly package and disseminate information on agency budgets, bidding, and procurement documents and Statement of Assets, Liabilities, and Net Worth (SALNs) of senior government officials, to ensure transparency and accountability.

21. Ensure that the DOLE and its attached agencies are streamlined and rationalized to have clear-cut and distinct mandates and that qualification standards, especially on eligibility, will be strictly followed.

22. Work with the Civil Service Commission (CSC) to ensure that performances of government agencies and civil servants will be evaluated rationally and systematically through an effective and measurable performance management system to be approved by the CSC such as directly linking the CSC Performance Management System-Office Performance Evaluation System (PMS-OPES) with the Department of Budget and Management's(DBM) Organizational Performance Indicator Framework (OPIF) to ensure the accountability of government agencies and officials.

Source: Aquino (2010a)

Chapter 9 - The reform agenda for job creation

260. **There is no quick and effortless way to 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.[273]

261. **The potential benefits of these reforms are substantial.** For rural workers, they can mean more productive on-farm employment and better linkages to markets, and more opportunities to diversify into higher value crops and off-farm employment. For informal sector workers, they can mean more opportunities to set up entrepreneurial activities with better linkages to the formal sector or to find more productive work in the formal sector. For formal sector workers, they can mean more opportunities to move up the global value-chain.

262. **The following are the key recommendations per area.** The annex of this report summarizes the key provisions of these recommendations, their potential impact on income and jobs, and a broad action plan.

1. Agriculture and rural development[274]

263. **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 majority 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. To create more productive jobs in rural areas and enhance agricultural productivity, reforms are needed to improve security of property rights, increase the level, efficiency, and cost-effectiveness of public goods spending, and liberalize the market for rice and other key crops.

- *Secure long-term property rights on land for farms of all sizes*

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

[274] This section draws in part from World Bank (2009a) and Briones (2012).

264. **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 properties. Securing property rights requires i) developing a zoning plan for all types of land (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 on 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 growth of this sector can then serve as an impetus for the growth of and job creation in the non-farm sector.

- *Improve the agrarian reform program*

265. **To improve current farm welfare, the implementation of the Comprehensive Agrarian Reform Program (CARP) can benefit from a more decentralized and community-driven approach to agrarian reform.** A community-driven approach to selecting agrarian reform beneficiaries has several advantages. It ensures that the program targets poor farmers with good productive skills, lessens land-related conflicts, and reduces the risk that the transfer of land embodies speculative motivations. Such an approach would also increase the speed and quality of the program by improving on the cumbersome and highly centralized processes, thereby reducing uncertainties in the agriculture sector, and by improving the delivery of support services through more community participation and community procurement methods. A revamped CARP could become a flagship program aimed at supporting the formation of small and medium-scale farms with high productivity potential, for instance, in the rice, corn, and high-value crop sectors. These farmers could be given vouchers to buy support services and key inputs needed to start production, including paying for the administrative fees needed to subdivide collective titles into individual titles.

266. **Moreover, the following provisions can be considered to improve the design of the agrarian reform program so that implementation can become more efficient and cost-effective:** i) Provide subsidies to poor farmers, including landless farmers, from court savings and/or property taxes to buy land to reduce repayment burden and the possibility of default under the current lending program possibly through a community mortgage program, ii) ensure consistent and systematic collection of progressive property taxes to a) provide incentives to keep land registries and valuations complete and up-to-date, b) reduce land value speculation, c) increase the intensity of land use, and d) provide increased revenues to local government units (LGUs), iii) enact zoning rules to ensure that parcels of agricultural land are not converted to non-agricultural use to evade land reform, iv) support credit and marketing cooperatives and competitive contract farming to help poor small farmers sell their produce and borrow at more affordable rates, v) reintroduce voluntary land transfers for landholding below 10 hectares and

include safeguards against circumventing payment of estate taxes, vi) allow associations of landless farmers to buy large landholdings (i.e., above 10 hectares), vii) fast-track the subdivision of collective Certificate of Land Ownership Awards (CLOAs),[275] coupled with addressing the issue of succession given the large number of dead beneficiaries, viii) reduce the period during which awarded land cannot be sold from 10 to 5 years and relax restrictions to leasing land (e.g., removing the need to secure government clearance) to improve the efficiency of land markets, and ix) allocate a part of the amortization to local government units to improve service delivery.

- *Reform land administration*

267. **Complementary reforms in land administration are also needed to improve security of property rights and make land markets more flexible and responsive.** Legal and administrative reforms are both needed to address problems in land administration. The recently enacted Residential Free Patent Law (Republic Act 10023) is a step in the right direction. However, its implementation could be accelerated. Other reforms include i) the transfer of registration procedures from courts to the executive branch, and decentralizing its implementation, ii) consolidation of various property titles into a single Certificate of Title, iii) recognition of continuous possession by conferment of title following a probationary issuance of a provisional title, iv) enactment of a National Land Use Code, v) generation of a comprehensive mapping and database of land describing categories, land use, and property boundaries, vi) simplification of the cumbersome Torrens title deed procedures, and vii) removing the bias against rural titles. At present, it requires 25 years of uncontested possession to obtain a rural title, as compared to 10 years for urban land, thereby reducing rural investment incentives for those who are actually farming the land, and the efficiency of the rural credit market. The number of years can be set at 10 for both urban and rural land.

- *Continue to reallocate public spending from private goods (e.g., input and output subsidies) to public goods*

268. **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 [R&D]), 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

[275] Recent changes to the agrarian reform law (Republic Act 6657) are in the right direction of improving tenure security and access to credit among CARP beneficiaries by subdividing collective titles affecting almost two million hectares of land to provide individual rights to the land.

prices fall. Moreover, this focus on public goods would help promote a more diversified and productive agriculture sector, which would allow the country to reduce its dependence on traditional crops such as rice, corn, coconut, and sugarcane.

- *Improve the delivery of agricultural public goods and support services for farmers*

269. **The reallocation of public spending toward public goods and support services needs to be accompanied by significant changes in the governance and scope of public programs.** Existing farmer services that are spread over several agencies can be rationalized to make service delivery more efficient. R&D management can be improved by i) setting clear objectives and priorities,, ii) investing in improved facilities, iii) adopting an adaptive and participatory approach, and iv) improving linkages with local government-managed extension services that can inform R&D based on local agro-climatic and socioeconomic conditions. In irrigation, the largest item in the national budget for agriculture, urgent attention is needed on accelerating the transfer of irrigation management from central to local levels and on strengthening capacity of irrigation associations and LGUs to protect large investments currently being undertaken. These governance changes would also help improve the resiliency of the agriculture sector to climate change.

270. **The delivery of extension services can benefit from private sector participation.** For instance, extension service delivery can be opened to public-private partnerships (PPP), with the government providing grants to poor farmers to avail of privately-delivered extension services in response to demand of farmers. Extension services can include not only the delivery of know-how on agricultural technical services but also assistance in achieving market standards, including quality, environmental, and social standards.

271. **A cluster and value-chain approach to delivering public goods and support services would help connect smallholders and agribusinesses.** Agriculture has significant vertical linkages with downstream manufacturing. Shifting the developmental approach from production to a cluster and value-chain approach can promote a more diversified agriculture, expand markets, improve farm income, and create more rural jobs. Given the current fragmentation and lack of coordination, strong partnerships among the national government, LGUs, and the private sector need to be developed to implement a cluster and value chain approach. This calls for the Department of Agriculture to identify areas for interventions at various stages of the value-chain and improve linkages and partnerships with other government agencies (e.g., Department of Transportation and Communications and Department of Trade and Industry), the private sector, farmer groups, and LGUs and to coordinate and serve the continuum of processes that enable agriculture and agriculture-based products to meet their final market demand. To maximize agribusiness potential, it would be useful to i) support activities around clusters of rural towns[276] that target farmer associations and rural small and medium enterprises, ii) employ more efficient marketing channels, distribution, and processing,

[276] The government's Mindanao Rural Development Program suggests that important gains can be achieved by strengthening the capacity of rural towns in the delivery of key services to the farm sector.

and iii) broaden the dispersion of downstream processing activities to rural areas.[277] Crucial to the value-chain expansion is the development of logistics support, such as storage, packing, transport, postharvest facilities, and utilities.

- *Liberalize the market for rice and other key crops*

272. **Liberalization would need to be pursued in the area of marketing and logistics to reduce food and input prices, and encourage more economic activity and job creation.** In the grains sector, the government needs to rationalize its role as market regulator. Turning over the rice marketing function, particularly import decisions, to the private sector as in 2011 and 2012, would be more conducive to enhancing food security and agribusiness investments in the rice sector. The efficiency of the private sector can be enhanced by removing all licensing requirements and replacing the quotas with a uniform tariff of, say, 30 percent (which would be broadly revenue-neutral). 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. The National Food Authority should confine itself to rice emergency reserve stocking to respond to natural calamities and other emergencies.

273. **In addition, shifting to a policy of reducing consumer prices rather than inflating farm prices to produce more at the expense of consumers would make rice self-sufficiency a more cost-effective and efficient approach.** The current bias toward rice is very costly for both government and consumers. It benefits only a small share of the population. Redesigning interventions in the rice sector and allowing farmers to profit from lower production and marketing costs instead of higher consumer prices would provide better incentives for production without hurting poor consumers. The Japanese rice subsidy scheme in the 1960s offers valuable lessons to the Philippines on the ill-effects of such a program on overall consumer welfare (Box 9.1). In lieu of rice, commodities with higher income potential for farmers, such as vegetables and fruits, should be supported. If appropriate support is given by the government, farmers are willing to move to higher value crops.

274. **Farmers affected by the proposed change in rice policy need to be supported through targeted adjustment programs.** International experience (e.g., Mexico, Romania, and Turkey) shows that properly timed and targeted cash transfers allow small-scale farmers to finance investments in land and machinery that open up new opportunities, including non-farm activities for farmers who lease land. For such adjustment programs to succeed, appropriate targeting mechanisms need to be developed to ensure that resources are directed toward vulnerable farmers. In the Philippines, vulnerable farmers can be identified by using the registry of farmers, which is currently being developed by the government, or by using the National Household Targeting System for Poverty Reduction (NHTS-PR), which is currently being used to

---

[277] Such dispersion entails both soft and hard infrastructure support. Physical infrastructure provision would, in some cases, entail private-public partnerships, with the private sector providing capital and the government providing access rights, attenuating risk, and regulating against monopoly power. Soft infrastructure is essential to facilitate the organization of agribusiness clusters to achieve economies of scale and scope, enforce contracts, provide a legal framework, impose standards, perform market-matching, and offer business services.

identify beneficiaries of the government's conditional cash transfer program. It would be useful to merge these two databases to ensure optimal selection of beneficiaries.

Box 9.1. The Japanese rice subsidy scheme

After World War II Japan achieved rapid economic growth for many decades. The agriculture sector also grew rapidly, albeit from a low base. By 1955, a general food shortage had been resolved with good rice harvest and technological advancements that improved farm productivity. Until then, farm income had been slightly higher than urban income, but because of the rapid growth of the manufacturing sector, urban workers' income increased considerably. By 1959, urban household income was 40 percent higher than that of farm households. The increasing income gap between agriculture and urban workers led many farmers and agricultural organizations to lobby for increasing the budget for agriculture and raising the government purchase price of rice.

In the early 1950s, the government purchased a certain amount of rice from farmers at a pre-fixed government price and sold it to consumers through government-affiliated retail outlets. To determine the purchase price, the government applied an "agricultural price parity scheme." Under this scheme, the government estimated the agricultural parity index, which was a weighted price index comprising farm households' cost of living and rice production cost. The government rice purchase price was adjusted by the agricultural parity index.

In 1960, a new method for computing the government rice purchase price, called the "cost of production and income compensation scheme," was introduced to correct the widening income gap. Under the new scheme, farm household labor inputs were evaluated at the wage of urban workers. The new scheme aimed to achieve parity between rice producers' income and urban workers' income. With rapid growth of the Japanese economy, manufacturing sector wages increased significantly. Because of the new compensation scheme for rice farmers, the government's rice purchase price increased by about 10 percent every year, and the rice purchase price almost doubled between 1960 and 1968 (Figure 9.1). The new scheme was implemented with some flexibility. Hence, the rice purchase price was increased from time to time without any major shock to the rice market. The increase in the purchase price also took into account the prevailing political climate. By 1967, rice farm wages were about 40 percent higher than manufacturing sector wages. As a result, rice farming became more profitable than any other agricultural or manufacturing activities.

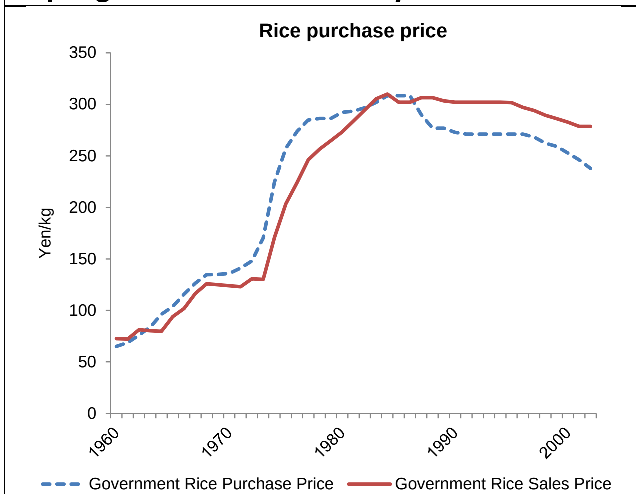
The rapidly growing rice purchase price resulted in enormous fiscal pressures on the government. Until around the early 1950s, the domestic rice price was below the international rice price. After the new scheme was introduced in 1960, the government rice purchase price became significantly higher than the marginal cost of producing rice and the international price of rice. The difference between domestic and international rice prices steadily expanded and budget pressures rose. Moreover, the government's purchase price went beyond its sales price.

This negative spread continued from 1963 to 1986 (Figure 9.1). Ultimately, to contain the fiscal burden, the rice sales price also had to be increased rapidly.

This policy has adversely affected the Japanese economy. With the rise in the retail price of rice, rice consumption gradually declined. In 1962, annual per capita consumption of rice peaked at around 118 kilograms (Figure 9.2). Since then, due to the high domestic price of rice, consumers substituted away from rice and started to consume wheat, meat, and edible oil. According to the Japanese Ministry of Agriculture, Forestry, and Fisheries, annual per capita rice consumption fell to 59 kilograms in 2010. Rice consumers had to pay for the high price of rice and compensate rice farmers through higher taxes. Rice producers were disconnected from the international market and could not diversify and innovate, which stunted sustainable growth of the agriculture sector. In retrospect, lagging farm household income should have been compensated not through higher purchase price of rice but through temporary direct income transfers and infrastructure to support agricultural diversification.

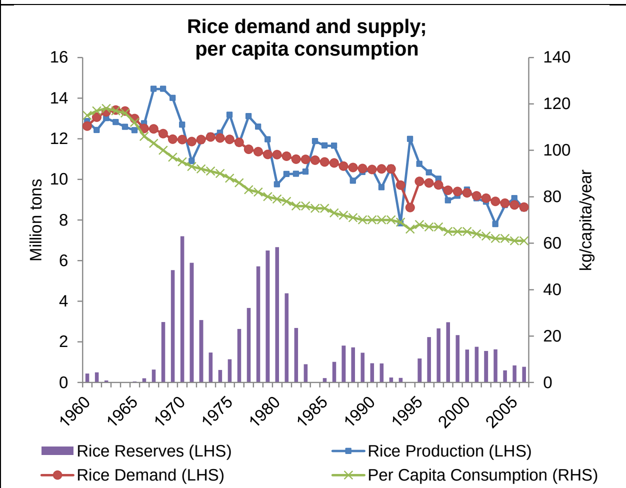
Source: Kako (2005) as summarized by Kiyoshi Taniguchi, Economist at the World Bank Jakarta Office.

Figure 9.1 The government rice purchase price exceeded the sales price during the rapid growth of the economy.



Source: Japanese Ministry of Agriculture, Forestry, and Fisheries

Figure 9.2 Japanese rice production, consumer demand, per capita consumption, and reserves have all declined.



Source: Japanese Ministry of Agriculture, Forestry, and Fisheries

2. Support to manufacturing[278]

275. **The manufacturing sector can be reinvigorated by increasing competition in the economy and investing more in infrastructure.** Reforms include i) strengthening competition

[278] This includes reforms in the services sector to help lower logistics costs faced by manufacturers.

policy, ii) enhancing competition in key sectors such as ports, shipping, water utility, power, airlines, oil, cement, chemicals, and agriculture, and iii) opening the economy further to foreign competition. 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 by reducing consumer prices.

- *Strengthen overarching competition policy to enhance level playing field and lower prices*

276. **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 should have statutory independence, be adequately funded and fiscally autonomous, and be led by senior executives who are appointed for fixed terms. Without an institutional structure in place to implement and coordinate the reform process effectively, there is the danger that the reform momentum will dissipate fairly quickly. 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 should be pursued.

277. **To sustain the reform, there is a need to build public support and consensus around the principles of fair competition.** Three elements would help achieve this**.** First, an independent advisory body to advance the economic reform agenda could be set up to provide impartial advice on the scope and strategy of the reform. This body could include leading economists and senior private sector executives.[279] If warranted, it could be institutionalized and transformed into a permanent Council of Economic Advisers to advise the President and the Director-General of the National Economic and Development Authority on important issues facing the economy. Second and equally important, a structured dialogue could be conducted with the private sector and other stakeholder groups as partners in supporting the principles of fair competition and contestable markets across all sectors and industries, and in actively assisting the government in creating a level playing field. Third, public education is needed to generate ownership and "buy-in" of proposed reforms in order to create a constituency for particular reforms and generate deeper appreciation of the importance of inclusiveness, openness, competition, and economic gains from contestable markets.

[279] To ensure impartiality, private sector representatives need to abstain from any proceedings that involve their own industries.

- *Enhance competition in key industries of the economy by reducing monopoly or oligopoly control*

278. **In the past, increasing competition in industries controlled by non-natural monopolies and oligopolies, such as in telecommunications and air transport, had a large positive impact on economic development and benefited workers, business, and the government** (see Chapter 6). For workers, it meant more and better jobs and higher real income as new and more productive firms joined the market and as monopoly profits were reduced and shared with workers in the form of higher wages and lower prices. For businesses, a more level playing field enabled many new firms to enter the market, some of which are driving economic growth. For the government, it meant higher tax revenues and hence higher investment spending. However, there are segments of the population that have not benefited much from these reforms. The poor and informal workers, in particular, have benefited the least as evidenced by the slow pace of poverty reduction in the decades following liberalization. To uplift their welfare, a number of key industries with more direct impacts in terms of job creation for the poor or lowering prices of basic commodities need to be opened up for more competition.

279. **First, ongoing reforms in the power sector need to continue at a faster pace to help reduce rates and increase supply, especially in Mindanao, so that more manufacturing firms can open and provide jobs to the poor.** Priority needs to be given to i) increasing generation capacity, ii) enhancing competition in the retail sector of the industry, iii) reducing transmission constraints in Luzon to enable network integration, iv) fully integrating Visayas and Mindanao to the Luzon grid, v) implementing a reserves market to stabilize entry of new power generation, vi) implementing the Renewable Energy Act of 2008 to enhance energy security, vii) crafting a sensible natural gas policy, viii) dealing with the universal charge for stranded assets and stranded debt, and ix) continuing the reform agenda for electric cooperatives.

280. **Next, enhancing competition in ports, shipping, water utility, and air transport have huge potential in reducing poverty and creating jobs for the poor and vulnerable.** Enhancing competition in ports and shipping is essential in reducing food and input prices, improving producers' access to markets and raising farmers' income in less developed regions, such as those Mindanao. Enhancing competition in the water utility sector would help improve access to clean and affordable water, improve health outcomes, and raise worker productivity especially in rural areas.[280]Enhancing competition in the air transport sectors would help spur the growth of tourism, and enhance regional integration and development.

---

[280]Around 40 percent of Filipinos have poor access to clean and affordable water. This translates to lower productivity and hence lower real income, as workers spend a significant amount of their time sourcing water (an average of one hour or more a day) and/or recuperating from sickness caused by dirty water (from a few days to several weeks). Addressing issues in the water utility sector, while not directly creating jobs, can increase worker productivity and hence real income of the poor.

281. **To enhance competition in shipping, the following key policy actions are recommended:** i) remove opportunity for incumbents to object to granting of certificate of public convenience (CPC) [i.e., also known as the prior operator rule], ii) focus CPC conditions on quality standard, iii) streamline the CPC process, iv) use a single form of CPC for both tramp and liner operators, v) allow greater flexibility within a CPC so that operators can adjust easily to changing market conditions, vi) remove requirements for dry-docking of domestic vessels in local shipyards, vii) simplify approval for special permits for foreign vessels to temporarily operate in domestic trade, viii) improve information on cargo flows and current services, and ix) freely disseminate information to actual and potential market participants.

282. **To enhance competition in ports, the following key policy actions are recommended:** i) first conduct a detailed assessment on how competition between the Philippine Ports Authority (PPA) and private commercial ports can be encouraged with minimal impact on the financial and economic viability of PPA ports, including PPA concessionaires, ii) then based on the assessment, rationalize the mandate of PPA by gradually reducing its port operations mandate so that it can focus exclusively on its regulatory mandate over the medium-term, iii) remove the nexus between PPA revenue and cargo handling charges to remove conflict of interest, and iv) privatize the ownership, management, and/or operation of PPA-owned ports to improve the quality of ports services.

283. **To enhance competition in water utility, the following key policy actions are recommended:** i) address institutional fragmentation by consolidating sectoral responsibilities and creating incentives for mergers of water operators, ii) replace supply subsidies with targeted subsidies based on household income, using the National Household Targeting system for Poverty Reduction (NHTS-PR), iii) expand private sector participation by implementing cost recovery tariffs for water and enacting tariffs for sanitation services, and iv) improve sector governance and regulatory capacity by corporatizing water utilities, benchmarking public utilities, and strengthening regulatory capacities.

284. **There is scope to liberalize the air transport industry further.** More competition in international service can encourage growth of tourism and tourism-related jobs. The concept of bilateral reciprocity can be expanded from seat entitlements to impact on tourism. This means granting foreign airlines more seat entitlement relative to domestic airlines if they can bring in more tourists. Complementing this reform would be ensuring that airport infrastructure is expanded and upgraded so that capacity constraints, especially at the Ninoy Aquino International Airport, can be quickly resolved.

285. **Finally, competition can be enhanced in industries that provide vital inputs to manufacturing, namely: agribusinesses, such as sugar, corn, and soybean; and the oil, chemical, and cement industries.** Enhancing competition in these industries can spur manufacturing by lowering input costs. In all these industries, the key policy recommendation is to gradually reduce import tariffs and other trade barriers in order to cut input costs and improve quality through more competition. Liberalizing the sugar, corn, and soybeans sectors would help lower processed food prices and increase real income of most Filipinos. Liberalizing

the cement industry has the potential of bringing down infrastructure cost while liberalizing chemical and oil manufacturing can improve vertical linkages of Philippine manufactured products (e.g., plastic casing for electronic products).

- *Review the Foreign Investment Negative List and consider reducing restrictions*

286. **In addition to enhancing domestic competition, allowing more foreign participation would facilitate the entry of technology and innovation that would help the country become more competitive.** While the Philippines' ownership rules are not excessively restrictive relative to those of other countries in the region, its slower growth record over the past decades indicates that it needs to position itself ahead of the regional norm in order to catch up. Opening up the economy to more foreign participation is one way of speeding up growth, given the benefits that come with more foreign direct investments.

