REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
MALACAÑANG, MANILA

NATIONAL BUDGET MEMORANDUM No. 119

December 27, 2013

FOR : All Heads of Departments, Agencies, Bureaus, Offices, Commissions, State Universities and Colleges, Other Instrumentalities of the National Government and All Others Concerned

SUBJECT : **BUDGET PRIORITIES FRAMEWORK FOR THE PREPARATION OF THE FY 2015 AGENCY BUDGET PROPOSALS**

1.0 RATIONALE

The FY 2015 Budget is the penultimate budget of the Aquino Administration. For this reason, the **BUDGET PRIORITIES FRAMEWORK (BPF)** for 2014-2016, which was introduced for the FY 2014 Budget, will be adopted to guide all departments and agencies to attain the Administration's goal of achieving **rapid growth and inclusive development**.

As laid out in National Budget Memorandum 118, s. 2012, inclusive development goes beyond the objective of poverty reduction. It seeks the equalization of opportunities so that the majority of the country's labor force, poor and middle class alike, is able to participate and benefit from the historically high economic growth rates accomplished in recent years. The National Statistical Coordination Board reports that poverty in the country remained statistically the same in 2012 at 19.7% of families, compared to 20.5% and 21% in 2009 and 2006, respectively. And there were more families who lived below the poverty threshold: 4.2 million in 2012 compared to 4.0 million in 2009 and 3.8 million in 2006. Similarly, the jobless rate fell slightly to 6.5% in October 2013 from 6.8% a year ago, but still higher than that in neighboring countries. Hence, the inclusiveness development framework seeks answers to questions like: "*How do we get our poor out of poverty permanently? How do we manage the country's higher growth rates so that it makes a larger dent on poverty and unemployment? How do we keep the economic growth high as this is necessary for poverty reduction?*"

Thus, the BPF zeroes in on strategies that will generate quality employment and livelihood for the Filipino workforce, particularly the poor and unemployed. This is key to rapid and inclusive growth. It therefore prioritizes the following objectives and programs:

1) Making growth inclusive (expansion of the 4Ps, universal health care, K to 12, and housing for informal settlers) to raise the quality of the Filipino workforce;

2) Sustaining the growth momentum (strategic infrastructure development, strengthening agricultural development, and reviving industrial development) to create and sustain the job creation;

3) Pursuing good governance and anti-corruption (building constituencies for reform, strengthening M&E and Public Financial Management Systems, and implementing the LGU and ARMM reform programs) to create the environment for quality jobs; and

4) Managing disaster risks (implementing climate change adaptation measures and risk reduction and management programs) to prevent the loss of lives, properties and livelihood.

In terms of geographical focus, the framework calls for job-creating programs needed in the provinces with the greatest number of poor families, the provinces with the highest incidence of poverty, as well as the provinces with multiple climate and geohazard risks. It makes a special call for programs that will uplift the welfare of the poorest and most marginalized sectors – the fisherfolk and coconut farmers – and programs that will connect lagging communities to progressive ones. Finally, given the complexity of promoting inclusive development strategies at the sub-national level where such strategies matter most because of the high rates of unemployment and underemployment, program or collaborative budgeting becomes more important. It incentivizes collaboration or convergence of efforts among different agencies and entities, national and local, public and private.

In the aftermath of Typhoon Yolanda and the massive destruction it wrought on Regions 4-B, 6, 7 and 8, the pressure on the government's institutional capacity and resource allocation has multiplied significantly. The challenge is twofold: a) implementing the recovery and reconstruction of the affected areas in such a way as to plan and build-back-better and safer in a phased, flexible and outcome driven manner within constrained resources; and b) pursuing climate change adaptation measures and disaster risk reduction more systematically in order to anticipate and prepare for extreme climate phenomena and avoid the extent of destruction which happened under Typhoon Yolanda. Moreover, the financing of P235.8 billion of the P360.9 billion estimated funding needed for the recovery and reconstruction effort has still to be identified.

Hence, this BPF also calls for the reprogramming of existing agency budgets to accommodate the Reconstruction Assistance on Yolanda (RAY) program within budgetary constraints. This may require the cancellation or deferment of activities and projects which are either no longer urgent or can be postponed or best left to the private sector. It also calls for the immediate upgrading of building codes, engineering designs, building specifications and costs for infrastructures to consider the new standards to be issued by the Department of Public Works and Highways. Lastly, it calls for the urgent embedding of the climate change and disaster reduction consideration in all planning, programming, and implementation activities as required under RA 9729 or the Climate Change Act.

2.0 PURPOSE

The issuance of this Budget Priorities Framework for the FY 2015 Budget aims to identify the following:

2.1 Key outcomes which departments and agencies will aim for in the run-up to 2016;
2.2 The strategies and programs that will be supported in the FY 2015 budget;
2.3 The spatial or geographical focus areas of the strategies; and
2.4 The guidelines and procedures in identifying these priority strategies and programs in the agency budget submission for FY 2015.

3.0 MACROECONOMIC ASSUMPTIONS, BUDGET AGGREGATES AND INDICATIVE BUDGET CEILINGS AND FISCAL SPACE

3.1 Despite the destruction wrought by Typhoon Yolanda and the other recent disasters in some regions of the country and the nascent state of the global recovery, the Development Budget Coordination Committee (DBCC) in its meeting last December 18, 2013 agreed that the country's economic targets remain attainable. This is due to the country's robust economic performance, fiscal and debt consolidation, political stability, and improved governance. These targets are as follows:

Particulars	2013	2014	2015	2016
Real GNI Growth (in %)	6.5-7.0	6.2-7.2	6.6-7.5	7.0-8.0
Real GDP Growth (in %)	6.5-7.0	6.5-7.5	7.0-8.0	7.5-8.5
Inflation Rate (in %)	2.9	3.0-5.0	2.0-4.0	2.0-4.0
364-day Treasury Bill Rate (in%)	0.7-1.0	1.0-4.0	1.0-4.0	1.0-4.0
Foreign Exchange Rate (P/$)	42-43	41-44	41-44	41-44
Dubai Oil (US$/bbl)	105-110	90-110	90-110	90-110
Merchandise Exports Growth (in %)	4.0	6.0	8.0	10.0
Merchandise Imports Growth (in %)	2.0	6.0	7.0	9.0

3.2 Accordingly, the government will continue to limit its budget deficit to 2% of GDP as envisioned in the 2011-2016 Philippine Development Plan, to bring down public debt to respectable levels. In addition, to support the requirements of growth, it will continue to raise its revenue collection efficiency and expenditure allocative and technical efficiencies over the medium-term.

PARTICULARS	2013 Adjusted Program	2014 Program	2015 Proposed	2016 Proposed
Levels in Billion Pesos				
Revenues	1,745.9	2,018.1	2,337.3	2,760.8
Disbursements	1,983.9	2,284.3	2,622.6	3,082.8
Surplus/(Deficit)	(238.0)	(266.2