287. **Two key recommendations are proposed to enhance foreign direct investment flows.** The first is to amend 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.[281] The prerogative to impose such restrictions could be given to Congress, as is the case in the other sectors. The second is to open several priority sectors further to international players. This requires their removal from the Foreign Investment Negative List. These sectors are likely to have the largest gains in terms of competition, capital, technology, and improved governance. They are also likely to generate jobs and increase real income. These sectors are:

a. **Telecommunications –** although the Philippines is known for its vibrant and fast-growing BPO industry, the telecommunication infrastructure still has considerable shortcomings relative to potential (e.g., dropped calls, lag in text messaging, weak internet signal, and network overload). Opening the telecommunications sector to foreign capital and know-how can raise productivity and spur overall business activity, as most modern, especially technologically sophisticated, companies in a globalized age depend on effective telecommunications systems. The BPO industry and other industries that depend on it stand to benefit significantly from this reform.

b. **Shipping –** inter-island shipping is open to domestic players only, but many domestic shipping companies are inefficient, have poor safety standards as evidenced by the number of maritime accidents, and historically behave like a cartel. Allowing more foreign participation can reduce shipping costs and improve service quality by a wide margin. This would directly benefit tens of millions of Filipinos in terms of lower food prices and millions of farmers who would be able to sell their produce in the more urbanized regions like Metro Manila and Calabarzon.

[281] More competition in the education sector (e.g., less restriction in hiring foreign professors to complement local talents) can potentially raise the global ranking of Philippine universities. Note that US universities have kept their prestige by leveraging on global talents.

c. **Financial services:** The banking sector is dominated by domestic banks, many of which are members of large conglomerates. Such a structure can create issues around the lack of competition and connected lending. Apart from ownership limits, foreign banks' participation is limited by the number of branches they can operate and restrictions on land ownership, which hinder them from lending since they cannot accept land as collateral. Allowing more foreign participation can increase competition and bring down borrowing costs and other barriers to accessing finance. Recent policy to allow 100 percent foreign ownership of rural banks is a step in the right direction.

d. **Media:** The mass media sector is completely barred from foreign ownership. Opening it to foreign investors could help increase its independence and thus its ability to raise accountability and demand for good governance, eradication of corruption, and consequently improve overall economic performance.

e. **Practice of licensed professions:** The practice of licensed professions, such as engineering and medical service, is almost exclusive to Filipinos, even though current laws governing professions allow for reciprocity.[282] While this restriction has ensured employment for many Filipino professionals, it also limits access to new knowledge and technology, especially in engineering and science. Relaxing restrictions in some lagging fields, especially in light of the Association of Southeast Asian Nations (ASEAN) Economic Community 2015 and other trade agreements which the Philippines can benefit from (e.g., Trans-Pacific Partnerships), could improve knowledge and skills accumulation of Filipino professionals, as foreign professionals bring in new knowledge and expertise.

f. **Construction:** Locally-funded public construction works are largely limited to domestic companies, although some exceptions apply. Foreign competition can raise productivity and reduce costs in construction considerably. Opening the sector further to foreign ownership can thus increase the value for money for society and provide incentives for domestic companies to become more competitive. Foreign participation can be enhanced by ensuring that project sizes are increased to entice more foreign firms to bid.

g. **Agriculture:** Smallholder farming could benefit greatly from contract farming and downstream agribusiness activities, especially regarding export crops and food processing. These value chains could prosper with greater foreign business involvement.

h. **Mining:** This sector is particularly intensive in its use of capital and technology and would benefit from foreign investment and know-how. In addition, reforming mining

[282] According to the Joint Foreign Chambers of the Philippines (2012), there are 46 individual laws that provide for the regulation of as many professions. All laws allow for reciprocity. When a foreign national applies to practice in the Philippines, the Professional Regulatory Commission decides whether there will be pertinent reciprocity.

taxation can help ensure that the benefits from increased mining activity will accrue to the Philippine economy, benefit affected communities more, and ensure environmental protection.

i. **Land:** There is a need to ensure an efficient way of securing long-term property rights on land, whether in the form of ownership, lease, patents, or other usufruct rights while guarding against land speculation and "land grabs." Strengthening long-term land lease rights, as distinguished from outright ownership, can significantly increase foreign direct investment. In addition, allowing foreign long-term leases can facilitate credit and lead to greater access to finance, which is at present constrained by the inability of foreign banks to accept land as collateral.

- *Strengthening regulatory capacity*

288. **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 by establishing clear and rule-based procedures and policies, iv) improving transparency of decisions making, and v) conducting regular regulatory assessments.

3. Business regulations[283]

238. **Simplifying rules and regulations in business registration and licensing, entry and exit, paying taxes, and access to finance are needed to encourage the 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 of all sizes. 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.

- *Simplify and automate key business registration and licensing processes to reduce transaction costs*

239. **Starting a business can be simplified by harmonizing and streamlining procedures.** The Philippines' business regulatory system currently requires 16 procedures to start a business. As a testament to this tedious process, firms are required by law to post in public view up to 18

[283] This section draws partly from World Bank (2011b).

different permits and licenses. The government needs to consider reducing these procedures to around nine, to put the Philippines at par with regional comparator countries and reduce the cost of starting a business. This reform could include i) harmonizing and streamlining procedures among national government agencies and LGUs to avoid overlaps and redundancies (e.g., harmonizing the city and *barangay* business permits into one permit), ii) removing steps that can be verified by government offices at the back end (the recent policy directive that no longer requires a Social Security System (SSS) clearance when renewing business permits is a good example[284]), and iii) reducing requirements whose purposes are not fully justified. The latter includes a) reducing or abolishing the paid-in minimum capital requirement, b) making the use of notaries and lawyers optional for company startups, c) moving toward a fixed registration fee that covers only administrative costs, and d) removing antiquated mandatory practices of having the Bureau of Internal Revenue (BIR) stamp the company's invoice and account books.

240. **Automating and completely implementing the Philippine Business Registry (PBR) and the Business Permit and Licensing System (BPLS) are also needed.** Automation and complete implementation of the PBR and the BPLS would not only reduce the cost of doing business but also enhance transparency and accountability across agencies and authorities involved and eliminate opportunities for corruption. Complete implementation of the PBR as a single online portal for processing all national level registration and licensing requirements should be given high priority. This "one-stop shop" system would significantly reduce transaction costs associated with having to interact with various agencies, like the Securities and Exchange Commission, the Business Permits and Licensing Office, and the BIR. Implementation of the PBR would need to be followed by automating the BPLS and rolling it out to all LGUs. To improve incentives for LGUs to implement the BPLS, access of LGUs to the Performance Challenge Fund can be linked to compliance with BPLS monitoring indicators.

241. **Greater transparency of business regulations can help improve understanding of the registration, licensing, and taxation processes (especially among incipient firms) and help reduce transaction costs.** This can be done by mandating the prominent display of process flowcharts and service standards in all government offices. This would involve creating a step-by-step guide, with a list of required documents and steps showing which offices to visit, when and with what documents, and listing the addresses, working hours, and contact number of each office. A first step in this direction has been taken with the Anti-Red Tape Act of 2007 (Republic Act 9485), which brought about the Citizen's Charter flowcharts now displayed in various government offices. This could be improved further in terms of completeness, accuracy, and accessibility. Developing a more efficient online or mobile system would be the next step in making information more accessible and improving accountability, which would save time for both businesses and government officials. More importantly, reducing the need for direct

[284] Under the Joint Memorandum Circular No. 1 series of 2012 (December 2012) of SSS and the Department of Interior and Local Government, businesses no longer need to secure SSS clearance before renewing business permits. Instead, the SSS will transmit to the LGUs a list of delinquent employers. Businesses on the list will be barred from renewing their business permits.

interaction with different officials would minimize the potential for under-the-table transactions.

242. **The process for individuals seeking government licenses, permits, and clearances for employment purposes also needs to be simplified.** This includes simplifying procedures and rationalizing fees in government offices such as the SSS, Land Transportation Office[285], National Bureau of Investigation, Philippine Overseas Employment Administration, and various city and municipal offices, so that workers can spend less time queuing up to pay for and secure these documents, and more time on their work. The current effort to have a one-stop shop for some of these government services in malls is welcome. Further improving this initiative, such as using online resources, would need to follow.

- *Simplify tax regime for micro and small taxpayers*

243. **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 micro, small, and medium enterprises (MSMEs) and a frequent excuse for remaining in the informal sector. A simplified system could include i) using simplified tax forms, registration requirements, and payment processes, ii) mandating fewer 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 micro and small enterprises. Reforming a very entrenched system with large bureaucratic interest will likely be a challenging endeavor. Resistance to reform can be mitigated by piloting the reform in a few agencies and LGUs, and then expanding it when public support has increased. By reducing compliance burden through a simplified tax regime, the government stands to raise more taxes and reduce corruption in the tax system, while also promoting entrepreneurship and job creation in the formal sector.

- *Facilitate greater access to finance, especially for micro and small enterprises*

244. **The public credit bureau needs to commence operation.** The Philippines has passed a Credit Information System Act (Republic Act 9510), but the credit bureau called for under the Act has not been established. By collecting, distributing, and sharing credit information on borrowers, credit registries can help lenders assess risk and allocate credit more efficiently. They can also free entrepreneurs from having to rely on personal connections or savings, which are not always efficient and not always enough for major business expansions. When

[285] For instance, renewing a driver's license requires paying the following fees: PHP 350 for processing fee, PHP 67 for computer fee, PHP 100 for change in address, PHP 100 for medical checkup, and PHP 50 for computer fee for medical checkup, for a total of PHP 667. Reforms could include reducing fees for items that are fully not justified (e.g., computer and change in address fees) and extending the validity of licenses from three to five years, as is the practice in other countries.

established, the credit bureau can expand the range of information available by including credit history from other sources and sharing both positive and negative information.

245. **The mandated system of lending to small and medium enterprises (SMEs) needs to be replaced by a system of credit guarantees.** Mandatory bank allocations for SME lending may have played a role in encouraging growth in the volume of SME lending initially, but they no longer suffice to meet the financing needs of Philippine SMEs and have proven to be counter-productive. A system of guarantees that seeks to encourage financial institutions to lend to SMEs stands a better chance of succeeding than the current system that seeks to coerce the banking system into making loans that are perceived to be unprofitable or overly risky.

246. **Strengthening the Philippine collateral system can improve access to finance.** The cadastral titling of all lands in the country needs to be completed and a central registry for land titles established. This implies reforming the land administration procedures, which are overly complex, centralized, and lengthy. There is a need to establish a modern, unified, and easily accessible registration system. It would need to have searchable registries for all collateral across registries.

247. **Increasing lending secured by non-real property or movable assets can further improve access to finance.** This entails i) improving the legal and regulatory framework for secured transactions, ii) implementing a modern, centralized electronic registry for security interests in movable assets, and iii) enhancing the capacities of local financial institutions in lending based on movable assets. With better access to finance, more SMEs would grow and create jobs.

248. **The role of cooperatives in accessing finance needs to be enhanced.** Cooperatives provide savings and credit services to over seven million members in the Philippines and can play a crucial role in improving access of microenterprises and farmers, especially in poor and remote communities, to financial services. Lack of adequate regulation and standards has often led to poor financial performance of cooperatives. Although credit and multipurpose cooperatives are recognized as potentially important channels for reaching poor and remote areas with financial services, lack of adequate supervision, weak governance, poor financial management skills, and a lack of necessary information and governance systems often contribute to the poor performance or failure of cooperatives. Participation of cooperatives in providing access to finance can be enhanced by i) improving the regulatory capacity of the Cooperative Development Authority (CDA), ii) developing an effective apex structure to enhance financial viability of cooperatives and widen their reach, and iii) amending the Financial Rehabilitation and Insolvency Act to include cooperatives. Recent legal reforms provide a basis for improving regulation of credit cooperatives and introducing clear performance standards. Implementing adequate standards for governance, accounting, and financial management, and enforcing these standards effectively are critical to the sustainable development of cooperatives.

- *Ensure a coherent strategy for MSME development and measure impact of programs*

249. **International experience shows that effective implementation is the key to ensuring the success of strategies, plans, and programs for MSME development**.[286] The Philippines, like most other countries, has a wide range of MSME support programs being implemented by various departments and agencies.[287] Improving coordination is an important first step in enhancing the effectiveness of the overall efforts to support SME development. This can be followed by improving the collection of program outcome data to allow the government to conduct evidence-based evaluation of programs to deliver maximum impact.

4. Labor market regulations and social protection

250. **Labor market regulations can be made more responsive to job creation, especially for small and labor-intensive firms.** As discussed in Chapter 7, labor market regulations need to be crafted to achieve 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 trade-offs in mind, the following recommendations are proposed:

Labor regulations

- *Simplify and rationalize labor regulations*

251. **Simplifying and rationalizing labor regulations are necessary first steps to improve enforcement and compliance, and increase coverage, protection, and equitable application of the law.** As currently constituted, Philippine labor regulations largely protect wage and salaried workers in the formal sector. These workers account for around 25 percent of the labor force. The remaining 75 percent, or around 28 million workers, are informally employed and receive little or no protection from the law. In addition, there are over three million unemployed workers who receive no protection at all. The Department of Labor and Employment (DOLE) and its attached agencies[288] have begun a comprehensive review of the Labor Code.[289] It would

---

[286] The need to enhance growth in the MSME sector is recognized in the MSME Development Plan 2011-2016. The plan sets a target for SME value-added contribution to GDP at 40 percent (from about 35 percent in 2008) and increase in the number of SME jobs by two million. The plan addresses the key constraint areas and comprises four pillars: i) business environment, ii) access to finance, iii) access to markets, and iv) productivity and efficiency. It also covers crosscutting dimensions, including regional and local economic development, gender mainstreaming, migration, and climate change.

[287] The Micro, Small, and Medium Enterprise Development (MSMED) Council coordinates the MSME support programs. It is chaired by the Secretary of Trade and Industry and comprises key government departments and agencies as well as private sector representatives.

[288] These include the National Labor Relations Commission (NLRC), National Conciliation and Mediation Board (NCMB), and National Wages and Productivity Commission (NWPC), among others.

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 unions, and iv) updating obsolete laws to reflect the country's changing economic condition.[290]

- *Define and enforce valid forms of flexible work contracts*

252. **More flexible work contracts that are properly regulated have the potential of creating many jobs.** Employers should be allowed to use valid forms of flexible contracts, such as short-term contracts and extended-term apprenticeship contracts, and to subcontract or outsource non-core business lines when business exigencies warrant their use to remain competitive and keep qualified jobs. Employers should also be allowed to reduce wages and benefits temporarily during extended slowdowns and recessions so they can retain qualified workers and remain competitive.[291] Without flexible contracts, businesses, especially small businesses, are constrained from hiring new workers because of the *de facto* high cost of termination. The constraint on hiring new workers can in turn prevent businesses from expanding to meet new demand and consequently stunt the growth of the economy and limit further job creation. The experience of countries that allow flexible work contracts, such as the Netherlands (see Box 9.2 and Box 8.3 in Chapter 8), shows that while some jobs can become more insecure, the social benefit of far more people being employed even if for a limited period far outweighs the cost of being unemployed for long periods. For the Philippines, use of flexible work contracts can open up more employment opportunities to millions of informal sector workers as businesses expand and hire more workers to meet their business exigencies. Moreover, flexible contracts that exceed the six-month rule can even improve the job security of millions of workers working under various short-term contracts such as the rotating five-month contracts.

Box 9.2 Flexicurity: Protecting people instead of protecting jobs

The concept of merging job flexibility with job security was introduced in the Dutch labor market in 1995. Its original policy intention was to relax employment protection of workers under regular contracts and improve employment protection of workers under temporary

[289] Pending amendments to the Labor Code, the Department of Labor and Employment (DOLE) has implemented a number of measures that seek to address rigidities in the labor market. These include i) a new Labor Law Compliance System, ii) an incentive and reward system for compliant companies, iii) a streamlined compulsory compliance and enforcement system, iv) compulsory arbitration system that calls for a 30-day mandatory conciliation and settlement by the parties of any dispute, and v) wage reform that links pay and productivity through a tripartite-endorsed two-tier wage system.

[290] A recent example is the law allowing women to freely work at night (Republic Act 10151). This law was passed to support employment in the BPO industry, which has significant night shifts.

[291] DOLE Department Advisory No. 2 issued in 2009 during the global recession can be used as starting point for discussion.

contracts. In 1999, this policy was enacted into law. In essence, the law entails a shift from job security towards employment security.

Over time, this policy came to be known as "flexicurity." Wilthagen and Tros (2004) define flexicurity as "a policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labor markets, work organization, and labor relations on the one hand, and to enhance security, both employment security and social security, notably for weak groups in and outside the labor market on the other hand."

The shift to flexicurity in Netherlands, and later in Denmark, has contributed to lower rates of unemployment — about half the rates in other European countries. Following this success, the European Commission adopted flexicurity through the Lisbon Strategy in 2000 with four policy components: i) flexible and reliable contractual agreements, ii) comprehensive life-long learning strategies, iii) effective active labor market policies, and iv) modern social security systems.

Sources: Jørgensen & Madsen (2007), Cazes (2008), Wilthagen and Tros (2004), and European Commission (2007)

253. **To limit abuse, the government, in consultation with both workers and employers, would need to agree on what can be considered as *valid* forms of flexible contracts and ensure their enforcement thereafter.** This important task includes i) defining what core operations and business exigencies mean and what would constitute permitted contracting based on domestic and international business practices, ii) specifying the conditions for and the duration of their use to safeguard the welfare of workers who will be affected, in particular union members, iii) providing income alternatives and social protection[292] to workers who will be affected by flexible contracts, and iv) ensuring enforcement to prevent abuse of management prerogatives.

254. **The government would need to ensure that contracts subjected to regularization are enforced to ensure that job security is not eroded by non-compliance or abuse of the probationary rule.** This includes i) enforcing regularization policies with special attention to employers who abuse the six-month probationary period by limiting employment contracts to five months and moving employees across different companies of the same owner (these are common among large retailers, fast food, and service contractors), and ii) ensuring that project-based workers are also regularized when their work has become permanent in nature. Regularization, when warranted, would ensure that workers get their fair share of benefits, including social and health insurance.

[292] Social protection is discussed in the following section.

- *Strengthen the regulatory capacity of DOLE to enforce labor regulations to improve equity*

255. **The regulatory capacity of DOLE and its attached agencies would need to be strengthened to ensure that labor regulations are fully enforced and that the law's intended coverage and protection are not eroded by non-compliance.** This requires providing DOLE with adequate budget and staffing in key areas, such as labor inspection, conciliation and mediation, and education of employers and employees on labor regulations to prevent a build-up of labor cases arising from lack of understanding of the law and due process. Preparing a medium-term expenditure framework for DOLE and its attached agencies would be useful in ensuring that they get adequate budget and staff resources to fulfill their mandates. The recent increase in the number of positions in DOLE (by around 370) is laudable.

- *Rationalize the dispute settlement system*

256. **Making the labor dispute system less costly and speedier 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 tedious procedures to speed up the pace of dispute resolution.** To achieve this, the National Labor Relations Commission (NLRC) would need to continue veering away from strict judicial requirements and procedures that, while necessary in regular court proceedings, should not be applied in quasi-judicial labor courts. This involves reducing the number of steps needed when filing cases, simplifying documentary requirements and presentation of evidence, and making all effort to resolve the case at the arbiter's level or even relegating the case to a non-judicial board such as the National Conciliation and Mediation Board (NCMB). To date, NLRC has begun to streamline the processes and procedures on disposition and execution of cases through a 2011 amendment of the NLRC Rules of Procedures.[293] Moreover, it continues to implement the Speedy and Efficient Delivery of Labor Justice (SpeED) Project. These efforts are laudable and should be strengthened.

257. **Among cases that can be resolved outside the court, priority should be given to promoting alternative forms of dispute settlement.** DOLE has begun to promote alternative avenues for dispute settlements such as the Single Entry Approach (SENA) and the promotion of conciliation and mediation instead of reliance on arbitration. Efforts to arrive at an amicable settlement have resulted in an average of 13,900 settled cases, or 43 percent of the 32,500 cases disposed of every year. Under the SENA, settled cases numbered about 3,700, or 35 percent of the 10,600 cases. These efforts need to be expanded.

258. **Efforts should also be made to reduce the number of potential disputes by educating workers and employers on core labor regulations and due process when terminating**

[293] For details, see Rule V Section 2 "Nature of Proceedings," Section 5 "Prohibited Pleadings and Motions," and Section 8 "Mandatory Conciliation and Mediation Conference," Rule VI Section 10 "Frivolous or Dilatory Appeals," Rule VII Section 10 "Technical Rules not Binding," and Section 11 "Conciliation and Mediation."

employees. Many employers lose their justified cases, even simple and obvious ones, against their employees because of a lack of understanding of the law, especially the rules on due process. As a result, they end up paying far more than what the law requires when terminating employees. This can be avoided if both workers and employers, especially those in micro and small businesses, are properly educated. The government can pursue this by working closely with labor groups and trade associations to ensure that their members are fully knowledgeable of core labor regulations so that non-judicial remedies are maximized. With fewer judicial cases to handle, labor arbiters can concentrate on the more complicated cases and arrive at better decisions, thus reducing the probability that a labor case is appealed all the way to the Supreme Court.

- *Reduce procedural barriers that hinder freedom of association and collective bargaining*

259. **Workers' constitutional right to organize and bargain collectively should not be limited by procedures and conditions but instead be actively promoted.** While procedures and conditions are necessary to safeguard against spurious groups, there is a general sense among legitimate labor groups that the rules governing association formation are stricter than necessary (e.g., long list of requirements and steps, and legalism) and thus raise transaction costs, limit participation, and reduce workers' bargaining power further.[294] Moreover, there is a general sense among unions that management discourages union membership, especially in export processing zones.[295] These fundamental rights to freedom of association and collective bargaining need to be guaranteed and can serve as an important bargaining point for the agreement on jobs (as discussed in Chapter 8). In fact, some unions are open to considering more flexible work arrangements and less reliance on regional minimum wage setting (e.g., minimum wage adjustment every three years, for example, instead of every year) so long as these rights are fully protected and exercised. The government and businesses would need to recognize this fundamental right of workers as a sign of goodwill to help forge the proposed agreement on jobs.

- *Promote alternative forms of organization for informal workers*

260. **For workers in the informal sector, alternative forms of organization can be promoted and government can play an important role by improving and rationalizing its various assistance programs for informal workers.** Many unions have begun to assist in organizing informal workers (e.g., guilds, tricycle drivers). Government support for this would help give the informal sector more voice. Moreover, government can help informal workers by integrating

---

[294] These rules include having a minimum number of members before unions can be registered (i.e., 20 percent of bargaining unit), a multitude of registration and reportorial requirements, and right of other unions and management to challenge the application. In 2007, Republic Act 9481 was passed with the intention of strengthening workers' constitutional right to self-organization.

[295] As a case in point, two export processing zones (EPZ), the Baguio EPZ and the Mactan EPZ, had zero unionization rates in the 1980s (Ofreneo and Hernandez 2011).

the various assistance programs of national agencies and LGUs for informal workers[296] to reduce the transaction and opportunity costs informal workers incur when attending these programs in lieu of working. An example of the needed type of integration is the DOLE Integrated Livelihood Program[297], which provides informal sector workers with business advisory services and opportunities to increase access to credit, markets, and information, in partnership with relevant agencies of the government and private institutions.

Box 9.3 Political economy of labor policy reform in the Philippines

Among the recommended reforms, labor reforms are among the most difficult to implement because they are inherently political. Labor policy reforms often involve redistributing power and surplus between employers and employees.[298] The government, as the third member of the tripartite system, is often charged with the difficult task of balancing employers' need for flexibility and workers' need for protection. The outcome often involves preserving the status quo, as any major change will upset one party and be politically difficult to manage. Politicians who are sympathetic to reforming labor regulations may not actively support it, because of the associated political costs. The political nature of this exercise is often exacerbated by the patronage nature of Philippine politics and the frequency of elections (every three years), which make reforms difficult to implement. Given these, it is not surprising that there has been little progress in reforming labor policy. In recent history, the only comprehensive reform in labor policy was made during the Marcos dictatorship, when various labor regulations were codified into the 1974 Labor Code of the Philippines.

A comprehensive reform of the Labor Code has been called for since the 1980s. However, it has not been the top priority of past Presidents or Congresses. The most extensive effort to overhaul the Labor Code took place from 1997 to 2001. Leading the overall effort, the Congressional Labor Oversight Commission (LabCom) carried out a comprehensive review of labor policies and recommended a number of policy, institutional, and organizational measures to improve the balance between worker protection and business flexibility.[299] However, LabCom's review did not lead to any actual policy reform. This was partly because the final report of LabCom did not receive endorsements from key legislators who represented labor interests, and a political consensus never emerged. Also, the overhaul of the Labor Code was not a legislative priority of the then newly inaugurated President Gloria Macapagal Arroyo.

[296]These include livelihood training, public works, community projects, and business assistance training such as accounting, bookkeeping, marketing, and financial literacy.

[297]Between 2011 and 2012, the DOLE Integrated Livelihood Program (DILP) allocated around PHP 600 million for livelihood assistance to disadvantaged workers. These included, among others, workers in the informal economy, ambulant vendors and peddlers, tricycle or pedicab drivers and operators, small construction workers, home-based workers, farmers, and fisher folk, and other vulnerable workers, such as out-of-school youth, out-of work women, persons with disability, indigenous peoples, parents of child laborers, displaced workers, and older persons.

[298]See Cook (2007) for more discussion.

[299]See Congress of the Philippines (2001) for more discussion

Experience suggests that despite DOLE's commitment to improving the policy environment, it is difficult to get sufficient political traction for labor reform. In 2011, DOLE embarked on a comprehensive review of the Labor Code that intended to update labor policies and make them more responsive to the changing global economic structure. However, the review remains incomplete and no major policy recommendations have been formally tabled for legislation.

A political economy analysis of labor market reforms reveals several important considerations when designing the reform program. First, the political dynamics of labor reform varies by specific policy topic. Among the salient policy topics, there is little argument on, for example, policies to enhance training programs and improve work place conditions. Both union and management will likely agree to these policies and may disagree only on how they will be implemented. Policies on minimum wage setting, on the other hand, will see more debates between unions and employers, but some unions and employers may not give their full attention if they perceive the minimum wage policy to be less binding (e.g., it may be unenforceable) or they have more important issues to fight for (such as collective bargaining and flexible contracts). That minimum wages are allowed to increase almost every year could be explained by the relatively low priority given to it by employers. Policies on subcontracting and outsourcing will be strongly opposed by unions but strongly pushed by employers, for the reasons discussed in Chapter 7. The varying levels of importance and likely political outcome partly explain why most successful amendments to the Labor Code focused on human resource and skills development, migration, and working conditions, which are all relatively easy to enact. Few amendments were made in the area of minimum wage setting and even fewer in the area of industrial relations and employment contracts.

Second, the political dynamics of the reform is not isolated from the country's patronage-based political systems. This is particularly important when labor reform is pursued through legislative action. Here, the challenge is not only to strike a balance between labor flexibility and labor rights, but also to devise a strategy that will allow a technically sound bill to pass in a legislature that is often influenced by vested interests and patronage politics. As the country's experience illustrates, a number of labor bills are filed in Congress every year. However, partly because of collective action problems and incentive issues in Congress, a large majority of bills remain at the committee level and very few get enacted.

Third, there is a debate on whether the policy reform should be selective or comprehensive. One school of thought advocates for a selective approach that focuses on in-depth change in a few priority areas. Another school of thought proposes more comprehensive approaches that advance the reform on many fronts, building on the complementarities of the various reform proposals. Both types of approaches have their strengths and weaknesses. One of the key strengths of a selective approach is that it allows reform advocates to concentrate their energies and resources in a few reform areas that are easier to tackle. This approach likely improves the prospect for successful reform in these areas. One disadvantage is that it does not address the complementarity of reform measures. On the other hand, if designed and implemented properly, a comprehensive approach could bring broad changes in a number of reform areas. However, it faces the risk of being overstretched in terms of resources and political capital.

Finally, there are equally important policy issues around the reform's pace and sequence. Here the choice is between a sequential approach and a big-bang approach. A sequential approach prioritizes key reforms and implements them sequentially over time, while a big-bang approach implements various reforms simultaneously and often quickly. A sequential approach may work best when there are many uncertainties around the prospect for reform. On the other hand, the main argument for a big-bang approach is that it may help build important political momentum in bringing together key supporters who will rally behind the reforms and rapidly push them through. The basic premise is that the speedier the reform, the easier the implementation.

These political economy considerations and the assessment of key labor policies in Chapter 7 suggest that the reform of labor policy is more likely to succeed if it is presented as part of a comprehensive package of reforms that goes beyond labor regulations and with job creation as the primary objective. When the package includes job-enhancing reforms such as opening up the economy to more competition, simplifying business regulations, providing training to unemployed workers, and ensuring universal healthcare, public support for the reform program will likely be higher, making the reform more politically feasible.

Social protection

261. **Understandably, some workers will be affected by the process of "creative destruction," in which 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. Moreover, an effective social safety net system can encourage more risk-taking, thus promoting entrepreneurship and job creation. Some of the following recommendations are already in place but would benefit from further strengthening.

- *Pursue an empirically-informed policy dialogue on minimum wage setting and rationalize the minimum wage setting process accordingly to improve its social protection objective*

262. **An empirically-informed social dialogue on critical issues on minimum wage setting is needed to improve its social protection function without escalating unintended outcomes.** At present, 17 regional boards set minimum wages for their respective regions and approve various exemptions that cover about a third of wage workers, given the large number of micro-enterprises. In addition, several laws, such as the Barangay Micro Business Enterprises Law (Republic Act 9178), also provide exemptions. The situation is exacerbated by weak enforcement, which makes minimum wage policies less potent in protecting the poor. Furthermore, regular increases in minimum wages have led to unintended outcomes, such as

displacement of workers, wage distortion, weakening of collective bargaining, and erosion of incentives for enterprises to adopt productivity or performance-based pay schemes.

263. **Given these issues, there is a need to revisit the policy on setting minimum wages.** As part of the social dialogue, a first step should be to review the guidelines in fixing minimum wages and to consider available empirical evidence, both within and outside the Philippines. Three issues could be discussed in the social dialogue: i) whether to adopt a simplified minimum wage system (e.g., one or fewer minimum wage rates rather than the current 200-plus wage rates across the country) that will be enforced strictly and without exemptions, ii) at what level minimum wages should be set for them to be more effective in protecting the poor, and iii) how the minimum wage should 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:

264. **One option would be to simplify the minimum wage regime by limiting the number of rates to at most two per region (i.e., agriculture and non-agriculture), reduce the rate to align it better with the minimum living threshold, and remove all exemptions.** This option would expand the coverage of the minimum wage, especially to informal sector workers. With complementary reforms to promote collective bargaining, the minimum wage rate could be adjusted less frequently, say, every three years, instead of every year.

265. **Another option would be to retain the simplified wage regime as in the first option, while allowing for some exemptions if the minimum wage levels cannot be reduced.** Exemptions can be given to apprentices in an expanded apprenticeship program[300] and to micro-enterprises with fewer than 10 employees. To reduce transaction costs, micro-enterprises could be automatically exempted without the need to apply for exemptions. Making exemptions timebound would help increase coverage over the medium term. As in the first option, minumum wage adjustment can be done less frequently.

- *Make public works a regular social protection program*

266. **To enhance income protection of 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. Properly designed programs have the following characteristics: i) program wage is set below the relevant local market wage to ensure self-targeting of the poor, ii) timeframe is limited and exit strategies exist for participants, iii) infrastructure projects are chosen for their benefits to communities and located in areas where unemployment is most likely to arise or has arisen because of a shock, and iv) projects are carried out with a strong labor-intensive bias to fulfill their role of providing employment relief. In the Philippines, public works programs can use the National Household Targeting System for Poverty Reduction (NHTS-PR) as a means of selecting beneficiaries. Furthermore, public works

[300] Executive Order 111 of 1986 limited the apprenticeship period to six months and the coverage to employers in highly technical industries only.

can be managed at the community level more effectively by closely collaborating with community-driven development and Bottom-Up Budgeting projects. Stricter implementation of Republic Act 6685 is also warranted.[301]

267. **In conflict areas, such as in Mindanao, public works play an important role as a direct provider of jobs in the early stages of a post-conflict situation.** Moreover, public works that target rural areas and build or rehabilitate community infrastructure can increase the productivity of agriculture and the rural non-farm economy, thereby creating even more rural jobs.

- *Endeavor toward universal social insurance and healthcare coverage of workers in both the formal and informal sectors*

268. **Among wage and salaried workers, the government needs 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 SSS and Philhealth premium contributions to reduce compliance cost. SSS and PhilHealth can also tap financial intermediaries to collect premium contributions, or use internet or mobile systems. To improve compliance among households, a simple facility (e.g., online or mobile applications) that allows private household employers and family-operated businesses to register as employers can be explored so that they can easily co-share the premium contributions of their workers (e.g., SSS contributions for domestic helpers and family drivers as mandated by the 2013 Kasambahay Law).

269. **Among self-employed and other informal workers, there is a need to lower the financial and administrative burden when availing of social protection schemes, with the end goal of achieving universal healthcare and social insurance coverage.** The low level of income among informal sector workers and its high variability are key reasons for the low enrollment in formal social protection schemes such as SSS and PhilHealth. Moreover, the absence of an employer to co-share the premium, the limited accessibility of payment centers, and reduction of benefits if payments are discontinued, provide disincentives for these workers to enroll and increase their vulnerability because they cannot avail of benefits such as calamity and educational loans.[302] Easing some of these requirements, such as reducing the minimum contribution, allowing intermittent contributions without compromising access to benefits, facilitating collection through informal sector organizations, and providing more premium

---

[301] DOLE has facilitated the formulation of a memorandum of agreement with the National Anti-Poverty Commission Workers in the Informal Sector Council (NAPC-WISC) and DPWH for the strict implementation of Republic Act 6685, which requires private contractors that are awarded national, provincial, city, and municipal public works contracts to hire at least 50 percent of the unskilled and at least 30 percent of the skilled labor requirements from residents of the respective areas where the projects are to be undertaken.

[302] Between 2002 and 2012, DOLE facilitated the membership of 518,129 informal sector workers. Since then, most of these workers have not sustained payment of premium, mainly because they cannot afford to do so or because SSS has not approved the lowest premium chosen by the sector. Moreover, accessibility of payment centers has become a problem to workers residing in far-flung places.

subsidies for indigent and informal sector members, can improve enrollment rates and reduce vulnerabilities. As subsidies may increase the fiscal burden, the fiscal cost of such a program would need to be estimated and managed.

270. **Efforts to improve social security coverage, such as the Self-Employed and Voluntary Programs of SSS, are in place but could be expanded to reach out to more poor workers.** For low-income households, coverage can be expanded and targeting improved by using the NHTS-PR. PhilHealth currently uses the NHTS-PR to select beneficiaries for its indigent program, in which the government assumes the employers' contribution. SSS could consider using the NHTS-PR to ensure wider social security coverage of poor workers.

- *Improve ex ante risk mitigation for workers*

271. **Policies that reduce vulnerabilities and exposure to risks *ex ante* need to be pursued actively, as *ex-post* social protection schemes may not be as cost-effective.** These *ex ante* schemes include i) improving the delivery of social services to support household investment in education and health, ii) promoting sanitation and access to clean water supply, and iii) enforcing occupational health and safety standards in all establishments, particularly in sectors that have higher risk of accidents, such as construction and transportation.

272. **Enhancing training programs can also improve ex ante risk mitigation.** Improving the Technical Vocational Education and Training (TVET) System and job-matching programs (e.g., the Philippine Qualification Framework[303]) can also mitigate ex-ante risk for workers and address unemployment. TVET is a critical vehicle to address labor mobility and equip workers with appropriate skills that are desired in growing sectors, such as the BPO industry (see Box 9.4 for a discussion on skills and job matching in the BPO industry). Job-related social protection programs, such as scholarships[304] for TVET programs, can be better targeted to the poorer and 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.[305]

---

[303] The Philippine Qualification Framework was created under Executive Order 83 (Series of 2012) in October 2012. It is one of the convergent programs of the Department of Education, Technical Education and Skills Development Authority, Commission on Higher Education, Professional Regulation Commission, and DOLE to address jobs-skills mismatch. It describes the levels of educational qualifications and sets standards for qualifications that are aligned with international qualifications framework.

[304] TESDA's scholarship program, the Private Education Students Financial Assistance (PESFA), aims to improve access of poor but deserving students to quality technical vocational education and training.

[305] In 2013, there are 1,835 PESOs all over the country. 1,591 are operated by LGUs and 244 are operated by state colleges and universities and nongovernmental organizations.

Box 9.4 Improving skills and job matching in the BPO industry

The fast-growing BPO industry has become the single-largest employer in the domestic economy. From virtually zero employees before 2000, the industry today has almost 800,000 full-time employees. In the last five years, the industry grew by an average of 28 percent per year revenue-wise. In 2011, the industry generated USD 11 billion in revenues (equivalent to five percent of GDP) and increased its share of global BPO revenues to eight percent from five percent in 2006. About half of medium and large BPO companies expected to grow by at least 15 percent in 2012.

While the industry remains bullish, a shortage of skilled labor supply threatens to dampen its growth prospects. The industry is targeting to generate USD 25 billion in revenues and employ 1.3 million workers by 2016. However, with 95 out of 100 applicants turned down for lack of skills, the gap between labor demand and supply in the industry is widening.

Results from the Global Competitiveness Assessment Tool (GCAT), an industry-benchmarked assessment system used by BPO companies, show that the average scores in majority of schools are below the industry benchmark range. In particular, schools score below the benchmark range in the following areas: learning ability, English language proficiency, perceptual speed and accuracy, and in behavioral components of the assessment. On basic skills, 60 percent of test takers score below the 30th percentile. On behavioral skills, 70 percent of test takers score below the 30th percentile.

To improve skills for the industry, the Business Processing Association of the Philippines (BPAP) has been working directly with selected schools to enhance their curriculum on information technology (IT), English proficiency, and behavioural skills needed by the industry. Moreover, BPAP is offering some students full-time internship in BPAP-member companies to improve job and skills matching for the industry.

Source: Business Processing Association of the Philippines (2012).

- *Evaluate the impact of active labor market programs to further strengthen interventions that are effective and cut down interventions that are ineffective*

273. **The impact of active labor market programs (ALMPs) needs to be thoroughly evaluated to further strengthen interventions that are effective and cut down those that are ineffective.** Given the scarcity of public resources, it is essential that a rigorous stocktaking exercise be undertaken to examine the efficacy of various active labor market programs. For a start, two programs need to be evaluated for their efficacy: the Public Employment Service Office (PESO) and Phil-JobNet.[306] These programs have not gained wide recognition among

[306] This refers to the Philippine Government's Job Matching and Labor Market Information Portal.

jobseekers, implying the low quality of services or limited job options that they provide. DOLE has begun to address this issue by working with CHED and various industry associations to promote use of PESO and Phil-JobNet.[307] To improve their services further, the country's public employment-facilitation services can learn from good international practices, such as: i) expanding coverage to include workers without internet access, informal sector workers, and workers of different types of occupations, ii) providing supplementary services apart from advertising vacancies such as managing vacancies, screening candidates, and providing information on subsidies for employers, and iii) reducing administrative procedures.

- *Consider creating unemployment savings schemes as alternative to separation pay*

274. **To enhance income protection and to encourage the unemployment risk prevention mechanism, the government could explore that possibility of creating unemployment savings schemes to cover more workers.** While all unemployment savings schemes have both advantages and disadvantages,[308] there is potential for designing an optimal scheme that can protect workers better than the currently mandated severance benefits, which are not enforced for most workers. An unemployment savings scheme could come in the form of either an unemployment insurance savings account or a comprehensive savings account covering other areas such as education, health, and housing. Compared with unemployment insurance schemes, savings schemes are easier to administer, more efficient, and do not add undue pressure on public finances because payments are taken directly from employee and employer contributions and not from public revenues.

- *Improve programs to facilitate transition of returning migrants*

275. **For returning migrants, programs to faciliate their smooth transition into the local labor market are needed.** Many returning migrants bring with them new skills, new ideas, and entrpreneurial skills. The goverment can maximize the benefits of these "assets" by creating programs that would put them into more productive use. Such programs would support the Philippine Development Plan's effort to "maximize the brain gain derived by overseas Filipinos from foreign deployment." An example is the "Balik Scientist Program" that was established in the 1970s by the Department of Science and Technology to attract expatriate Filipino scientists to share their expertise. Such a program can be expanded to include other returning migrants, in particular those with skills that are needed in the domestic market (e.g., doctors, nurses, and engineers). Another example is the PHP 2 billion OFW Reintegration Fund that provides loans of up to PHP 300,000 to qualified OFWs who intend to start a business. The program was

[307] As of this writing, DOLE continues to improve the role of the PESO and Phil-JobNet. To maximize the use of Phil-JobNet, DOLE is encouraging all new college graduates to register on the website. Moreover, DOLE has tapped the assistance of CHED in issuing guidelines to all university placement offices. DOLE plans to promote partnerships between placement offices and the PESOs in conducting campus job fairs and career sessions and promoting Phil-JobNet in universities. Industry associations as well as government entities are being tapped to encourage their members and offices to post active job vacancies in Phil-JobNet. According to DOLE, daily job postings average around 100,000.
[308] See Esguerra, et al. (2002) for more discussion.

established in 2011 and is managed by the National Reintegration Center for OFWs (NRCO). Since 2011, the program has lent some 620 enterprises a total of PHP 422 million and created 2,800 jobs.[309] Expanding the programs of NRCO would allow the country to benefit more from migrant “assets” on top of providing a smooth transition for returning migrants.

276. **Foreign pension and health plans could be made applicable in the Philippines for returning migrants.** To encourage their return, migrants who contribute to foreign pension and benefit plans should be allowed to avail of the benefits when they return to the Philippines. For this to happen, the Philippine government would need to pursue bilateral negotiations with foreign governments to make foreign pension and benefit plans, such the US Medicare scheme, portable. The quality of local healthcare should also be enhanced to improve parity of services. Current efforts to increase participation of OFWs in SSS, PhilHealth, and Pag-IBIG are laudable and should be expanded.[310]

5. Investments

- *Invest more in education, health, and infrastructure*[311]

277. **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, which are necessary conditions for good job creation.** A high case scenario calls for spending an additional 2.5 percent of GDP on infrastructure and an additional five percent of GDP on 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.

278. **A prerequisite for increasing investment in infrastructure is improving the entire spectrum of investment management from planning, financing, procurement, execution, and maintenance.** Foremost, public investment in infrastructure needs to be governed by coherent sector investment planning and implementation. Second, emphasis is needed on the quality of

[309] Other programs include the joint Livelihood Development Program of the Overseas Workers Welfare Administration (OWWA) and National Livelihood Development Corporation (NLDC), which lends up to PHP 1 million for group borrowers intending to start a business, and the DOLE-NRCO-OWWA “Balik Pinas, Balik Hanapbuhay,” which gives distressed OFWs PHP 7,500 or livelihood assistance.

[310] At present, the SSS Flexi-fund is a voluntary provident fund for OFWs, an additional service provided by SSS on top of the regular OFW membership. It gives OFWs the opportunity to set aside a part of their earnings abroad for investment and to maximize the returns on their Flexi-fund contributions. It is offered as a supplement to SSS benefits to which regular OFW members are entitled by promoting savings generation and thus serving as an additional layer of social security protection. SSS and Pag-IBIG Fund have also deployed a number of their overseas officers to promote their respective schemes among OFWs to facilitate enhancement of their respective programs, in particular moving toward universal social insurance and health coverage as well as housing benefits for all workers.

[311] This section draws partly from World Bank (2011c).

project preparation that meets well-defined development objectives and economic criteria and on timely implementation facilitated by transparent and expeditious procurement and budgetary procedures. Current government reforms such as the Transformation Program of the DPWH, which puts emphasis on the "right project, right cost, right quality, and right on time," are laudable and should be institutionalized.[312] For PPP projects, the framework for private participation in infrastructure can be enhanced by further clarifying regulations for soliciting and evaluating PPP proposals, and restricting project bidding to qualified companies. In addition, tariff regimes also need to be aligned more closely to cost recovery. Past practices that set tariff levels in railway below cost recovery need to be avoided. Continuous capacity-building of key agencies on project preparation and risk management related to PPP is also important, both on the implementing agency side and the regulatory agency side.

279. **In infrastructure, investment needs to focus on key areas with strong employment and poverty impacts.** These "inclusive infrastructure" include fast-tracking pipeline and ongoing projects in power (see "Support to manufacturing" section), ports, the arterial road and expressway system, the urban commuter system, mass housing, and agricultural and rural infrastructure as discussed earlier. Investments need to be coordinated and sequenced well so that gaps in connectivity can be fully addressed (i.e., investments in ports needs to have corresponding investments in farm-to-market roads so farmers can benefit from the port system, and new airports serving tourist destinations need to have roads leading to it). A combination of PPP and budgetary funds (especially in light of government pronouncement to double infrastructure spending in the next three years) could be used to finance these investments.

- **Ports** — The Philippines, being an archipelago, has significant potential in improving its water transport system. Existing ports need to be modernized. In the last decade, the water transport system has improved with the introduction of the roll-on roll-off (RORO) system[313] that bypasses some problems of the cargo system. However, there is still much room for improvement, given inefficiencies and underinvestment in the port system. Privatizing port operations and reducing barriers to competition are some ways to increase the level of investment and improve the efficiency of the port system. In addition, rebalancing ports cargo traffic between various ports (e.g., Manila, Subic, and Batangas) is also needed to improve logistics and decongest Metro Manila.

- **Arterial roads and expressways** — Highway gaps can be filled by fast-tracking pipeline and ongoing projects such as the NLEX-SLEX connector, Daang Hari Road, Ninoy Aquino International Airport (NAIA) Expressway, Tarlac-La Union Expressway, and Cavite-Laguna Expressway. In addition, the arterial road network, in particular the MacArthur Highway and the Maharlika Highway, urgently needs to be expanded and adequately maintained to improve traffic flow.

[312] See Department of Public Works and Highways (2010) for more details.
[313] The RORO system allows container trucks to bypass the cargo handling system by driving directly into a RORO ship, saving on time and cargo handling cost.

- **Urban commuter system** — Urban congestion, and hence time and productivity losses, can be minimized by i) rationalizing the public transport system, including a) reforming the incentive system for public transport operators,[314] b) rationalizing the number of buses to meet actual demand, and c) implementing a bus rapid transit system along the main roads of major cities, ii) increasing the numbers of trains and integrating the ticketing system of the Light Rail Transit (LRT) system to reduce waiting time, and iii) fast-tracking pipeline and ongoing projects to build additional train lines to decongest the Metro Manila and connect it with the fast-growing suburban areas in Calabarzon, particularly the Santa Rosa-Calamba-Silang corridor, and with Central Luzon where many workers live. These include extending the current lines (e.g., LRT 1, LRT 2, and MRT 3), building new lines along major city routes (e.g., along Espana-Quezon Avenue-Commonwealth-Quirino, along C5 Road, and along Ortigas Avenue), and having a high-frequency sub-urban commuter rail to Bulacan, Pampanga, Cavite, and Laguna Provinces using the exiting Philippine National Railway (PNR) lines. In all these, a concerted effort by relevant agencies such as DOTC, DPWH, PNR, Light Rail Transit Authority, Land Transportation Office, Land Transportation Franchising and Regulatory Board, and Metropolitan Manila Development Authority, is needed to improve urban commuter planning, implementation, and coordination.

- **Mass housing** — An aggressive public mass housing program built on more realistic and accessible financing mechanisms, including provision of government subsidies, is needed to close the huge backlogs in mass housing and new housing needs, estimated at almost six million units by 2016.[315] Aside from being directly beneficial to the poor, mass housing has high and widely dispersed multiplier effects. An aggressive program would result in a surge in construction activities, and create a significant number of jobs in the construction sector, which would benefit many poor and low income households.

280. **On basic education, priority should 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 higher budgetary allocation to the Department of Education (DepEd) and by improving agency absorptive capacity. This requires addressing constraints to timely disbursement of budget allocation (e.g., delays in procurement and delivery of materials, and lags in teacher hiring). Ensuring the availability of teaching inputs would help improve access to education. The quality of education can be improved by enhancing curriculum and teaching methodology (e.g., use of the vernacular in primary education) and improving the procurement of teaching inputs, including 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

[314] Until 2012, bus drivers were paid on a commission basis. This practice led to perverse behavior, such as over-speeding and making illegal stops to maximize passenger load. The results were massive traffic congestion and frequent accidents in the main thoroughfares. The government has sought to correct this perverse incentive by requiring bus companies to pay their driver fixed wages.

[315] Adopted from Habito (2013).

implementation of the K to 12 Program, which increases the number of years of basic education from the current 10 to 12 years plus kindergarten. This reform would help bring Philippine education closer to international standards, enable high school graduates to qualify for skilled employment even without college degrees,[316] increase employability of Filipinos in skilled overseas jobs,[317]and take advantage of the mutual recognition agreements for professionals among Asia Pacific Economic Cooperation (APEC) countries.

281. **In health, the following policy options would improve the delivery of healthcare.** First, there is a need to increase priority health interventions to meet public health and poverty alleviation goals. This includes increasing capital investments in LGUs using performance-based approaches. Second, there is a need to expand the coverage and improve the fiscal and institutional sustainability of the public health insurance system. At present, the government is moving toward universal healthcare coverage, beginning with the poor, to be followed by the informal sector workers, using the NHTS-PR to target beneficiaries. This reform is a very good start and should be sustained. Continuous improvement in the coverage and quality of healthcare would help reduce total out-of-pocket costs (i.e., costs that private individuals pay on top of health insurance or public resources), which account for around 55 percent of total health spending. More importantly, the reform would 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.

6. Public finance

282. **To finance more and better spending in infrastructure, education, and health, complementary reforms are needed in the following areas: tax policy and administration, public finance management (PFM), and official statistics.** Higher investment in physical and human capital requires policies to increase tax revenues efficiently and equitably and further strengthen PFM. To strengthen evidence-based policymaking, official statistics need to be enhanced.

283. **The Philippines has significant opportunities to improve revenue generation to support its inclusive growth agenda.** Tax effort has been improving but remains well below that of the country's peers, including middle-income countries that have achieved investment grade status. Indicative analysis shown in Table 9.1 suggests that the Philippines could improve tax effort to close to 20 percent of GDP from the present level of just under 13 percent of GDP through a range of policy and administration measures over the medium term. The current strong government leadership, the large gains in tax effort in 2012 largely on account of improved tax administration, and the country's past experience in successful tax administration

[316] Many multinational corporations, Japanese companies in particular, require at least 12 years of basic education. With the previous 10 years of basic education, many Filipino semi-skilled workers do not qualify.

[317] Likewise, many overseas jobs require at least 12 years of basic education plus tertiary education otherwise applicants need to take accreditation exams. For example, Filipino nurses applying in Japan need to take two years of training as opposed to only one year for Indonesian nurses.

reform suggest that attaining such an increase in tax effort is possible. The Secretary of Finance has publicly stated his desire to see revenue effort at over 16 percent of GDP by the end of the Aquino Administration, and has put the spotlight on key sources of revenues to achieve this objective. The mix of administration and policy efforts to achieve this goal would be motivated by a number of considerations: what enhancements are doable in terms of both bureaucratic implementation capability and options for legislative reform on the policy side, and which reforms promise to have the biggest payoffs in terms of investment and job creation, especially when considering both tax expenditure[318] and spending channels.

- *Tax policy*

284. **Effective prioritizing and sequencing of revenue mobilization efforts will be critical in the second half of the Aquino Administration. While current improvements in tax administration can deliver significant revenue gains, policy reforms are also needed.** After its passage in December 2012, the "Sin Tax Law" would need to be enforced effectively, with special focus on controlling smuggling of tobacco and alcohol products. Next, rationalizing tax incentives is critical 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.[319] Mining tax reform is also needed. In addition, indexing petroleum excise taxes (frozen since 1996) is also needed to boost revenues and improve the overall progressivity of the tax system, as the top 10 percent of the population consumes 90 percent of total petroleum.[320] Tax revenues could also be increased by having fewer VAT exemptions and levying a national surtax on real properties to improve the equity of the tax system. The latter should include provisions to remove policy constraints that hamper the regular updating of the schedule of market values to reflect market prices and to de-politicize the process.[321] The impact of higher property tax can be partially offset by lowering the rate of the capital gains tax and transfer tax, and abolishing the estate tax, which is very hard to collect in practice. These tax policy measures can increase the tax effort by up to percent of GDP. The political support for these reforms will, in part, depend on the public's perception of an improving tax administration and quality of public spending.

- *Tax administration*

285. **On tax administration, measures to improve tax compliance and reduce revenue corruption could include the following:**

---

[318] Tax expenditures are forgone revenues because government offers particular exemptions to citizens or firms.

[319] Most domestic firms would have invested even without tax incentives because the market is big and hence profitable.

[320] Social protection is needed for disadvantaged groups, should this reform be implemented. This could come in the form of limited and time-bound subsidies and discounts to public utility vehicles.

[321] To maximize impact, this reform could be accompanied by computerization of property tax systems, incorporation of updated schedule of market values into the Seal of Good Housekeeping ranking of LGUs, and elimination of LGUs' illegal grant of fiscal incentives on property taxes (this could be included as a provision in the fiscal incentives bill).

- Reengineering and simplifying procedures and processes required of micro and small enterprises, followed by fully automating 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 to mandate 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 Bureau of Customs (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 NLRC[322]) to send a strong signal to the public that the revenue agencies are committed to good governance.
- Enhancing internal and external audits (i.e., by the Commission on Audit [COA]) 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.[323]
- Institutionalizing the recording and public reporting of key performance indicators to allow the public to track the performance of the BIR and BOC.
- Strengthening efforts in BOC to curb smuggling by inspecting all outward movements of goods from special economic zones.

These reforms can significantly reduce the current tax gap (the difference between potential and actual collection), which amounts to about four percent of GDP.

286. **Over the medium term, a comprehensive tax reform program is needed to simplify and improve the efficiency and equity of the tax system, and move toward a more broad-based and low-rate tax regime.** Weaknesses in the tax system are currently resulting in major tax leakages. For example, the Philippines is one of the few countries that allows tax expenditure to take place outside the Tax Code. This needs to be corrected by consolidating the various incentives laws into the Tax Code. Moreover, a simplified tax regime for micro and small firms is warranted to reduce the cost of doing business and spur job creation.

287. **All together, the abovementioned reforms could increase revenues by up to eight percentage points of GDP in the next decade** (Table 9.1 gives the breakdown). The government's medium-term target of an additional three percent of GDP by 2016 is on the right track. While gains from a comprehensive tax reform program would not be realized overnight in the Philippines, the government can make significant progress toward realizing at least half of the needed improvement in tax effort. The country's experience between 1985 and 1997,

---

[322] 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) and NLRC (http://nlrc.dole.gov.ph/?q=node/91).

[323] Executive Order 38 (Series of 1998), which still exists, authorizes COA to audit the BIR's compliance with its own audit rules. This law needs to be enforced.

which saw tax effort grow by 5.7 percent of GDP on account of strong tax administration and policy reforms,[324] clearly shows that a large increase in tax revenues is possible with strong political commitment and public support for the reform (Box 9.5 discusses the Comprehensive Tax Reform Program of 1986 and related administrative reforms). This large incremental revenue would enable the government to significantly increase investments in human and physical capital to improve competitiveness, create more and better jobs, and allow more people to benefit from higher and sustained growth.

Table 9.1 Potential revenue sources

Revenue options	Percent of GDP
Total	**8.0**
Tax policy	**4.0**
Alcohol and tobacco excise taxes (enhanced version)	0.6
Petroleum excise taxes	1.0
Fiscal incentives rationalization	1.0
Removal of exemptions in VAT	0.5
National levy of the property tax	0.5
Other reforms (e.g., mining tax)	0.4
Tax administration (plugging leakages in the following taxes)	**4.0**
Corporate income tax	0.6
Value added tax	1.4
Personal income tax	2.0

Sources: World Bank (2011c), World Bank (2013 forthcoming), and updated World Bank staff estimates.

- *Public financial management (PFM)*

288. **Successful PFM reforms would allow the public to see more tangible improvements in governance and convince them that their taxes are being spent wisely.** The following reforms, some of which have already started, need to be institutionalized: i) strengthening the evaluation of key government programs, giving priority to government flagship programs (e.g., CCT), ii) enhancing transparency and accountability of the budget process by making budget data and reports more accessible to the public (e.g., public posting on agency websites), and iii) rolling out the Government Integrated Financial Management Information System (GIFMIS).

289. **Line agencies' budget absorptive capacities can be improved** by ensuring timely and consistent passage of the national budget, ii) timely release of budget allocations to line agencies, iii) more effective preparation of spending programs and projects, and iv) further

[324] Tax effort could have increased further after 1997 if not for the 1997 tax reform that eroded revenues amounting to some four percent of GDP, mostly because of non-indexation of excise taxes and the grant of several fiscal incentives.

improving the procurement process (Box 9.6 discusses recent developments in procurement reform).

290. **Finally, the demand side for better PFM can be strengthened by promoting Open Data and Open Government and accelerating participatory budgeting, such as Bottom-Up Budgeting and community-driven development projects.** These crucial reforms would help make a better case for tax policy reforms. Successful implementation of these reforms would allow the government to increase public investment and pro-poor spending to create an environment conducive to attracting more investments and job creation.

- *Improving statistics by prioritizing household and business surveys*[325]

291. **A corollary to PFM reform is strengthening official statistics to improve evidence-based policymaking and budget preparation.** Accurate, timely, and useful statistics are important for achieving the development targets in the PDP, supporting the social protection programs of the government, and improving governance.

292. **In the immediate term, given a budget constraint, priority can be given to improving household statistics if the country is to resolve its poverty and jobs problems faster.** The current set of household surveys can be re-engineered into a more harmonized set to provide timelier and more useful poverty and employment data. This calls for the following key steps to improve the timeliness, usefulness, and accuracy of household statistics: i) develop a master sample that is representative at the provincial level, which would be updated regularly to take into account domestic migration, to maintain representativeness of the sample over time, ii) re-engineer the Family Income and Expenditure Survey (FIES) to provide annual estimates of poverty at the national level and triennial estimates of poverty at the provincial level (henceforth called the "Enhanced FIES"), iii) integrate the Annual Poverty Indicators Survey (APIS) into the Enhanced FIES, iv) use rolling enumeration spread over 12 months[326] when conducting the Labor Force Survey (LFS) and Enhanced FIES (as well as other rider surveys) so that poverty and employment data are available "just in time," and v) use electronic data capture and validation for the LFS and other small surveys to reduce processing time. By re-engineering the FIES and providing adequate resources, timeliness in the release of poverty estimates can be improved from the current 9 to 12 months after the reference month to no more than six months (or as low as three months if partial results from the rolling enumeration technique are used). This should put the Philippines at par with countries such as Vietnam and Cambodia in terms of the timely release of poverty statistics.

293. **Over the medium term, priority is needed to ensuring that the new Philippine Statistics Authority (PSA) has enough resources to meet the growing demand for quality**

[325] This draws from World Bank (2011b).
[326] This requires shifting from the current practice of collecting data from around 60,000 households in January and July in the case of the LFS to collecting data for the 60,000 households spread over 12 months (i.e., 5,000 households per month) so that seasonality can be reduced and just-in-time statistics can be provided at any time of the year (i.e., any two months of survey can constitute a nationally representative sample).

statistics. Foremost, the Philippine Statistical Development Program needs to be updated to show clear priorities. This can be followed by formulating a sector medium-term expenditure framework to give policymakers 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. With more resources, the PSA can then sustainably improve the quality of economic statistics (e.g., national income accounts and business surveys), household statistics, and key administrative statistics (e.g., education, health, and civil registration).

Box 9.5 Comprehensive Tax Reform Program of 1986 and related administrative reforms[327]

The Comprehensive Tax Reform Program (CTRP) of 1986 and related tax administrative reforms during the Administration of Corazon Aquino and continued during the Ramos Administration, were crucial reforms that were largely responsible for restoring macroeconomic stability after the 1983-85 debt crisis.

In 1986, after the fall of the Marcos dictatorship, the newly inaugurated Aquino Administration launched a comprehensive tax reform program to fix its fiscal house. The reform was necessary given the fall in tax effort from 11.5 percent of GDP in 1979 to 9.7 percent of GDP in 1986 and the increase in the consolidated public sector deficit to above 4.5 percent of GDP.[328] More importantly, the debt crisis had shut out the Philippines from the international credit market and left the new government with no recourse but to embark on a full reform of its tax system to gain legitimacy and access to concessional finance.

The reform covered a large area of the tax system. Among the salient features of the reform were i) the shift from the dual tax schedule system (one for compensation earners and another for businesses and professionals) to a unified schedule for personal income taxation, ii) the introduction of ceilings on allowable deductions (which unfortunately was not immediately implemented due to strong lobby from various professional groups), iii) a shift from the dual rate system of 25 and 35 percent applicable to corporations to a single rate of 35 percent, and iv) the introduction of the value-added tax (VAT).[329] These sweeping tax policy reforms were enacted through executive orders thanks to the fact that during this "revolutionary" period, Congress had not been reconstituted and the President enjoyed the power to issue executive orders with full force of legislation.

Several administrative reforms followed to enable the Bureau of Internal Revenue (BIR) to implement the new policies and to prepare it for eventual modernization. In 1987, the

[328] The ratios to GDP in this box use the revised and rebased (2000 base year) GDP series.

[329] The VAT replaced the previous sales tax system where differentiated rates were imposed on the original sale of goods and a turnover tax of 1.5 percent was imposed on subsequent sales. All in all, the VAT replaced 66 various types of sales taxes. The Philippines adopted a VAT based on the consumption and destination principle with three effective rates: 10 percent, exempt, and zero-rated (primarily for exporters).

Department of Finance and its attached agencies, including the BIR, were reorganized under Executive Order 127. The restructuring aimed to make the BIR organization more responsive to the new tax system, improve taxpayer service, and increase its efficiency. Tax collection was enhanced via a credible one-time amnesty covering the years 1981-85 (when compliance was the weakest), which resulted in PHP 1 billion (0.15 percent of GDP) in additional tax collection in 1986, and improvements in arrears management, which raised an additional PHP 4.2 billion (0.56 percent of GDP) in 1987. Less perception of corruption (relative to the martial law years) helped increase tax compliance and trust in the government. In the succeeding years, the bureau rationalized its audit process, significantly expanded the withholding tax system, and moved toward in-house computerization. Resistance was limited, as the reforms did not directly curtail the discretion and power of tax officials. Tax officials were also incentivized by higher salaries.[330]

The revenue impact of this package of reforms was significant. These reforms, together with the improving economic environment and higher growth in the mid-1990s owing to structural reforms under the Ramos administration, resulted in an unprecedented growth in internal revenue tax effort from 6.9 percent of GDP in 1986 to 8.9 percent of GDP in 1992 and a historic high of 11.7 percent of GDP in 1997. And despite falling revenues from the Bureau of Customs because trade was liberalized, the total tax effort reached 15.3 percent of GDP in 1997 — the highest in history. This feat was accomplished through the concerted effort to improve both tax policy and tax administration in a coherent manner.

General tax compliance also improved. The number of tax filers doubled between 1986 and 1992 and continued to increase between 1992 and 1997 with the implementation of the new tax identification number (TIN). Public perception of corruption also improved, although there is little evidence to show that the severity of corruption declined, given a lack of efforts by the government to reduce corruption in the bureaucracy during this period.

Good management of the reform also contributed to its success. President Corazon Aquino fully supported the reform, and a well-coordinated and competent economic team crafted the policies expeditiously. The appointment of competent outsiders to head the BIR and continuity of leadership at the top two tiers, were also a contributing factor.

Selected references: Chua (2011) and Diokno (2005)

[330] To incentivize the BIR to collect during 1984-85 recession, President Marcos granted all BIR personnel a package of benefits and incentives and created a career system in the BIR (EO 1042). In particular, the BIR salary scale was upgraded to levels comparable to government financial institutions (this largely removed the inequity in the salary scale relative to other DOF agencies), resulting in an almost doubling of salaries. This salary advantage was removed with the passage of the Salary Standardization Law in 1988.

Box 9.6 Procurement modernization strategy: an update

Since the enactment in 2003 of the Government Procurement Reform Act (GPRA), significant improvements have been recorded in the public procurement system, and the current administration is leveraging procurement policy strategically to support the quality of public expenditures and service delivery, while also enhancing transparency and accountability. This progress is discussed in the 2012 Country Procurement Assessment Report (CPAR)[331], which includes an action plan to continue moving the reform agenda forward. Implementation of this action plan is closely monitored and supported by the Philippine Development Forum's working group on procurement, a multi-stakeholder group chaired by the Government Procurement Policy Board (GPPB) and co-chaired by the World Bank. Other members include the heads of key national government agencies, civil society organizations (CSOs), private sector, and other development partners. The Bank has been working closely with the government for the past several years, providing advisory and knowledge services as well as financial support to all key reform actions.

Results to date include a sound regulatory framework and enhanced management capacity, including a compliance and performance measurement framework for the procuring entities, and a roadmap for the professionalization of the procurement function. Performance indicators in the last two years are positive in terms of the use of open bidding by the agencies, coordination with the budget process, bidders' participation, and overall efficiency. In the area of transparency, CSOs were invited as observers in 93 percent of bidding events, although they chose to participate in only 35 percent of such events.

A modern, fully transactional government e-procurement system (called the Philippine Government Electronic Procurement System or PhilGEPS) is being implemented, with five components already operational. These are the e-bulletin board, e-catalogue of prices, subscribers' registry, virtual store, and e-payment. The last component, which facilitates the electronic submission of bids, is currently being tested in two pilot agencies. Ninety-three percent of all procuring entities use PhilGEPS, a 22-percent increase since 2008, with 94 percent of procurement opportunities being advertised. Registered prospective bidders numbered around 58,000, up 74 percent from 33,000 in 2008. PhilGEPS has made major contributions in improving the efficiency and transparency of the procurement system, resulting in major savings in terms of lower bid prices and reduced administrative costs.

The Philippine Government has been engaging effectively with CSOs for several years and is currently looking at new ways to help further strengthen their monitoring and advocacy role. Innovations are being introduced to facilitate this role, such as the use of modern technology in contract supervision. For example, geo-tagging allows citizens to provide quick feedback using emails, SMS, Facebook, or Twitter accounts. In addition, procurement audit by both internal

[331] See Government of the Philippines, Asian Development Bank, Japan International Cooperation Agency, and World Bank (2012) for more discussion.

and external auditors has been improved, and procurement is included as one of the areas of focus of the Integrity Development Programs, a joint undertaking of the Discipline Office of the Office of the President and the Corruption Prevention Unit of the Office of the Ombudsman.

The World Bank continues to support the implementation of the government's procurement reform program to help build trust in the government through strong and accountable stewardship of public resources. It will also increase the use of the country system in a variety of ways including, for example, relying more on oversight agencies for procurement supervision, increasing the threshold for national competitive bidding (NCB) using the agreed harmonized documents, and relying on PhilGEPS, including its "virtual store" (equivalent to a framework contract[332]) in lieu of shopping and NCB. Thresholds for NCB have been raised to USD 15 million for works (from USD 3 million) and USD 3 million for goods (from USD 1 million) with no prior review, except for the first contract in each project. The threshold for shortlists consisting only of national consulting firms was also raised to USD 500,000 from USD 200,000.

Prepared by Enzo de Laurentiis and Cecilia Vales of the World Bank Philippine Team

7. Political reforms

294. **Reforming political institutions is also needed if the economic reforms proposed above are to be successful** (recall Box 8.1 on the relationship between political and economic institutions). As discussed in Chapter 6, the country's poor performance in the past is largely attributed to policies that did not promote broad-based growth and rapid poverty reduction. These are ultimately traced to extractive institutions, many of which were established during colonial times and have persisted to the present. A manifestation of this is the presence of informal networks of power outside the State that have remained influential while the State has remained fractured and captured by a patronage-based system that seeks to promote the interests of an elite class at the expense of the majority of Filipinos.

295. **As a result, the country has one of the highest levels of poverty and inequality in the region as pathways out of poverty are systematically blocked.** Majority of Filipinos are unable to accumulate enough assets (e.g., education and savings) to improve their lot. A number of pathways to prosperity, such as quality education, full market participation, and genuine political exercise, have been systematically blocked by the small elite class, which controls both economic and political power. As a consequence of this longstanding capture by dynastic elites, rent-seeking has become systemic, and reforms to reverse these problems have become very difficult to implement. For these reasons, reforming political institutions is crucial for the success of the economic reforms.

[332]A framework contract is a long-term agreement with suppliers, contractors, and providers of non-consulting services, which sets out terms and conditions under which a specific procurement can be made.

296. **While it is not the purpose of this report to provide detailed recommendations on political reforms, two areas deserve a broad look at this time, given their importance in making economic reforms successful: civil service and electoral reforms.**

Civil service[333]

297. **Historically, the country's civil service is characterized by varying degrees of political interference.** Political influence is widespread in appointments to senior and other career positions, especially in agencies with large resource flows. This is exacerbated by the fact that the President appoints no less than 11,000 personnel to about 3,000 constitutional positions, 6,000 career executive service (CES) positions, 1,650 prosecutor positions, and 500 other positions created by special laws.[334] As a result, the Philippines has one of the greatest depths of political appointments, going from the secretary of the department all the way down to the regional assistant director level. In contrast, most democratic East Asian countries make such appointments only at the top two tiers. At present, there are numerous positions of confidence and positions co-terminus with the agency head. The practice of offering courtesy resignations with changes in administration has led to high turnover of senior officials and consequently reform continuity.

298. **In addition, lack of meritocracy in the civil service, especially at higher levels, has lowered civil service morale and capability.** Comparatively lower wages pose governance risks to the extent that they may be associated with absenteeism, low productivity, and corrupt practices. Civil service salaries are generally compressed and hardly allow room for reward. At the same time, civil servants in benchmark positions in lower grades tend to be somewhat overpaid compared to their private sector equivalents. For these reasons, it is a rational response of civil servants to play a submissive role and abdicate their technical role to accommodate "political decisions." In recent years, civil service wages have been increased significantly, alongside the use of performance bonuses, but merit-based career advancement has yet to be institutionalized.

299. **The Aquino Administration's commitment to good governance can be extended to the civil service to improve service delivery.** Modernizing the Civil Service Code to improve flexibility and limit political appointments can be a launching pad for strengthening civil service professionalism and integrity.

300. **Lessons from the political economy of earlier reform attempts can help the government craft a more realistic reform strategy.** Previous attempts indicate that i) there must be strong support from the highest levels of political leadership, ii) it would be most appropriate for a high-level entity such as the Office of the President to lead the exercise, iii)

[333] This sub-section draws in part from World Bank (2004).
[334] This practice stems from the American colonial government, in which the American governor general held wide powers in appointing key American officials of the Filipino-dominated bureaucracy.

the Civil Service Commission and the Department of Budget and Management could take the technical lead, coordinate with other agencies, and provide logistical support, and iv) proper sequencing and prioritizing reform actions could make the difference between success and failure. Consultations with stakeholders, such as legislators and employee associations, would need to be an integral part of a civil service reform strategy. Across-the-board re-engineering and downsizing efforts unaccompanied by advocacy and consultation are likely to fail and provoke cynicism, as past experiences have shown. Successful implementation of a pilot exercise can provide momentum for ramping up the reform.

301. **Reforms to improve the civil service could include:**

- **Amending civil service laws to improve flexibility.** A modern legal framework is indispensable for professionalizing the civil service. Given the difficulty of such legislation, proactive and sustained advocacy in favor of the new Code with relevant stakeholders could increase the likelihood of success. The updated Code could consider i) clearly separating professional civil service positions and positions of confidence, ii) amending the definition applicable to civil servants' selection and promotion to competitive assessment of merit, iii) allowing the executive a degree of flexibility in adjusting pay levels and pay scales without the need to go to Congress, and iv) enhancing the use of individual and group key performance indicators as basis for promotion, transfer, and pay increase.

- **Reducing the number of presidential appointments from the current 11,000 to around 5,000.** This would send a strong signal of the government's willingness to strengthen civil service meritocracy, professionalism, and morale, and help ensure that reforms would be institutionalized after the term of the current administration. This would sharply reduce the number of non-Career Executive Service (CES) appointees. Redressing this injustice to civil servants would also open the door for promoting capable and upright civil servants. At the same time, redefining the parameters for appointment of non-CES individuals to CES positions would also strengthen professionalism.

- **Amending the Administrative Code of 1987** (EO 292).[335] This would improve organizational efficiency of the government, streamline the bureaucracy, improve the delivery of services, and align government functions with new technology. A special committee could be appointed to study the needed amendments.

Reducing political patronage

302. **Historically, the widespread practice of vote buying and the entrenchment of "money politics" have led many observers to identify political patronage systems as one of the main**

[335] This Code deals with how the government operates administratively and financially.

causes of the country's lagging economic performance and weak poverty reduction track record. A recent World Bank Policy Research Paper measures the correlation of vote buying and local-level public service delivery in the Philippines.[336] The study reveals a significant and robust negative correlation between vote buying and the delivery of primary health services. In places where households report more vote buying, government records show that municipalities invest less in basic health services for mothers and children, and quite strikingly, as a summary measure of weak service delivery performance, a higher percentage of children are severely underweight.

303. **The patronage nature of Philippine politics makes politicians' reliance on money crucial to their political survival**. An important way to increase a politician's chances of reelection is to influence public spending via a politically targeted provision of public goods and services through the pork barrel (which includes the Priority Development Assistance Fund, or PDAF, various congressional allocations, and congressional insertions). However, this is often not enough, given the perennially tight fiscal situation of the Philippines. As a result, politicians aspiring to remain in power must increase their chances of re-election by other means, such as raising money from outside the purview of the government.

304. **This very high reliance on money for political survival has often resulted in the entrenchment of money politics and hence corruption in various government agencies.** In some agencies, rent-seeking, patronage, and politicization of various functions of the government have become standard ways to raise money and to ensure the political survival or advancement of many politicians. For the same reason, politicians are also very susceptible to vested interests when deciding on new laws.[337] Even the most reform-minded politician requires money, as his capacity to govern and enact reforms crucially depends on how well he garners political support, which is often gained through money.

305. **Patronage politics is further exacerbated by the country's weak political party system.** In the Philippines, weak political parties often do not serve to organize political activities to reach a consensus, and do not provide institutional means of raising campaign funds.[338] Consequently, campaign funds are largely raised by individual candidates and not by their political parties**.** In countries with strong political party systems, it is the political party that raises funds and there is an established manner by which individuals and corporations contribute to political parties. In other countries, public money is legally transferred to political parties. In the Philippines, candidates at all levels of government are expected to raise money for themselves, for their patrons, and for their underlings and "election watchers," not only to win but also to protect and defend themselves for the next three years from political rivalries or violence.

[336] See Khemani (2013) for more discussion.
[337] See Hutchcroft (1998) for examples of state capture by powerful vested interests.
[338] See Kasuya (2009) for an analysis of the Philippine party system and its effects on elections and governance.

306. **Money becomes even more important, considering the extent of Philippine elections.**[339] Every three years, 18,054 positions are contested, not including the *barangay* (village) and *barangay* youth councils, which add almost 700,000 more positions. On average, there are up to 50,000 candidates from the president down to municipal councilor, and the average voter residing in non-highly-urbanized cities has to vote for 32 positions.[340] If there are four candidates per position, the voter would have to choose from among 128 names (some positions, such as those of senator and party-list representative, each have up to 50 candidates). These numbers make Philippine elections extremely expensive, complicated, and a breeding ground for patronage politics.

307. **To reduce political patronage, the following reforms could be considered:**

- **Ensure the integrity of the registry of voters and enhance automation of elections as basic ingredients of a successful electoral reform.** These include i) cleaning up the voter's registry to reflect the current voter population, and ii) ensuring the reliability of the Automated Election System by conducting random manual audits under strict guidelines to minimize opportunities for electoral fraud. Successful implementation of these measures will help ensure that votes truly reflect the choice of the people.

- **Support demand-side measures to improve accountability of elected officials** by broadening the use of public information campaigns and participatory development planning and implementation programs, such as Bottom-Up Budgeting and community driven development.

- **Improve poor voters' education by using the "Active Citizenship" module of the 4P (CCT) Program**. Such a program can empower the beneficiaries, who are most likely to be vulnerable to clientelism and vote buying, and make them more aware of their rights and duties as citizens and the consequences of clientelistic behavior for society.

---

[339] At the local level, there are around 220 congressional districts, not counting party-list representatives, 80 provinces, 140 cities, 1,500 municipalities, and around 42,000 villages called *barangay*. The national government's internal revenue allotment formula includes population as a major determining factor. This has promoted gerrymandering and population growth in areas with strong political dynasties.

[340] This includes one president, one vice president, 12 senators, one congressman, one party-list representative, one provincial governor, one vice governor, up to six provincial board members, one mayor, one vice mayor, and up to six city or municipal council members, for a total of 32 positions. The president and vice president need not come from the same party and are voted separately.

Chapter 10 – Implementing the reforms

308. **The proposed reforms needed to put the country on an inclusive growth trajectory will undoubtedly be a very challenging task.** As Philippine reform history as well as the experience of other countries shows, reformers will likely face strong initial opposition from interest groups. Policies that have a long history of elite capture or monopoly control will be the hardest to reform. Policies that are easily swayed by popular sentiments, such as minimum wages and job security, will also be challenging to reform. Fortunately, as discussed in Chapter 8, some of the basic ingredients are in place for accelerating a major reform effort. Moreover, as Chapter 6 shows, the Philippines has had a history of successful reforms that reduced monopolies and elite capture. Building on the country's own experience in implementing reforms, as well as lessons from other countries, this chapter outlines a number of strategic elements that can help the reform coalition increase the likelihood of reform success.

Designing the reform

309. **To improve the likelihood of success, the reform package needs to be as comprehensive as possible, covering as many areas as identified in the previous chapter.** A comprehensive package of reforms would have the advantage of addressing multiple issues at the same time, in view of their interdependence. It can also balance tradeoffs and interests better than piecemeal reforms. More importantly, a comprehensive package can be made more politically acceptable by generating broad coalitions around shared principles, such as transparency, level playing field, and shared responsibilities (see Chapter 8). For example, flexible labor contracts may become more acceptable to labor unions if government and business fully support complete freedom of association, improve financial transparency, provide more training programs to improve workers' skills, and tackle monopolistic practices. The potential for abuse of labor in the use of flexible contracts could be reduced by improving social protection and strengthening DOLE's regulatory capacity. Piecemeal reforms may be called for in certain cases to address timing or prioritization needs but should nevertheless remain part of a broader reform agenda.

310. **The design of the reform package can benefit from advice of experts and inputs from a broad segment of society.** A high-level committee of experts from various fields can be formed to aid government in designing and properly sequencing the reform package to minimize resistance and maximize the expected benefits to the people.[341] At the same time, the reform proponents can embark on a regular consultation process that would reach out to a broad segment of society, in particular workers in the rural and informal sectors. Public debates and media coverage of the reform program can be promoted to increase public awareness, consensus, and buy-in on the reforms. As the Ramos reform experience shows, once some

[341] This could include convening a "Council of Economic Advisers" composed of eminent Filipino economists and former government executives to advice the President and the NEDA on priority reform measures and on the "how to reform" aspects.

crucial reforms are carried out and garner strong public support, they gain a momentum that becomes increasingly difficult to reverse.

311. **Part of the preparatory work requires identifying which reforms can be done by executive power and which require legislation.** For reforms that do not require legislation, the President could start the process by issuing the appropriate executive orders (EOs) to begin implementation. But even for reforms that require legislation, the President could also issue an EO to declare the Government's policy on the proposed reform (as Ramos did in the 1990s). For reforms that require legislation, the executive could maximize the use of the Legislative Executive Development Advisory Council (LEDAC) to improve cooperation with legislators and enhance their understanding of the need for the reform. The Government can learn from the Ramos Administration, which regularly convened the LEDAC to expedite priority legislation and decisively issued EOs to jumpstart key reforms such as the telecommunications reform.

312. **How the reform program will be implemented depends largely on the prevailing political context and public support for the reform program. The standard approach would be to implement a particular component of the reform program across the country at the same time**. The current environment of high political capital and public support suggests that there is room for the government to push for implementation of the reform package across the entire country at the same time.

313. **Another approach would be to introduce components of the reform package in selected localities (e.g., a region or a province) that are more open to or more in need of the reform, before expanding to the entire country.** Introducing reforms in a locality has the advantage of mitigating resistance, testing the design and impact of the reform before scaling up, and convincing skeptics and the opposition of the benefits of the reform. For example, the reform could be piloted in a region with high incidences of poverty and underemployment. The reform package, aimed at attracting labor-intensive manufacturing and agro-processing, could include i) allowing more private sector participation in ports operation, ii) enhancing competition in shipping routes connecting the region to the rest of the country, iii) allowing more foreign equity infusion beyond the 40 percent limit, and iv) allowing more flexible contracts and market-driven wages.[342] Box 10.1 recounts the Chinese experience of introducing market reforms in special economic zones before expanding to the whole country, and how this has helped in China's structural transformation.

[342] Sicat (2012) suggests a similar idea, the concept of a "Labor Employment Zone" to encourage more job creation to benefit the poor. Sicat says the proposal "is to create a confined territorial region that is allowed to attract large labor-using enterprises in manufacturing and agricultural processing … their main feature is that the zones will be exempted from the application of the minimum wage regulations and from other regulations against fixed-term contracts and on the 'regularization' of workers. But all other government regulations pertaining to social security, workmen's compensation, and other rules apply. The main idea is to allow economic forces and the market to play a role in setting wages and other conditions of work."

Box 10.1 Foreign direct investment and special economic zones in China

China's transition from a socialist to a market economy in the late 1970s began in special economic zones (SEZs). Careful not to upset the socialist status quo in Beijing, China's leader, Deng Xiaoping, introduced market reforms gradually by setting up SEZs in the southern provinces of Fujian and Guangdong. These had the advantage of attracting investment from overseas Chinese in neighboring Hong Kong and Taiwan. A Joint Venture Law was passed in 1979 as the mode of attracting foreign direct investment (FDI) into the SEZs. The SEZs were like the export processing zones (EPZs) in other East Asian countries in that they attracted FDIs through lower tax rates, simplified administrative and customs procedures, and duty-free import of inputs. But China's SEZs also differed from EPZs in a very important way. SEZs served as "laboratories" where China experimented with its market reforms, including flexible wage regimes and land leases. Should the reform fail, it would be contained in the SEZs. Should the reform succeed, it can be used as a showcase of the reform's benefits to push for further reforms in the rest of the country. As it turned out, the market reforms in the SEZs proved to be a huge success.

The success of the initial SEZs encouraged further market reforms throughout China. In 1984, Economic and Technological Development Zones (ETDZs) were established in 14 new coastal "Open Cities," including Shanghai. The ETDZs were similar to SEZs. Moreover, they were authorized to bargain aggressively with potential foreign investors to facilitate investment inflow. The passage of the Wholly Foreign-Owned Enterprise Law encouraged more foreign investment. High-technology development zones were created in the northern and inland parts of China. One example is the Pudong Development Zone east of Shanghai. Sectors dominated by domestic investors, such as the urban real estate and retail sectors, were opened to foreign investments. These reforms amplified the inflows of FDI into China. By the late 1990s, joint ventures between foreign investors and rural collectives were established in rural China to take advantage of its low cost labor.

The result of China's successful experiments was its impressive economic growth in the last three decades, which is partly attributed to the massive inflow of foreign direct investment (FDI) through SEZs. Annual FDI inflows to China reached USD 63 billion in 2004 and 2005 and accounted for a third of total FDI inflows to developing countries. As a share of GDP, China's FDI has been generally higher than in other developing countries, at around five percent of GDP. FDI has served as an engine of growth for China's manufacturing sector, as a way to access the export market, as a major source of employment, and as conduit for world-class technology and know-how. These roles have all contributed to China's successful structural transformation.

Source: Naughton (2007)

Sequencing the reform: A three-tracked implementation

314. **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.

Table 10.1 Priority reforms by track

Track 1 - Decisively implement the following 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.*	**Track 2 - Accelerate ongoing reforms** *This track is about moving current reforms faster and giving more focus on existing initiatives and programs.*	**Track 3 - Laying the foundation for the more difficult reforms** *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.*
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

Regularly update the National Household Targeting System for Poverty Reduction (NHTS-PR) Target systematically all social protection programs using NHTS-PR (e.g., rural poor, UHC, and disaster-related support)	of poverty at national level, and triennial estimation at provincial level Institutionalize public works program	
Investment		
Implement the Tourism Roads and Infrastructure Plan (TRIP) network plan Prioritize key constraint infrastructure projects: 1. NLEX-SLEX connector 2. Shift to dual airport system	Complete the TRIP network plan Improve urban commuter system: 1. Increase number of LRT trains 2. Rationalize public bus transport system Implement Metro Manila Flood Master Plan (e.g., modernize pumping stations, weather resilient infrastructure)	Review and revise public investment planning, execution and monitoring process
Public finance		
Implement government financial management information system, including treasury single account Modernize statistics through the new Philippine Statistics Authority	Improve customs administration to control smuggling, including increasing control over special economic zones Strengthen participatory budgeting at LGU level, following principles and lessons learnt through existing Bottom-Up Budgeting and community driven development programs Implement Open Government across all agencies and adopt Open Data platform	Enact fiscal incentives rationalization bill Enact a national surtax on property (see also “land”) Increase excise tax on petroleum Further raise the excise tax of alcohol and tobacco Start comprehensive tax administration reform program to simplify tax processes, especially for MSME

Annex – Detailed policy matrix

Agriculture and rural development

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
1	**Secure long-term individual property rights to improve investment incentives**	1. Develop a zoning plan for all types of land (agricultural, industrial, urban, conservation, etc.). 2. Begin process of systematic and administrative adjudication of property rights of various claimants by going from plot to plot and determining in a transparent, public, and participatory manner who owns the plot, immediately followed by issuing a title administratively.	DAR DOJ DENR DA	Legislation - amendment to public land act, property registration decree, and the cadastral land act Implementation	Enhance implementation	Monitor impact on farm productivity	Monitor impact on farm productivity	High, more and better agricultural jobs	High	Positive in medium-term Adjudication process requires higher public spending, but tax revenues will increase through higher agricultural growth

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
2	Improve the agrarian reform program	1. Implement CARP from a more decentralized and community-driven approach to improve targeting of poor farmers, reduce risk that transfer of land embodies speculative motivations, increase speed and quality of the program, and reduce land-related conflicts. 2. Provide subsidies to poor farmers, including landless farmers, from court savings and/or property taxes to buy land. 3. Ensure consistent and systematic collection of progressive property taxes. 4. Enact zoning rules to ensure that parcels of agricultural land are not converted to non-agricultural use to evade land reform. 5. Support credit and marketing cooperatives and competitive contract farming.	Congress DAR DENR	Legislation - amendment to Republic Act (RA) 6657 or the "Comprehensive Agrarian Reform Law of 1988" as amended by RA 7881, 7905, 8532 and 9700	Prepare legislation	Pass legislation and monitor performance	Monitor farm productivity	Moderate	Moderate	Budget expansion

	Key recommendation **(bold items are suggested priority reforms)**	Some details of the reform/key provisions **(bold items are suggested priority reforms)**	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		6. Reintroduce voluntary land transfers for landholding below 10 hectares and include safeguards against circumventing payment of estate taxes. 7. Allow associations of landless farmers to buy large landholdings (i.e., above 10 hectares). 8. Fast-track the subdivision of collective CLOAs, coupled with addressing the issue of succession. 9. Reduce the period during which awarded land cannot be sold from 10 to 5 years and relax restriction to leasing land. 10. Allocate a part of the amortization to LGUs to improve service delivery.								
3	Reform land administration	1. Scale up implementation of the Residential Free Patent Law (RA 10023). 2. Transfer registration procedures from courts to the executive branch, and decentralize its	DENR DAR LRA	EO - amendment to the following: EO 649 (1981), Presidential Memorandum Circular of September 30, 1988 (changing	Prepare legislation	Pass legislation and monitor performance	Monitor impact on land registration and user productivity	Moderate, more jobs for household members on and out of farms	High, clear land ownership and vibrant land market would stimulate long-term investments and movement	Budget savings

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
		implementation. 3. Consolidate various property titles into a single Certificate of Title. 4. Recognize continuous possession by conferment of title following a probationary issuance of provisional title. 5. Enact a National Land Use Code. 6. Generate a comprehensive mapping and database of land describing categories, land use, and property boundaries. 7. Simplify the cumbersome Torrens title deed procedures. 8. Remove the bias against rural titles by reducing the number of years of uncontested possession to obtain a rural title from 25 to 10 years, making it equivalent to the number of years needed for urban land.		the NLTDRA into LRA), EO 292 (1987), Legislation - enacting bill on the "Land Administration Reform Act".					of land to more efficient users	

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
4	**Continue to reallocate public spending from the provision of private goods to public goods**	1. Continue to spend less on private goods (e.g., input subsidies, mechanization and post-harvest equipment) which benefits only a few farmers and more on public goods that support productivity enhancement (e.g., irrigation, farm-to-market roads, market access and information, regulatory and supervision functions, extension services, and research and development, which can benefit all farmers.	DA LGU DBM NIA DPWH	Legislation - budget law	Ensure that the budget laws henceforth reflect higher spending on public goods and removal of all subsidies	Monitor farm productivity	Monitor farm productivity	High, more jobs for household members	High, higher income from diversification and lower production costs	Savings
5	Improve the delivery of agricultural public goods and support services for farmers	1. Rationalize existing farmer services spread over several agencies into one. This can be facilitated by developing a registry of farms and improving targeting system for farmers using the National Household Targeting System for Poverty Reduction.	DA LGU NIA DOTC DTI DAR LGUs	Implementation	Implement reforms	Monitor and evaluate impact on farmer productivity	Monitor and evaluate impact on farmer productivity	High, more jobs for household members and out of farms	High, higher profits can be used for higher farm investment by households	Neutral (if shifts from subsidy) or Expansion

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
		2. Improve R&D management by i) setting clear objectives and priorities, ii) investing in improved facilities, iii) adopting an adaptive and participatory approach, and iv) improving linkages with LGU-managed extension services. 3. Improve irrigation management by i) increasing budget for irrigation, ii) accelerating the transfer of irrigation management from central to local levels, and iii) strengthening irrigation associations and local governments to protect large investments currently undertaken. 4. Open extension service delivery and other support services to public-private partnerships where the government provides grants or vouchers to poor farmers to avail of privately-delivered support services in response to demands of farmers.								

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		5. Implement a cluster and value-chain approach. This requires enhancing partnership among national government, local government units, and the private sector to address fragmentation and lack of coordination.								
6	**Reform the NFA by liberalizing market policy on rice**	1. Turn over NFA rice marketing function to the private sector. The efficiency of the private sector can be enhanced by removing all licensing requirements and replacing the quotas with a uniform tariff of say 30 percent. 2. Confine NFA to regulatory functions and rice emergency reserve stocking to respond to natural calamities and other emergencies. 3. Increase support for commodities with higher income potential for farmers, such as vegetables and fruits.	DA DBM NFA	Legislation - amendment to Presidential Decree (PD) 1770 or "National Food Authority Act" (1981)	Implement reforms	Monitor and evaluate impact on farmer productivity	Monitor and evaluate impact on farmer productivity	High, more jobs for household members	High, higher disposable income can be used for consumption and investments	Budget savings

Support to manufacturing

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
1	**Strengthen competition policy** to enhance level playing field and lower prices	**1. Establish the principles and key provisions for an overarching competition policy through an executive order.** **2. Enact an Anti-Trust Law.** 3. Create a competition authority with statutory independence, that is adequately funded, fiscally autonomous, and led by senior executives who are appointed with fixed terms. 4. Build public support and consensus around the principles of fair competition by i) convening an independent advisory body to provide advice on the scope and strategy of the reform, ii) conduct structured dialogue with key stakeholders on the need for more competition, and iii) educate the public to generate buy-in and deeper appreciation for the reform.	OP DOJ NEDA DTI	First, an executive order which lays out the principles and key provisions Second, passage of an anti-trust law which also creates a stronger competition office	Sign executive order Prepare legislation	Pass legislation	Monitor and evaluate impact on competition and job creation	High	High	Budget expansion

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
2	**Enhance competition in key industries** which have the highest pro-poor impact through lower prices and/or job creation: **Power** to promote growth of manufacturing	1. Increase generation capacity. 2. Enhance competition in the retail power industry. 3. Reduce transmission constraints in Luzon to enable network integration. 4. Fully integrate Visayas and Mindanao to the Luzon grid. 5. Implement a reserves market to stabilize entry of new power generation. 6. Implement the Renewable Energy Act of 2008 to enhance energy security. 7. Craft a sensible natural gas policy. 8. Deal with the universal charge for stranded assets and stranded debt. 9. Continue the reform agenda for electric cooperatives.	DOE PSALM	Full Implementation of Electric Power Industry Reform Act of 2001 (EPIRA) and the Renewable Energy Act of 2008	Begin process to expand competition at the retail level Promote investment in renewable energy and reduce transmission constraints in Luzon	Monitor demand and supply capacity and plan/act accordingly	Monitor demand and supply capacity and plan/act accordingly	High, especially if power costs are reduced and if remote areas are electrified	Moderate	Budget expansion if rural electrification targets are to be met, otherwise largely neutral in relation to private power entities

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
3	**Ports** to bring food and input prices down and improve access to markets.	1. Conduct a detailed assessment on how competition between the Philippine Ports Authority (PPA) and private commercial ports can be encouraged with minimal impact on the financial and economic viability of PPA ports. 2. Then based on the assessment, rationalize the mandate of PPA by reducing its port operations mandate; ideally PPA should focus only on its regulatory mandate. 3. Remove the nexus between PPA revenue and cargo handling charges to reduce conflict of interest. 4. Privatize the ownership, management, and/or operation of PPA-owned ports to improve the quality of ports.	Congress DOTC PPA	Legislation and EO Possible amendment to PD 505 (1974) as amended by the following: PD 857 (1975) EO 513 (1978) EO 159 (1987)	Draft legislation	Pass legislation	Monitor and evaluate impact on competition, transport costs, and jobs	Negative short-term impact on employment at the ports if cargo-handling is mechanized High in the medium to long-term	High	Negative direct revenue impact in the short-term; positive indirect revenue impact in the medium-term arising from higher industry growth

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
4	**Shipping** to bring food and input prices down and improve access to markets.	1. Remove opportunity for incumbents to object to granting of certificate of public convenience (CPC). 2. Focus CPC conditions on quality standard. 3. Streamline the CPC process. 4. Use a single form of CPC for both tramp and liner operators. 5. Allow greater flexibility within a CPC so that operators can adjust easily to changing market conditions. 6. Remove requirements for dry-docking of domestic vessels in local shipyards. 7. Simplify approval of special permits for foreign vessels to temporarily operate in domestic trade. 8. Improve information on cargo flows and current services. 9. Freely disseminate information to actual and potential market participants.	Congress DOTC MARINA	Amendments to the following : PD 1221 LOI 1005-A Implementing rules and regulations (IRR) of RA 9295 Various MARINA Memorandum Circulars	Draft legislation/ changes to administrative rules	Pass legislation; implement new rules	Monitor and evaluate impact on competition, transport costs, and jobs	High	High	Revenue expansion

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
5	Water utility sector to improve access to clean and affordable water, improve health outcomes, and raise productivity.	1. Address institutional fragmentation by consolidating sectoral responsibilities, creating incentives for mergers of water operators, and replacing supply subsidies by targeted subsidies based on household income using the NHTS-PR. 2. Expand private sector participation by implementing cost recovery tariffs for water and enacting tariffs for sanitation services. 3. Improve sector governance and regulatory capacity by corporatizing water utilities, benchmarking public utilities, and strengthening regulatory capacities.	Congress LWUA MWSS NWRB DPWH LGUs	Possible amendments to the following: RA 8041 "National Water Crisis Act of 1995", EO 286 "Reorganizing the MWSS and LWUA" (1995), EO 311 or "Encouraging private sector participation in the operations and facilities of MWSS" (1996), and EO 62, which transferred LWUA from DOH to DPWH and created an interagency committee on the water sector to prepare the new road map.	DPWH to take the lead in the preparation of the overall sector plan	Begin the reorganization of the water sector. This includes the reorganization, consolidation, and closure of some agencies.	Monitor and evaluate impact on competition, water costs, health outcomes, and jobs	Low to Moderate Possible streamlining of MWSS bureaucracy Likely increase in employment through expansion and more efficient operations with private sector participation	Moderate to high	Budget savings

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
6	Agribusiness, in particular sugar, corn, flour, and soybeans to reduce manufacturing input cost	1. Reduce import tariffs and other trade barriers to enhance competition, raise quality, and lower agricultural input prices.	Congress DA and attached agencies	Executive order and regulation	Reduce import tariffs through issuance of EO	Monitor impact on food and input prices	Monitor impact on food and input prices	Low	High	Revenue contraction in short-term, expansion in long-term
7	Oil and chemical to reduce manufacturing input cost	1. Reduce import tariffs and other trade barriers to enhance competition, raise quality, and lower input prices.	DOJ DTI	Executive order and regulation	Reduce import tariffs through issuance of EO	Monitor impact on food and input prices	Monitor impact on food and input prices	Low	High	Revenue contraction in short-term, expansion in long-term
8	Cement to reduce infrastructure cost	1. Reduce import tariffs and other trade barriers to enhance competition, raise quality, and lower input prices.	DOJ DTI	Executive order and regulation	Reduce import tariffs through issuance of EO	Monitor impact on cost of infrastructure	Monitor impact on cost of infrastructure	Medium, especially in the construction sector	Medium	Revenue contraction in short-term, expansion in long-term

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
9	Air transport to promote tourism and job creation	1. Expand the concept of reciprocity from seat entitlements to impact on tourism. This includes provisions granting foreign airlines more seat entitlement relative to domestic airlines if they can bring in more tourists. 2. Address gaps in airport infrastructure.	DOTC CAB	Executive order - amendment to EO 219 (1995) and EO 500-A (2006)	Issue executive order	Monitor impact on tourism growth	Monitor impact on tourism growth	High in the tourism sector	High	Budget neutral
10	Review foreign investment restrictions and consider reducing some restrictions through constitutional amendments and changes to the Foreign Investment Negative List.	1. Amend economic provisions of the 1987 Constitution to remove explicit rigidity imposed on natural resources, land, public utilities, mass media, educational institutions, and the practice of licensed professions, and give prerogative to grant restrictions to Congress. 2. Further open up the following priority sectors to international players by increasing the allowable ownership share of foreign investors in domestic corporations:	OP DOJ DTI DENR DPWH	Possible amendments to the following: 1987 Constitution, RA 7042 or "Foreign Investments Act of 1991" (as amended by RA 8179), EOs promulgating the Foreign Investments Negative List, RA 6957 (as amended by RA	Submit proposal to amend constitution and related laws to Congress	Congress amends constitution and related laws	Monitor and evaluate impact on FDI inflows	Moderate	High	Revenue expansion due to more FDI

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		Telecommunications	DOTC	7718) or "The Philippine BOT [Build-Operate-Transfer] Law", EO 226 (as amended by RA 7918) or "Omnibus Investments Code of 1987"				Moderate	High	Revenue expansion due to more FDI
		Shipping	DOTC MARINA					Moderate	High	Revenue expansion due to more FDI
		Financial services	BSP					Moderate	High	Revenue expansion due to more FDI
		Media	DOTC DOJ					Moderate	Low	Revenue expansion due to more FDI

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
11	Strengthen regulatory capacity	1. Clearly define the role of regulatory bodies, including provisions to limit conflict of interest. 2. Ensure some degree of fiscal autonomy and adequate expertise to avoid politicization of decisions and allow them to execute their mandates freely. 3. Reduce discretionary powers of regulators through the establishment of clear and rule-based procedures and policies. 4. Improve transparency of decision making. 5. Conduct regular regulatory assessments.	OP DOJ and other regulatory bodies	Legislation or executive order	Assess current capacity of regulatory bodies	Issue executive order or draft bill to strengthen regulatory agencies.	Monitor and evaluate performance	Low	Moderate	Budget expansion

Business regulations

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
1	**Simplify and automate key business registration and licensing processes to cost of doing business**	1. Harmonize and streamline procedures between the national and local government levels and among national government agencies and LGUs to avoid overlaps and redundancies (e.g., harmonize city/municipal and barangay permits). 2. Remove steps which can be verified by government offices at the backend (e.g., SSS clearance). 3. Reduce requirements whose purposes are not fully justified (e.g., paid-in minimum capital).	DTI BIR SSS SEC DILG LRA LGU	Regulation and implementation Amend Corporation Code and other related laws to simplify business registration requirements	All concerned agencies to review their business registration requirements and agree on a harmonized process	Implement the harmonized process	Monitor and evaluate impact on job creation	High	High	Increased revenue through formalization
		4. Fully implement the Philippine Business Registry (PBR) as a single online portal for processing all national level registration and licensing requirements. 5. Fully implement the Business Permit and Licensing System		Implement the IT system for PBR online access Implement and operationalize BPLS including system automation.	Complete the implementa-tion of the PBR for sole proprietorship registration, enable online access for LGUs	Integrate corporation registration through the PBR portal Complete the implementa-tion of the	Monitor and evaluate impact on job creation	High	High	Increased revenue through formalization

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		(BPLS). 6. Link access of LGUs to the Performance Challenge Fund to improve compliance with BPLS monitoring indicators.			Link access to the performance challenge fund by LGUs to the compliance with BPLS monitoring indicators.	BPLS				
2	Improve transparency of business regulations	1. Mandate the prominent display of process flowcharts and service standards in all government offices.	DTI BIR SSS SEC DILG LRA LGU	Regulation and implementation	Implement the prominent display of procedures in all concerned agencies	Monitor and evaluate impact on job creation	Monitor and evaluate impact on job creation	High	High	Budget neutral

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
3	Simplify other related procedures to promote faster job creation and facilitate the movement of goods and services so prices can be reduced.	1. Simplify procedures and rationalize costs in government offices such as the Social Security System, the Land Transportation Office, the National Bureau of Investigation, Philippine Overseas Employment Administration, and other offices frequented by Filipinos in securing permits, licenses, and clearances to enable them to work.	SSS LTO NBI POEA	Regulation and implementation	Review procedures and eliminate unnecessary procedures and streamline the necessary procedures	Monitor and evaluate impact on job creation	Monitor and evaluate impact on job creation	High	High	Budget neutral
4	Simplify tax regime for micro and small taxpayers	1. Simplify tax forms, registration requirements, and payment processes. 2. Consider combining the value-added tax (VAT), percentage tax, and income tax into a single business tax on turnover for micro and small enterprises. 3. Reduce requirements for bookkeeping and financial reporting.	BIR LGU	Amendments to the Tax Code and Local Government (LG) Code, and related regulation. Process automation in BIR and LGUs	Prepare legislation/ policy directive	Pass legislation/ implement policy directive	Monitor and evaluate impact on job creation	Moderate	Moderate	Revenue expansion through more compliance

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		4. Integrate the tax filing and payment system of the national government and local government units so taxpayers need to file and pay only once.								
5	Facilitate greater access to finance, especially for micro and small enterprises	1. Commence operation of the Credit Information Corporation (CIC) called for under the Credit Information System Act and expand the range of information available by including credit history from other sources and sharing both positive and negative information.	SEC CIC	Regulations and systems implementation	Issue RFP and procure system for CIC. Launch CIC	Monitor and evaluate for continuous improvement	Monitor and evaluate impact on job creation	Moderate	Moderate	Budget neutral
		2. Enhance participation of cooperatives in providing access to finance by i. Improving regulatory capacity of the Cooperative Development Authority (CDA).	DOF CDA NEDA	Legislation and regulation. Institutional reform (CDA, potentially GOCC)	Prepare legislation/ policy directive	Pass legislation/ implement policy directive	Monitor and evaluate impact on job creation	High	High	Budget neutral

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		ii. Developing an effective apex structure to enhance financial viability of cooperatives and scale up their reach. iii. Amend the Financial Rehabilitation and Insolvency Act to include cooperatives.								
		3. Replace mandated system of lending to SMEs with a system of credit guarantees.	BSP DOF	Regulation and implementation	Prepare legislation/ policy directive	Pass legislation/ implement policy directive	Monitor and evaluate impact on job creation	Moderate	Moderate	Budget neutral
		4. Increase lending secured by non-real property or movable assets. 5. Complete the cadastral titling of all lands and establish a central registry for land titles. 6. Establish a modern, unified, and easily accessible collateral system for movable assets.	BSP DOF Judiciary National Credit Council LRA	Regulation and implementation	Prepare amendments for secured transaction legislation	Develop a new modern centralized electronic registry for security interests on movable assets	Monitor and evaluate impact on job creation	Moderate	Moderate	Budget neutral

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
6	Ensure a coherent strategy for MSME development	1. Clarify coordinating arrangements and roles of various agencies for MSME development in the context of the broader development strategy. 2. Evaluate all existing MSME programs so that good programs can be enhanced and poor programs can be removed to improve impact on income and jobs for MSMEs.	DTI BMSME NEDA DBM	Regulation and implementation	Prepare legislation/ policy directive	Pass legislation/ implement policy directive	Monitor and evaluate impact on job creation	Moderate, through strategic policy for MSME and efficient use of resources to support the sector	Moderate	Budget neutral and potential savings for more efficient allocation of funds for MSME support

Labor regulations

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
1	**Simplify and rationalize labor regulations** to improve enforcement and compliance, increase coverage, protection, and equitable application of the law.	1. Consolidate all labor regulations (including jurisprudences and department orders) into one volume. 2. Ensure consistency across regulations. 3. Simplify rules to reduce compliance cost. 4. Update obsolete laws.	Congress DOLE NLRC NCMB NWPC other attached agencies	Amendment to Labor Code and related legislation/ regulations	Complete the review of the Labor Code and other labor regulations and prepare draft amendments	Work for the passage of the new Labor Code that addresses the identified issues	Monitor and evaluate compliance rates and impact of new Labor Code on job creation	High	Moderate	Budget neutral
2	**Define and enforce valid forms of flexible work arrangements**	1. Tripartite body to agree after due consultation on what could constitute as valid forms of flexible contracts. This could include the following: i. Short-term contracts beyond five months, expanded apprenticeship program, and subcontracting and/or outsourcing of non-core business lines.	Congress DOLE	Amendment to Labor Code; implementation	Define policy on flexible contracts following extensive consultations Improve the mechanism for monitoring compliance, including working with	Work for the passage of this policy preferably as part of the new Labor Code	Monitor and evaluate compliance rates and impact of revised policy on job creation	High	Moderate to high	Budget neutral

	Key recommendation **(bold items are suggested priority reforms)**	Some details of the reform/key provisions **(bold items are suggested priority reforms)**	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		ii. Temporary reduction in wages and benefits during extended slowdowns and recessions. 2. Ensure that contracts subject to regularization are enforced after the prescribed period.			business groups on compliance of its members					
3	Strengthen DOLE's regulatory capacity to enforce labor regulations to improve equitable application of the law	1. Provide DOLE and attached agencies with adequate budget and staffing in key areas such as labor inspection, conciliation and mediation, and education of employers and employees on labor regulations.	DBM DOLE	Budget law, regulation	Prepare a medium-term expenditure framework (MTEF) for DOLE; clarify DOLE's regulatory mandates	Update MTEF	Monitor and evaluate compliance rates and impact of revised policy on job creation	Low	Low	Budget expansion
4	Rationalize the dispute settlement system	Make the labor dispute system less costly and speedier by:	DOLE NLRC NCMB	Regulation and implementation	Complete the review of the Labor Code and	Work for the passage of this new policy	Monitor and evaluate compliance	Moderate	Low	Budget savings

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		1. Reducing legalism and tedious procedures for cases that require formal proceedings. 2. Promoting alternative forms of dispute settlement (e.g., single entry approach, conciliation and mediation). 3. Educating workers and employers on due process of terminating employees.			other labor regulations and prepare draft amendments pertaining to dispute settlement	preferably as part of the new Labor Code	rates and impact of revised policy on job creation			
5	**Reduce procedural barriers that hinder freedom of association and collective bargaining** and promote alternative forms of organization for informal workers	1. Recognize and guarantee fundamental rights to freedom of association and collective bargaining. 2. Reduce number of procedures such as payment of fees, number of steps, and submission of documents. 3. Promote alternative forms of organization for workers in the informal sector. 4. Integrate various assistance programs provided by national and local government units to informal workers.	DOLE DTI BMSMED NAPC other attached agencies	Regulation and implementation	Review current regulations and prepare amendments following extensive consultation with labor groups, including informal sector groups	Work for the passage of this policy preferably as part of the new Labor Code	Monitor and evaluate compliance rates and impact of revised policy on job creation	Moderate	Moderate	Budget neutral

Social protection

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	Primary mode of reform	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
1	**Pursue an empirically-informed social dialogue on minimum wage setting and rationalize the minimum wage setting accordingly**	1. Revisit the policy on minimum wage setting, review the guidelines in fixing minimum wages, and consider empirical evidences. Two options could be considered: i. Option 1 - 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), lower the rate, and remove all exemptions. ii. Option 2 - retain the simplified wage regime but allow for some exemptions if the minimum wage levels cannot be reduced. The exemption can be based on firm size (e.g., less than 10 employees) and be time bound. To reduce transaction cost, micro firms could be automatically exempted without the need to apply for exemptions.	Congress DOLE NWPC RTWPB	Amendment to RA 6727 (minimum wage decentralization) New wage orders to clarify wage setting regime	Conduct extensive consultation and studies on this issue, focusing on empirical evidence	Work for the passage of this policy preferably as part of the new Labor Code	Monitor and evaluate compliance rates and impact of revised policy on job creation	High, especially for informal sector workers	High, as more people are hired in the formal sector or more productive employment	Budget neutral

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	Primary mode of reform	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
		2. Based on the agreed policy, credibly enforce the minimum wage nationwide.								
2	Use public works as a means of job creation for the poor and as a means of social security	1. Use the National Household Targeting System for Poverty Reduction (NHTS) to target poor beneficiaries. 2. Improve collaboration/coordination with the community-driven development projects and Bottom-Up Budgeting to effectively generate and manage public works at the community level and provide jobs to community members. 3. Implement RA 6685.	DOLE DSWD DPWH LGU	Regulation and implementation	Prepare the guidelines for this program and implement pilots	Expand program	Monitor and evaluate compliance rates and impact of revised policy on job creation	High	Moderate	Budget neutral
3	**Endeavor towards universal social insurance and health care coverage among all workers in both the formal and informal sectors**	For formal sector workers: 1. Enforce the law on mandatory social insurance and healthcare. 2. Explore possibilities of harmonizing the registration and collection of taxes, and SSS and PhilHealth premium to improve compliance and availability of insurance.	BIR SSS PHIC DSWD	Regulation and implementation expanding coverage	Prepare the guidelines for this program and implement pilots	Expand program	Monitor and evaluate compliance rates and impact of revised policy on job creation	Low	Moderate	Budget expansion to cover subsidy on premium contributions

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	Primary mode of reform	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
		For informal sector workers: 1. Improve access by simplifying the administrative requirements and allowing more flexible contribution amounts so that informal workers can avail of pension and other benefits, including calamity loans, continuously. 2. Use the NHTS-PR to improve targeting of poor and informal sector workers.								
4	Improve *ex ante* risk mitigation for workers	1. Strengthen TVET programs to improve labor mobility and job matching and help workers improve skills desired in growing sectors. 2. Offer job-related social protection such as scholarships for the poor selected through the NHTS-PR (e.g., Cash for Training [C4T] to conditional cash transfer [CCT] beneficiaries). 3. Improve job and skills matching by deepening partnerships with firms.	TESDA DOLE DepEd CHED	Implementation	Prepare the guidelines for this program and implement pilots	Expand program	Monitor and evaluate compliance rates and impact of revised policy on job creation	High	High	Moderate budget expansion

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	Primary mode of reform	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
		4. Enforce occupational health and safety standards especially in critical industries such as construction and mining.								
5	Explore the possibility of creating an unemployment savings schemes to improve coverage of "separation pay" to all workers	1. Create an inter-agency task force to study this proposal and submit report for executive decision. 2. Consider an unemployment savings scheme in the form of either unemployment insurance savings accounts or comprehensive savings accounts covering other areas such as education, health, and housing.	DOLE DSWD	Legislation and regulation	Conduct feasibility study	Prepare the guidelines for this program and implement pilots	Monitor and evaluate compliance rates and impact of revised policy on job creation	Low	Moderate	Budget savings

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	Primary mode of reform	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
6	Improve programs to facilitate transition of returning migrants	1. Enhance and expand programs such as the "Balik Scientist Program" and OFW Reintegration Fund to facilitate smooth transition of returning migrants into the local labor market, especially those with skills that are in high demand. 2. Expand programs to include other returning migrants, in particular those with skills that are needed in the domestic market (e.g., doctors, nurses, engineers) 3. Pursue bilateral negotiations to make foreign pension and benefit plans portable in the Philippines.	DOLE POEA OWWA CFO SSS PHIC NRCO DSWD	Regulation and bilateral negotiations	Prepare the guidelines for this program and implement pilots Prepare for bilateral negotiations	Expand program Begin bilateral negotiations with key migrant countries	Monitor and evaluate compliance rates and impact of revised policy on job creation	Moderate	Moderate	Budget deficit if public funds will be used to fund higher pension and benefits of foreign plans

Investment

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
1	**Improve the entire spectrum of investment management from planning, financing, procurement, and execution**	1. Ensure coherent sector investment planning and implementation. 2. Improve quality of project preparation that meets well-defined development objectives and economic criteria. 3. Provide continuous capacity building on project preparation and risk management for both implementing agencies and regulatory agencies.	NEDA DOF DBM ICC Line agencies	Implementation	Review the entire spectrum and propose amendments in consultation with private sector and work for the passage of the revised regulation	Monitor and evaluate impact on new investment and GDP	Monitor and evaluate impact on new investment and GDP	High, though indirectly	High, though indirectly	Budget savings
		4. For PPP, enhance the framework for private participation in infrastructure through clarifying regulations for solicitation and evaluation of public-private partnerships (PPP) proposals and restricting project bidding to qualified firms. 5. Set tariff regimes closer to cost recovery.	NEDA PPP Center	Speed up implementation. Note: BOT Law IRR was recently amended. Any further policy reform may require legislation which may have marginal impact and low priority.	Same concept as above but for PPP	Monitor and evaluate impact on new investment and GDP	Monitor and evaluate impact on new investment and GDP	High, though indirectly	High, though indirectly	Budget savings

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
2	**Invest more in infrastructure: Power**	See "power" in support to manufacturing								
3	**Ports**	1. Invest in port modernization. 2. Enhance the roll-on roll-off (RORO) system. 3. Privatize port operations and reduce barriers to competition. 4. Rebalance port cargo traffic among various ports (e.g., Manila, Subic, and Batangas) to improve logistics and decongest NCR.	DOTC PPA	Legislation and EO - amendment to PD 505 (1974) as amended by the following: PD 857 (1975) EO 513 (1978) EO 159 (1987)	Conduct detailed study and prepare implementation plan	Implement high impact projects (e.g., major ports connecting large agricultural areas)	Implement remaining projects	High	High	Budget expansion
4	**Arterial roads and expressways**	**1. Fast-track pipeline and ongoing projects such as the NLEX-SLEX connector, Daang Hari Road, Ninoy Aquino International Airport Expressway, Tarlac-La Union Expressway, and Cavite-Laguna Expressway.**	DPWH DOTC	Budget law and implementation	Fast-track implementation for ongoing projects and prepare implementation plan for pipeline	Implement high impact projects (e.g., NLEX-SLEX connector)	Implement remaining projects	High	High	Budget expansion

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		2. Expand and adequately maintain existing highways, in particular the MacArthur Highway and Maharlika Highway, to improve traffic flow.								
5	**Urban commuter system**	1. Rationalize the public transport system, including a) reforming the incentive system for public transport operators, b) rationalizing the number of buses to meet actual demand, c) implementing a bus rapid transit system along the main roads of major cities 2. Increase the number of trains and integrate the ticketing system of the Light Rail Transit (LRT) system to	DOTC DPWH MMDA LTO LTFRB LRTA PNR	Budget law and implementation	Fast-track implementation for ongoing projects and prepare implementation plan for pipeline	Implement high impact projects (e.g., EDSA decongestion and key LRT lines)	Implement remaining projects	High	High	Budget expansion

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
		reduce waiting time. **3. Fast-track pipeline and ongoing projects to build additional train lines. These include extending the current lines (e.g. LRT 1, LRT 2, and MRT 3), building new lines along major city routes (e.g., along Espana-Quezon Avenue-Commonwealth-Quirino, along C5, and along Ortigas Ave.) and a high frequency suburban commuter rail to Region III and IV-A using the existing Philippine National Railway (PNR) lines.**								
6	**Invest more in basic education**	**1. Increase budget for basic education and improve absorptive capacity by addressing constraints to timely spending.** 2. Enhance curriculum and teaching methodology (e.g., use of vernacular in primary education).	DepEd DBM LGUs	Budget law and implementation	Implement the K to 12 Program and improve delivery of education inputs (e.g., classrooms, books, teachers)	Monitor and evaluate the K to 12 Program and continuous improvement of educational services	Monitor and evaluate the K to 12 Program and continuous improvement of educational services	Moderate	Moderate	Budget expansion

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		3. Improve procurement of teaching inputs (e.g., classrooms, teachers, materials). 4. In the medium-term, ensure successful implementation of the K to 12 Program.								
7	**Invest more in health**	1. Scale-up priority health interventions, including increasing capital investment in LGUs using performance-based approaches.	DOH LGU	Budget law, and implementation	Monitor and evaluate impact of scale-up on health outcome	Monitor and evaluate impact of scale-up on health outcome	Monitor and evaluate impact of scale-up on health outcome	Low	High	Budget expansion
		2. Expand universal health care coverage for indigent and informal sector using the NHTS-PR.	PHIC DSWD DOH	Budget law, and implementation	Expand to all poor households	Expand to all informal sector workers and achieve universal health care; improve service delivery and quality	Further improvement in service delivery and quality			

Public finance

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
1	Improve tax policy	1. Ensure effective implementation of the "Sin Tax Law," giving special focus to controlling smuggling of tobacco and alcohol products. **2. Rationalize fiscal incentives and regularly publish report on tax expenditure.** **3. Levy a national surtax on real properties to improve the equity of the tax system.** This should include updating property values to reflect market prices. The impact of higher property tax can be partially offset by lowering the rate of the capital gains tax and transfer tax, and abolishing the estate tax, which is very hard to collect in practice. 4. Begin work on a comprehensive tax reform program towards simplicity, efficiency, and equity.	Congress DOF DTI LGU	Legislation - amendment to Tax Code and other related laws	Pass the fiscal incentives law	Pass a comprehensive reform of tax policy including national surtax on real property	Monitor and evaluate impact on revenue generation	Low	Low	Revenue increase

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
2	Improve tax administration	**1. Re-engineer and simplify procedures and processes required of small and micro businesses followed by the full automation of all tax processes to facilitate taxpayer compliance and improve governance.** 2. Strengthen real-time monitoring of revenue performance at disaggregated levels to minimize tax leakages. **3. Issue an EO to mandate 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.** 4. Further enhance the integrity of revenue officials by, for example, requiring the public posting of net worth of top revenue officials.	Congress DOF BIR BOC OP	Legislation - amendment to the Tax Code and Executive order	Continue current efforts to improve tax admin	Continue current efforts to improve tax admin	Monitor and evaluate tax admin efforts for continuous improvement	Low	Low	Revenue increase

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
		5. Enhance internal and external audits (i.e., by the Commission on Audit [COA]) 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. 6. Institutionalize the recording and public reporting of key performance indicators to allow the public to track the performance of the BIR and BOC. **7. In BOC, strengthen efforts to curb smuggling by inspecting all outward movements of goods from special economic zones.**								

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
3	Strengthen budget preparation and execution	1. Institutionalize evaluation of key government programs (e.g., CCT), giving priority to the social contract flagship programs. 2. Enhance transparency and accountability of the budget process by making budget reports more accessible to the public (e.g., public posting in agency websites), implementing the treasury single account, and harmonizing the chart of accounts used in accounting reports with the budget classification. 3. Implement the roll-out of the Government Integrated Financial Management Information System (GIFMIS).	DBM DOF BTr COA	Regulation and implementation	Implement the unified chart of accounts; continue program evaluation of budget items	Ensure 100 percent public posting of budget reports for all agencies and levels of government.	Monitor and evaluate programs for continuous improvements	Low	Low	Budget savings

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
		4. Improve absorptive capacity by ensuring the i) timely and consistent passage of the national budget, ii) timely release of budget allocations to line agencies, and iii) more effective preparation of programs and projects.								
		5. Strengthen demand side for better PFM by promoting Open Data and Open Government, and accelerating participatory budgeting such as Bottom-Up Budgeting and community-driven development.	DBM LGU DSWD	Regulation and implementation	Improve bottom-up budgeting; pass the freedom of information act	Monitor and evaluate programs for continuous improvements	Monitor and evaluate programs for continuous improvements	Moderate	Moderate	Budget savings

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
4	Improve statistics	**1. Immediately improve the production of poverty and employment statistics. This should include provincial representation and more timely releases.**	NEDA NSO NSCB	Regulation and implementation	Redesign FIES and implement a pilot survey, complete the master sample	Conduct annual FIES and improve design as needed	Monitor and evaluate programs for continuous improvements	Moderate	Moderate	Budget neutral to expansion depending on the estimated cost of the redesigned FIES
		2. Update the Philippine Statistical Development Program to show clear priorities followed by the formulation of a sector medium-term expenditure framework to provide policymakers information on how much quality statistics will cost.	NEDA NSO NSCB BAS BLES SRTC	Regulation and implementation	Prepare IRR and MTEF	Monitor and evaluate PSDP programs	Monitor and evaluate programs for continuous improvements	Moderate	Moderate	Budget neutral to savings

Political reforms

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
1	Improve accountability of the civil service	1. Amend civil service laws to improve flexibility. The updated Code could consider i) clearly separating professional civil service positions and positions of confidence, ii) amending the definition applicable to civil servants' selection and promotion to competitive assessment of merit, iii) allowing the executive a degree of flexibility to adjust pay levels and pay scales without the need to go to Congress, and iv) enhancing the use of individual and group key performance indicators as basis for promotion, transfer, and pay hike. 2. Reduce the number of presidential appointments from the current 11,000 to around 5,000. At the same time, redefine the parameters for appointment of non-CES individuals to CES positions to strengthen professionalism.	Congress OP CSC DBM	Legislation - amendment to the Civil Service Code and related laws, and executive order	Evaluate and improve the use of performance bonus. Prepare executive order to limit appointments to the first two tiers of the civil service hierarchy.	Review civil service rules to improve flexibility, accountability, and performance management Implement improvements to civil service rules	Continuous improvement of civil service rules to improve performance and accountability	Low	Moderate	Budget savings

	Key recommendation (bold items are suggested priority reforms)	Some details of the reform/key provisions (bold items are suggested priority reforms)	Concerned agencies	Primary mode of reform	Action plan for the next 12 months (2013)	Action plan for the 13th to 48th months (2014-2016)	Long-term action plan (post 2016)	Potential impact on job creation	Potential impact on real income	Net impact on fiscal position
2	Improve organizational efficiency of the bureaucracy	Amend the Administrative Code of 1987 (EO 292) to improve organizational efficiency of the government, streamline the bureaucracy, improve the delivery of services, and align government functions with new technology. A special committee could be appointed to study the needed amendments.	Congress OP DBM	Legislation - amendment to the Administrative Code of 1987 (EO 292) and LG Code (RA 7160)	Create a high level committee to review the structure of the bureaucracy	Propose amendments to the Administrative and LG Codes	Evaluate the new government structure in terms of efficiency and efficacy of public service	Low	Moderate	Budget savings

	Key recommendation **(bold items are suggested priority reforms)**	**Some details of the reform/key provisions** **(bold items are suggested priority reforms)**	**Concerned agencies**	**Primary mode of reform**	**Action plan for the next 12 months (2013)**	**Action plan for the 13th to 48th months (2014-2016)**	**Long-term action plan (post 2016)**	**Potential impact on job creation**	**Potential impact on real income**	**Net impact on fiscal position**
3	Reduce patronage politics	1. Ensure the integrity of the registry of voters and enhance automation of elections. These include i) cleaning up the voters' registry to reflect the current voter population, and ii) ensuring the reliability of the Automated Election System by implementing random manual audits under strict guidelines to minimize opportunities for electoral fraud. 2. Support demand side measures to improve accountability of elected officials by broadening the use of public information campaigns and participatory development planning and implementation programs such as Bottom-Up Budgeting and community-driven development. 3. Improve poor voters' education by using the "Active Citizenship" module of the 4P (CCT) Program.	COMELEC	Regulation and implementation	Conduct more random manual audits in trial and actual phase Continue to clean up voters' registry Deliver Active Citizenship module	Evaluate the results based on more random manual audits and review effectiveness of the AES	Evaluate and continuous improvement of current system	Low	Moderate	Budget savings

Bibliography

Acevedo, G., Eskenazi, P. & Pagés, C., 2006. *Unemployment Insurance in Chile: A New Model of Income Support for Unemployed Workers.* Washington, DC: Social Protection, the World Bank.

Affiliated Network for Social Accountability in East Asia and the Pacific (ANSA-EAP), 2010. *The Bantay Lansangan (Road Watch) experience: Improving the Philippine road sector through vigilant monitoring and volunteerism,* Quezon City: ANSA-EAP, Ateneo School of Government.

Agoncillo, T. A., 1990. *History of the Filipino People.* Quezon City: Garotech Publishing .

Alampay, E. A., 2008. *Telecom Regulatory and Policy Environment in the Philippines: Results and Analysis of the 2008 TRE Survey.* s.l.:s.n.

Aldaba, F., 2002. *Labor market institutions and human development in the Philippines: Unions and industrial relations in a globalizing economy (special paper prepared for the Human Development Network).* s.l.:Human Development Network, World Bank.

Aldaba, F., 2012. *The political economy of minimum wage reform in the Philippines (background paper prepared for the Philippine Development Report 2013).* s.l.:s.n.

Aldaba, R. M., 2005. *The impact of market reforms on competition, structure and performance of the Philippine economy.* Makati: Philippine Institute for Development Studies.

Aldaba, R. M., 2008. *Assessing competition in Philippine markets.* Makati: Philippine Institute for Development Studies.

Anderson, K. & Martin, W., 2009. China and Southeast Asia. In: K. Anderson, ed. *Distortions to agricultural incentives: A global perspective, 1955-2007.* Washington, DC: World Bank, pp. 359-387.

Ang, A. P., 2007. *Workers' remittances and economic growth in the Philippines.* s.l.:Dynamics, Economic Growth, and International Trade.

Aquino, B., 2010a. *22-point labor and employment agenda.* [Online] Available at: http://www.dole.gov.ph/secondpage.php?id=1308

Aquino, B., 2010b. *A Social Contract with the Filipino People: Platform of government - a national leadership in need of transformational change.* [Online] Available at: http://www.gov.ph/about/gov/exec/bsaiii/platform-of-government/ [Accessed 2 August 2012].

Aquino, B. S., 2012. *(English translation) Benigno S. Aquino III, Third State of the Nation Address, July 23, 2012.* [Online]
Available at: http://www.gov.ph/2012/07/23/english-translation-benigno-s-aquino-iii-third-state-of-the-nation-address-july-23-2012/
[Accessed November 2012].

Arnold, J. & Villareal, T., 2002. *Philippine Logistics Study (background document prepared for the Philippines Trade and Transport Facilitation Assessment).* Washington, DC: World Bank.

Asian Development Bank and the World Bank, 2005a. *Improving the investment climate in the Philippines,* Manila: Asian Development Bank and the World Bank.

Asian Development Bank and the World Bank, 2005b. *Investment climate survey,* Manila: Asian Development Bank and the World Bank.

Asian Development Bank and World Bank, 2005. *Investment climate survey,* Manila: Asian Development Bank and World Bank.

Asian Development Bank, 2005. *Philippines: Moving Toward a Better Investment Climate,* Mandaluyong City: Asian Development Bank.

Asian Development Bank, 2007. *Philippines: Critical Development Constraints,* Mandaluyong City: Asian Development Bank.

Austria, M. S., 2001. *The State of Competition and Market Structure of the Philippine Air Transport Industry.* s.l.:PASCN, Philippine Institute for Development Studies.

Azucena, C. A., 2007. *Everyone's Labor Code.* 5th ed. Manila: Rex Book Store.

Balisacan, A. M., 2009. *Pathways out of rural poverty: Is agrarian reform passé? [PowerPoint slides].* Quezon City: s.n.

Balisacan, A. M. & Hill, H., 2003a. An introduction to the key issues. In: A. M. Balisacan & H. Hill, eds. *The Philippine economy: development, policies and challenges.* Quezon City: Ateneo de Manila University Press.

Balisacan, A. M. & Hill, H. eds., 2003b. *The Philippine economy: development, policies and challenges.* Quezon City: Ateneo de Manila University Press.

Ballesteros, M. M., 2010. *The cost of redistributive land reform in the Philippines: Assessment of PD 27 and RA 6657 (CARL).* Makati: Philippine Institute for Development Studies.

Becker, U., 1999. *The 'Dutch Miracle': Employment growth in a retrenched but still generous welfare system.* Kensington, NSW: Social Policy Research Centre.

Bernardo, R. L. & Tang, M.-C. G., 2008. *The political economy of reform during the Ramos administration (1992-98).* Washington, DC: World Bank (On behalf of the Commission on Growth and Development).

Besley, T. & Burgess, R., 2003. Halving global poverty. *The Journal of Economic Perspectives,* 17(3), pp. 3-22.

Bitonio, B. J., 2008. *Labour market governance in the Philippines: Issues and institutions.* Manila: International Labour Organization Subregional Office for South-East Asia and the Pacific.

Bocchi, A., 2006. *Rising growth, declining investment: The puzzle of the Philippines - Breaking the "low-capital-stock" equilibrium.* Washington, DC: World Bank.

Botero, J., Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A., 2004. The regulation of labor. *The Quarterly Journal of Economics,* November.pp. 1339-1382.

Briones, R. M., 2012. *Agriculture and rural employment: Links to overall inclusive growth in the Philippines (Background paper prepared for the Philippine Development Report 2013).* s.l.:s.n.

Bureau of Agricultural Statistics, 2011a. *Marketing costs structure: White corn,* Quezon City: Department of Agriculture, Bureau of Agricultural Statistics.

Bureau of Agricultural Statistics, 2011b. *Marketing costs structure: Yellow corn,* Quezon City: Department of Agriculture, Bureau of Agricultural Statistics.

Bureau of Local Employment, 2011. *Labor Market Monitor: Demand - supply of workers from DOLE administrative records: 1st Quarter 2011,* Manila: Department of Labor and Employment.

Business Process Association of the Philippines, 2012. *Addressing Labor-Market Mismatch for Global Competitiveness (PowerPoint presentation in National Competitiveness Council Dialogues Dialogues 3).* s.l.:s.n.

Cacnio, F., 2011. *Do higher wages cause inflation?.* Manila: Bangko Sentral ng Pilipinas.

Canlas, D., 1984. *An analysis of the Philippine economic crisis: a workshop report.* Quezon City: University of the Philippines Press.

Canlas, D., Aldaba, F. & Esguerra, E., 2006. *Growth, employment creation, and poverty reduction in the Philippines (country paper submitted to the United Nations Development Programme (UNDP) Regional Office, Colombo, Sri Lanka, February 2006).* s.l.:s.n.

Card, D., 1992. *Using regional variation in wages to measure the effects of federal minimum wage.* Cambridge, MA: National Bureau of Economic Research.

Card, D. & Krueger, A., 2000. Minimum wages and employment: A case study of the fast-food industry in New Jersey and Pennsylvania: Reply. *The American Economic Review,* December, 90(5), pp. 1397-1420.

Castillo-Freeman, A. & Freeman, R. B., 1992. When the minimum wage really bites: the effect of the US-level minimum on Puerto Rico. In: G. J. Borjas & R. B. Freeman, eds. *Immigration and the workforce: Economic consequences for the United States and source areas.* Chicago, IL: University of Chicago Press, pp. 177-212.

Cazes, S., 2008. *Flexicurity in Europe: A short note on challenges and opportunities (Paper prepared for the High-Level Dialogue on the European Social Model in the Context of Globalization, 1-3 July 2008).* s.l.:With the financial assistance of the European Union .

Chami, R., Fullenkamp, C. & Jahjah, S., 2003. *Are immigrant remittance flows a source of capital for development?.* Washington, DC: International Monetary Fund.

Chandra, V., Lin, J. Y. & Wang, Y., 2012. *Leading dragons phenomenon: New opportunities for catch-up in low-income countries.* Washington, DC: World Bank.

Chua, K. K. T., 2011. *Why are tax administration reforms difficult to achieve? Findings from game theoretic modeling.* Quezon City: University of the Philippines School of Economics.

Clemens, M., Montenegro, C. E. & Pritchett, L., 2009. *The place premium: Wage differences for identical workers across the US border.* Cambridge, MA: Harvard Kennedy School (John F. Kennedy School of Government).

Congress of the Philippines, 2001. Joint resolution no. 31. In: *Report and recommendations of the Congressional Commission on Labor: Human capital in the emerging economy.* Quezon City: House of Representatives, pp. xi-xvii.

Congressional Planning and Budget Department, House of Representatives (note), 2008. *Facts in Figures: Profile of the Informal Sector.* Quezon City: House of Representatives.

Congressional Policy and Budget Research Department, House of Representatives, 2011. *Agency Budget Notes: Department of Agrarian Reform,* Quezon City: House of Representatives.

Cook, M. L., 2007. *The politics of labor reform in Latin America: Between flexibility and rights.* University Park, PA: The Pennsylvania State University Press.

Cororaton, C. B., Corong, E. & Cockburn, J., 2009. *Agricultural price distortions, poverty and inequality in the Philippines.* Washington, DC: World Bank.

Corpuz, O. D., 1997. *An economic history of the Philippines.* Quezon City: University of the Philippines Press.

David, C. C., Briones, R. M., Inocencio, A. E., Intal, P. S., Geron, Ma. P. S., & Ballesteros, M. M., 2012. *Monitoring and evaluation of agricultural policy indicators.* Makati: Philippine Institute for Development Studies.

David, C. C., 2003. Agriculture. In: A. Balisacan & H. Hill, eds. *The Philippine economy: development, policies, and challenges.* Quezon City: Ateneo de Manila University Press, pp. 175-218.

David, C., Intal, P. & Balisacan, A. M., 2009. The Philippines. In: K. Anderson & W. Martin, eds. *Distortions to agricultural incentives in Asia.* Washington, DC: World Bank.

de Dios, E., Diokno, B., Esguerra, E., Fabella, R., Bautista, M., Medalla, F., Monsod, S., Pernia, E., Reside, R., Sicat, G., & Tan, E., 2004. *The deepening crisis: The real score on deficits and the public debt.* Quezon City: University of the Philippines School of Economics.

de Dios, E., Diokno, B., Esguerra, E., Fabella, R., Bautista, Ma., Medalla, F., Monsod, S., Pernia, E., Reside, R., Sicat, G., & Tan, E., 2005. *The economy on a cusp: The proposed VAT amendments and their larger significance.* Quezon City: University of the Philippines School of Economics.

de Dios, E., 2008. *Institutional constraints on Philippine growth.* Quezon City: University of the Philippines School of Economics.

de Dios, E., Fabella, R. & Medalla, F., 2007. *Beyond the remittances-driven economy: Notes as if the long-run mattered (monograph).* s.l.:Center for National Policy and Strategy.

de Dios, E. & Hutchcroft, P., 2003. Political economy. In: A. Balisacan & H. Hill, eds. *The Philippine economy: development, policies, and challenges.* Quezon City: Ateneo de Manila University Press, pp. 45-73.

Deininger, K., Olinto, P. & Maertens, M., 2000. *Redistribution, investment, and human capital accumulation: The case of agrarian reform in the Philippines (mimeo).* Washington, DC: World Bank.

Del Carpio, X., Margolis, D. N. & Okamura, Y., 2012a. *A micro-simulation-based estimation of the effects of minimum wage changes in the Philippines [PowerPoint slides].* s.l.:s.n.

Del Carpio, X., Nguyen, H. & Wang, L. C., 2012b. *Does the minimum wage affect employment? Evidence from the manufacturing sector in Indonesia.* Washington, DC: World Bank.

Department of Labor and Employment, 2011. *The Philippine labor and employment plan 2011 – 2016: Inclusive growth through decent and productive work,* Manila: Department of Labor and Employment.

Department of Public Works and Highways, 2010. *Right project. Right cost. Right quality. (2010 Annual Report),* Manila: Department of Public Works and Highways.

Dickens, R., Machin, S. & Manning, A., 1999. The effects of minimum wages on employment: Theory and evidence from Britain. *Journal of Labor Economics,* 17(1), pp. 1-22.

Diokno, B. E., 2005. *Reforming the Philippine tax system: Lessons from two tax reform programs.* Quezon City: University of the Philippines School of Economics.

Dollar, D., 2007. *Poverty, inequality and social disparities during China's economic reform.* Washington, DC: World Bank.

Dollar, D., 2008. *Lessons from China for Africa.* Washington, DC: World Bank.

Eastwood, R., Lipton, M. & Newell, A., 2010. Farm size. In: P. Pingali & R. Evenson, eds. *Handbook of agricultural economics.* Amsterdam: Elsevier.

Echeverry, J. C. & Mauricio, S. M., 2004. *The political economy of labor reform in Colombia (background paper prepared for the World Development Report 2005).* Washington, DC: World Bank.

Esguerra, E., 2004. *Labor assessment: The Philippines (unpublished paper).* s.l.:University of the Philippines School of Economics.

Esguerra, E., 2011. *Searching for the balance between flexibility and workers' security (Is it time to reform labor market policies?).* [Online]
Available at: http://www.econ.upd.edu.ph/perse/?p=301
[Accessed 19 January 2012].

Esguerra, E. & Jandoc, K., 2009a. *Assessing the Outcomes of a Minimum Wage Increase (working paper).* Quezon City: University of the Philippines School of Economics.

Esguerra, E. & Manning, C., 2007. Regional labour markets and economic development in the Philippines. In: A. Balisacan & H. Hill, eds. *The dynamics of regional development: The Philippines in East Asia.* Cheltenham, UK: Edward Elgar.

Esguerra, J., Balisacan, A. & Confessor, N., 2001. The Philippines: Labor market trends and government interventions following the East Asian financial crisis. In: G. Betcherman & R. Islam, eds. *East Asian labor markets and the economic crisis: Impacts, responses, and lessons.* Washington, DC: World Bank, pp. 195-244.

Esguerra, J., Ogawa, M. & Vodopivec, M., 2002. *Options of Public Income Support for the Unemployed in the Philippines.* Washington, DC: Social Protection Unit, Human Development Network, the World Bank.

Estudillo, J., Sonobe, T. & Otsuka, K., 2007. Development of the rural non-farm sector in the Philippines and lessons from the East Asian experience. In: A. Balisacan & H. Hill, eds. *The dynamics of regional development: The Philippines in East Asia.* Cheltenham, UK: Edward Elgar.

European Commission, 2007. *Towards common principles of flexicurity: More and better jobs through flexibility and security,* Luxembourg: European Communities.

Fabella, R. V., 2003. *Comprehensive Agrarian Reform Program and the Coase Theorem.* Quezon City: University of the Philippines School of Economics.

Fan, S. & Chan-Kang, C., 2005. Is small beautiful? Farm size, productivity, and poverty in Asian agriculture. *Agricultural Economics,* Volume 32, p. 135–146.

Fashoyin, T., 2003. *Social Dialogue and Labour Market Performance in the Philippines.* Geneva: International Labour Office .

Felipe, J. & Lanzona, L., 2006. Unemployment, labor laws and economic policies in the Philippines: A stocktaking review. In: J. Felipe & R. Hasan, eds. *Labor markets in Asia: Issues and perspectives.* New York: Palgrave Macmillan.

Fuwa, N., 2007. Pathways out of rural poverty: A case study in socio-economic mobility in the rural Philippines. *Cambridge Journal of Economics,* January, 31(1), pp. 123-144.

Gonzales, P., Guzman, J. C., Partelow, L., Pahlke, E., Jocelyn, L., Kastberg, D., & Williams, T., 2004. *Trends in international mathematics and science study (TIMSS) 2003,* Washington, DC: National Center for Education Statistics.

Government of the Philippines, Asian Development Bank, Japan International Cooperation Agency, and World Bank, 2012. *Philippines Country Procurement Assessment Report,* s.l.: Government of the Philippines, Asian Development Bank, Japan International Cooperation Agency, and World Bank.

Gustafsson, S., Kenjoh, E. & Wetzels, C., 2001. *Employment choices and pay differences between non-standard and standard work in Britain, Germany, Netherlands, and Sweden.* Amsterdam and Rotterdam: Tinbergen Institute.

Habito, C., 2013. No free lunch (column): Pillars of inclusive growth. *Philippine Daily Inquirer*, 15 July.

Hartog, J., 1999. *The Netherlands: So what's so special about the Dutch model?.* Geneva: Employment and Training Department, International Labor Office.

Hasan, R. & Jandoc, K. R., 2010. Workers' earnings in the Philippines: Comparing self-employment with wage employment. *Asian Development Review,* 47(1), pp. 43-79.

Hausmann, R., Hidalgo, C. A., Bustos, S., Coscia, M., Chung, S., Jimenez, J., Simoes, A., & Yıldırım, M. A., 2011. *The atlas of economic complexity: Mapping paths to prosperity.* s.l.:Puritan Press.

Hayami, Y., Quisumbing, M. A. R. & Adriano, L. S., 1990. *Toward an Alternative Land Reform Paradigm: A Philippine Perspective.* Quezon City: Ateneo University Press.

Hill, H., 2003. Industry. In: A. M. Balisacan & H. Hill, eds. *The Philippine economy: Development, policies, and challenges.* Quezon City: Ateneo de Manila University Press, pp. 219-253.

Hirose, K. & Vitasa, B. C., 2007. *Implementation of the labour standards enforcement framework in the Philippines [Working Paper 14].* Manila: International Labour Organization Subregional Office for South-East Asia and the Pacific.

Human Development Network, 2005. *Philippine Human Development Report 2005: Peace, Human Security and Human Development in the Philippines ,* s.l.: Human Development Network in cooperation with the United Nations Development Programme and United Nations Development Programme.

Human Development Network, 2010. *In search of a human face: 15 years of knowledge building for human development in the Philippines.* s.l.:Human Development Network in cooperation with the United Nations Development Programme.

Hutchcroft, P., 1998. *Booty capitalism: The politics of banking in the Philippines.* Ithaca, NY: Cornell University Press.

Hutchcroft, P. D. & Rocamora, J., 2003. Strong demands and weak institutions: The origins and evolution of the democratic deficit in the Philippines. *Journal of East Asian Studies,* 3(2), p. 259–292.

International Finance Corporation, 2013 [forthcoming]. *Philippines agribusiness competitiveness and benchmarking study: Component on competition in transport services,* Makati: International Finance Corporation.

International Labour Office, 2006. *Third item on the agenda: Strategies and practice for labour inspection.* Geneva: International Labour Office.

International Labour Office, 2008. *Global Wage Report 2008/09 Minimum wages and collective bargaining: Towards policy coherence,* Geneva: International Labour Organization.

International Labour Office, 2009a. *A framework for minimum wage policies: Principles and applications (note prepared by Sangheon Lee [Conditions of Work and Employment Programme, International]).* Geneva: International Labour Organization.

International Labour Office, 2009b. *Global Wage Report Update 2009,* Geneva: International Labour Office.

International Labour Office, 2009c. *The introduction of hourly minimum wages and beyond in the Philippines: Comments and Observations (note prepared by Sangheon Lee, Conditions of Work and Employment Programme).* Geneva: International Labour Organization.

International Labour Office, 2010. *Global Wage Report 2010/11: Wage policies in times of crisis,* Geneva: International Labour Organization.

Japan Bank for International Cooperation, 2002. *Cash crop distribution systems in the Philippines,* s.l.: Japan Bank for International Cooperation Institute.

Japan International Cooperation Agency and Maritime Industry Authority, 2005. *The Study on Domestic Shipping Development Plan in the Republic of the Philippines: Final Report - Summary and Volume 1,* s.l.: ALMEC Corporation.

Japan International Cooperation Agency, 2013 [forthcoming]. *Transport Infrastructure Development Roadmap for Mega Manila,* s.l.: Japan International Cooperation Agency.

Javorcik, B. S. & Spatareanu, M., 2005. Do Foreign Investors Care about Labor Market Regulations?. *Review of World Economics,* 141(3), pp. 375-403.

Joint Foreign Chambers of the Philippines, 2010. *Arangkada Philippines 2010: A business perspective.* s.l.:Joint Foreign Chambers of the Philippines.

Joint Foreign Chambers of the Philippines, 2012. *Let's make the foreign investment negative list less negative.* s.l.:s.n.

Jørgensen, H. & Madsen, P. K., 2007. Flexicurity and beyond - Reflections on the nature and future of a political celebrity. In: H. Jørgensen & P. K. Madsen, eds. *Flexicurity and beyond: Finding a new agenda for the European Social Model .* Copenhagen: DJØF, pp. 7-34.

Kako, T., 2005. *“Japanese rice demand and strategy to expand rice demand” (in Japanese).* s.l.:s.n.

Kasuya, Y., 2006. *Presidential term limit and party system stability in new democracies (preliminary draft of paper prepared for delivery at the 2006 Annual Meeting of the American Political Science Association, August 31- September 3, 2006).* s.l.:American Political Science Association.

Kasuya, Y., 2009. Much ado about nothing?: Can politics and term limit in the Philippines. *Keio Journal of Politics,* Volume 14, pp. 67-83.

Keefer, P. & Zoratto, L., 2012. *The political economy of rice policies in the Philippines (unpublished background note).* s.l.:World Bank.

Khan, T. & van den Brink, R., 2012. *The Dutch Disease: Some Lessons for Mongolia (note).* Washington, DC: World Bank.

Khemani, S., 2013. *Buying votes vs. supplying public services: Political incentives to under-invest in pro-poor policies.* Washington, DC: World Bank.

Kim, S. H., 1992. *Farm size and structural reform of agriculture: Korea (bulletin).* Taipei: Food and Fertilizer Technology Center.

Krueger, A. O., Schiff, M. & Valdés, A., 1992. *The political economy of agricultural pricing policy.* Washington, DC; Baltimore, Maryland: World Bank; The Johns Hopkins University Press.

Krugman, P., Alm, J., Collins, S. & Remolona, E., 1992. *Transforming the Philippine Economy.* Quezon City: APO Production Unit, Inc..

Kugler, A., 1999. The impact of firing costs on turnover and unemployment: Evidence from the Colombian labour market reform. *International Tax and Public Finance,* Volume 6, pp. 389-410.

Lanzona, L. J., 2012. *The impact of minimum wages on output and employment in labor-intensive manufacturing industries in the Philippines (background paper prepared for the Philippine Development Report 2013).* s.l.:World Bank.

Lazear, E., 1990. Job security provisions and employment. *The Quarterly Journal of Economics,* August, 105(3), pp. 699-726.

Leigh, A., 2004. Employment effects of minimum wages: Evidence from a quasi-experiment—Erratum. *Australian Economic Review ,* 37(1), pp. 102-105.

Lemos, S., 2005. *Minimum wage effects on wages, employment and prices: implications for poverty alleviation in Brazil.* Leicester: University of Leicester.

Leonillo, G., 2010. *Government Watch (G-Watch) through the years.* [Online] Available at: http://www.asg.ateneo.edu/news2.php?newsid=123 [Accessed 15 October 2012].

Lidasan, H. S. & Castro, J. T., 2009. *Philippine Intermodal Logistics System and Policies [PowerPoint slides].* s.l.:s.n.

Lim, J. Y., 1996. *Philippine macroeconomic developments, 1970-1993.* Quezon City: Philippine Center for Policy Studies.

Lin, J. Y., 2012. *New Structural Economics: A Framework for Rethinking Development and Policy.* Washington, DC: World Bank.

Lipton, M. & Ravallion, M., 1993. *Poverty and policy.* Washington, DC: World Bank.

Luo, X., 2009. *Diparities in Labor Market Performance in the Philippines.* Washington, DC: World Bank.

Macaraya, B., 2001. *The Philippines workers' protection in a new employment relationship (paper).* s.l.:s.n.

Maloney, W. F. & Ribeiro, E. P., 1999. *Efficiency wage and union effects in labor demand and wage structure in Mexico.* Washington, DC: World Bank.

McDonald, J. T. & Valenzuela, M. R., 2009. *The impact of skill mismatch among migrants on remittance behaviour.* Hamilton, ON: McMaster University.

Medalla, E. M. ed., 2002. *Toward a National Competition Policy for the Philippines.* Makati: Philippine APEC Study Center Network and Philippine Institute for Development Studies.

Medalla, F., 2009. *The Economics and Politics of Minimum Wage Setting in the Philippines.* s.l.:s.n.

Micro, Small, and Medium Enterprise Development Council, 2011. *Micro, small, and medium enterprise development plan 2011-2016,* Makati City: Bureau of Micro, Small, and Medium Enterprise Development, Department of Trade and Industry.

Montalvo, J. G. & Ravallion, M., 2009. *The pattern of growth and poverty reduction in China.* Washington, DC: Director's Office, Development Research Group, World Bank.

Montenegro, C. & Pages, C., 2004. Who Benefits from Labor Market Regulations? Chile, 1960-1998. In: *Law and Employment: Lessons from Latin America and the Caribbean.* Chicago, IL: University of Chicago Press.

Moretti, E., 2011. Local labor markets. In: O. Ashenfelter & D. Card, eds. *Handbook of labor economics.* 1st ed. s.l.:Elsevier.

Mullis, I. V., Martin, M. O. & Foy, P. (with Olson, J.F., Preuschoff, C., Erberber, E., Arora, A., & Galia, J.), 2008. *TIMSS 2007 international mathematics report: Findings from IEA's Trends in International Mathematics and Science Study at the fourth and eighth grades,* Chestnut Hill, MA: TIMSS & PIRLS International Study Center, Boston College.

Mundlak, Y., Larson, D. E. & Butzer, R., 2004. Determinants of agricultural growth in Thailand, Indonesia, and the Philippines. In: T. Akiyama & D. Larson, eds. *Rural development and agricultural growth in Indonesia, the Philippines, and Thailand.* Washington, DC: World Bank.

Murata, A., 2012a. *Philippine Talents and Overseas Jobs (background paper prepared for the Philippine Development Report 2013).* s.l.:World Bank.

Murata, A., 2012b. *Determinants of foreign direct investment in to the Philippines (background paper prepared for the Philippine Development Report 2013).* s.l.:s.n.

National Center for Transportation Studies, 2007. *Inception Report: Environment and Natural Resources Capacity and Operations Enhancement (ENR CORE) Programme GRP-UNDP Country Programme Action Plan (CPAP) 2007,* Quezon City: National Center for Transportation Studies.

National Economic and Development Authority, 2011. *Philippine Development Plan 2011-2016,* Pasig City: National Economic and Development Authority.

National Economic and Development Authority, 2013. *Socioeconomic Report: The first two years of the Aquino administration (2010-2012),* Pasig: National Economic and Development Authority.

National Statistical Coordination Board, 2007. *Informal employment and informal sector data collection: Strategy, tools and advocacy [PowerPoint slides].* s.l.:s.n.

Naughton, B., 2007. *The Chinese economy: Transitions and growth.* Cambridge, MA: The Massachusetts Institute of Technology Press.

Neumark, D. & Wascher, W., 2007. *Minimum wages and employment.* s.l.:Institute for the Study of Labor.

Ofreneo, R. & Hernandez, J., 2011. *Freedom of Association and Collective Bargaining in the Philippine Export Processing Sector (working paper).* s.l.:s.n.

Ofreneo, R. & Hernandez, J., 2012a. *Promoting fairness and inclusive growth in outsourcing arrangements (background paper prepared for the Philippine Development Report 2013).* s.l.:s.n.

Ofreneo, R. & Hernandez, J., 2012b. *Ensuring just and speedy settlement of labor disputes (background paper prepared for the Philippine Development Report 2013).* s.l.:s.n.

Olfindo, R. & Okamura, Y., 2012. *Social protection and labor (background paper prepared for the Philippine Development Report 2013).* s.l.:s.n.

Orbeta, A. J. & Abrigo, M., 2009. *Philippine international labor migration in the past 30 years: Trends and prospects.* Makati: Philippine Institute for Development Studies.

Ortiz-Luis, S., 2008. *The practical approach to benefit the majority.* Makati: Employers Confederation of the Philippines.

Otsuka, K., 1991. Determinants and consequences of land reform implementation in the Philippines. *Journal of Development Economics,* Volume 35, pp. 339-355.

Paderanga, C. J., 2011. *Private Sector Assessment Philippines,* Mandaluyong City: Asian Development Bank.

Philippine Institute for Development Studies, 2010. *Labor Policy Issues in the Philippine Context.* Makati: Philippine Institute for Development Studies.

Pierre, G., 2012. *International evidence on social protection and labor market policies best practices and the role of LM policies in job creation (background paper prepared for the Philippine Development Report 2013).* s.l.:s.n.

Pierre, G. & Scarpetta, S., 2004. Employment Regulations through the eyes of employers: Do they matter and how do firms respond to them?. 18 October.

Putzel, J., 1992. *A captive land: The politics of land reform in the Philippines.* Quezon City: Ateneo de Manila University .

Regidor, J. R. F., 2012. *Revisiting the costs of traffic congestion in Metro Manila and their implications.* Quezon City, National Center for Transportation Studies.

Reyes, C. M., 2002. *The poverty fight: Have we made an impact?.* Makati: Philippine Institute for Development Studies.

Robalino, D., Vodopivec, M. & Bodor, A., 2009. *Savings for unemployment in good or bad times: Options for developing countries.* Washington, DC: Social Protection and Labor, the World Bank.

Robinson, J., 2012. *Note of James Robinson to the Cabinet of the Government of the Philippines on the occasion of his visit to the Philippines in December 2012.* s.l.:s.n.

Rodrik, D., 2011. *Unconditional convergence.* London: Centre for Economic Policy Research.

Rodrik, D., 2012. *No more growth miracles.* [Online]
Available at: http://www.project-syndicate.org/print/no-more-growth-miracles-by-dani-rodrik
[Accessed 8 October 2012].

Saget, C., 2008. Fixing minimum wage levels in developing countries: Common failures and remedies. *International Labour Review,* 147(1), pp. 25-42.

Salazar-Rodolfo, M. C. L., 2011. Chapter 3: Exploring the political economy of civil aviation reforms in the Philippines. In: *Built on dreams, grounded in reality: Economic policy reform in the Philippines.* Makati: The Asia Foundation, pp. 40-62.

Santamaria, J. & Watts, A. G., 2003. *Public policies and career development: A framework for the design of career information, guidance and counseling services in developing and transition countries - Country Report on Philippines,* Washington, DC: World Bank.

Schiff, M. & Valdés, A., 1992. *The plundering of agriculture in developing countries (booklet).* Washington, DC: World Bank.

Semiconductor and Electronics Industries in the Philippines, Inc., 2012. *The Philippine electronics industry: The driver of the Philippine economy [PowerPoint slides].* s.l.:s.n.

Senate Economic Planning Office, 2008. *Broadening and reinforcing the benefits of land reform in the Philippines.* s.l.:s.n.

Sicat, G., 2002. *Political economy of Philippine economic reforms.* Quezon City: University of the Philippines School of Economics.

Sicat, G., 2004. *Labor issues of Philippine development during Blas Ople's times.* Quezon City: University of the Philippines School of Economics.

Sicat, G., 2009. *Labor policies and Philippine companies: Analysis of survey opinions.* Quezon City: University of the Philippines School of Economics.

Sicat, G. P., 2012. *To raise labor income and employment faster.* Manila: s.n.

Simbulan, D. C., 2005. *The modern principalia: The historical evolution of the Philippine ruling oligarchy.* Quezon City: University of the Philippines Press.

Teruel, R. & Kuroda, Y., 2004. An empirical analysis of productivity in Philippine agriculture, 1974-2000. *Asian Economic Journal,* 18 (3), pp. 319-344.

Teruel, R. & Kuroda, Y., 2005. Public infrastructure and productivity growth in Philippine agriculture, 1974-2000. *Journal of Asian Economics,* 16(3), pp. 555-576.

The Asia Foundation, 2011. *Built on dreams, grounded in reality: Economic policy reform in the Philippines.* Makati City: The Asia Foundation.

Timmer, C. P., 2007. *The structural transformation and the changing role of agriculture in economic development: Empirics and implications (Wendt lecture).* Washington, DC: American Enterprise Institute.

Timmer, C. P. & Akkus, S., 2008. *The structural transformation as a pathway out of poverty: Analytics, empirics and politics.* Washington, DC: Center for Global Development.

Todaro, M. & Smith, S., 2006. *Economic Development.* 9th ed. s.l.:Pearson Addison Wesley.

Tolentino, B., 2000. Monitoring the implementation of the 1999-2004 MTPDP with regard to the provision of rural roads. In: *Rural development and natural resources management: Trends, strategy implementation, and framework performance indicator system.* Manila: Government of the Philippines and World Bank, pp. 1-17, Annex 10.

United Parcel Service Inc. (UPS), 2009. *Asia Business Monitor Report 2009,* s.l.: United Parcel Service Inc. (UPS).

United States Department of State, 2010. *Philippines (04/19/10).* [Online] Available at: http://www.state.gov/outofdate/bgn/philippines/150354.htm [Accessed October 15 2012].

University of the Philippines Mindanao, 2013. *Rural Connectivity and Agricultural Supply Chain Analysis in Mindanao, Philippines,* s.l.: University of the Philippines Mindanao.

Usui, N., 2012. *Taking the right road to inclusive growth: industrial upgrading and diversification in the Philippines,* Mandaluyong City: Asian Development Bank.

Vaillancourt, L., n.d. *IFC Study on SME Financing.* s.l.:s.n.

Virola, R., 2001. *Measuring the Contribution of the Informal Sector in the Philippines.* Makati: National Statistical Coordination Board.

Visser, J. & Hemerijck, A., 1997. *A Dutch Miracle'. Job Growth, Welfare Reform and Corporatism in the Netherlands.* Amsterdam: Amsterdam University Press.

Vodopivec, M., 2004. *Income support for the unemployed: Issues and options,* Washington, DC: World Bank.

Vodopivec, M., 2009. *Introducing unemployment insurance to developing countries.* Washington, DC: Social Protection and Labor, the World Bank .

Vodopivec, M. & Raju, D., 2002. *Income support systems for the unemployed: Issues and options.* Washington, DC: Social Protection Unit, Human Development Network, the World Bank.

Vollrath, D., 2007. Land distribution and international agricultural productivity. *American Journal of Agricultural Economics,* February, 89(1), pp. 202-216.

Wilthagen, T. & Tros, F., 2004. The concept of 'flexicurity': a new approach to regulating employment and labour markets. *TRANSFER – European Review of Labour and Research,* 10(2), pp. 166-186.

Wooldridge, J. M., 2009. *Introductory econometrics: A modern approach.* 4th ed. Mason, OH: South-Western Cengage Learning.

World Bank and the International Finance Corporation, 2008. *Enterprise Surveys: Philippines Country Profile 2009,* Washington, DC: World Bank and the International Finance Corporation.

World Bank and the International Finance Corporation, 2009. *Doing Business 2010: Reforming through difficult times,* Washington, DC: World Bank and the International Finance Corporation.

World Bank and the International Finance Corporation, 2012. *Doing Business 2013: Smarter regulations for small and medium-size enterprises,* Washington, DC: World Bank and the International Finance Corporation.

World Bank, 1993. *The East Asian Miracle.* New York, NY: Oxford University Press.

World Bank, 1995. *Philippines public expenditure management for sustained and equitable growth (Volume 2),* Washington, DC: World Bank.

World Bank, 1997. *Philippines - Managing global integration (volumes 1 and 2, report no. 17024-PH),* Washington, DC: Poverty Reduction and Economic Management Sector Unit, East Asia and Pacific Regional Office, World Bank.

World Bank, 1999. *Philippines: The challenge of economic recovery,* Washington, DC: World Bank.

World Bank, 2004. *World Development Report 2005: A better investment climate for everyone,* Washington, DC and New York, NY: World Bank and Oxford University Press.

World Bank, 2005. *EAP infrastructure at a glance: Benchmarks and comparisons,* s.l.: World Bank.

World Bank, 2007. *World Development Report 2008: Agriculture for development,* Washington, DC: World Bank.

World Bank, 2008. *Minimum wages in developing countries: Helping or hurting workers? (note prepared by Katherine Terrell and Rita K. Almeida).* Washington, DC: World Bank.

World Bank, 2009a. *Land reform, rural development, and poverty in the Philippines: Revisiting the agenda (Technical working paper).* Washington, DC: World Bank.

World Bank, 2009b. *Philippines: Fostering more inclusive growth (Volumes I and II),* Washington, DC: World Bank.

World Bank, 2010a. *Indonesia Jobs Report: Towards better jobs and security for all,* Washington, DC: World Bank.

World Bank, 2010b. *Philippine skills report: Skills for the labor market in the Philippines,* Washington, DC: World Bank.

World Bank, 2010c. *Philippines Quarterly Update: The recovery continues despite global financial turbulence (June 2010),* s.l.: World Bank Manila Office.

World Bank, 2010d. *Philippines: Fostering more inclusive growth (Main report),* Washington, DC: World Bank.

World Bank, 2011a. *Medium Term Spending Plan for Basic Education, 2012-17, Draft,* s.l.: World Bank.

World Bank, 2011b. *Philippine discussion notes: Challenges and options for 2010 and beyond,* Washington, DC: World Bank.

World Bank, 2011c. *Philippines - Public Expenditure Review : Strengthening public finance,* s.l.: World Bank.

World Bank, 2012. *World Development Report 2013: Jobs,* Washington, DC: World Bank.

World Bank, 2013a [forthcoming]. *Philippines: A tax system for high and inclusive growth,* Washington, DC: World Bank.

World Bank, 2013b. *Improving land sector governance in the Philippines: Implementation of the land governance assessment framework (draft report),* s.l.: World Bank.

World Economic Forum, 2006. *The Global Competitiveness Report 2006-2007,* Geneva: World Economic Forum.

World Economic Forum, 2012. *The Global Competitiveness Report 2012-2013,* Geneva: World Economic Forum.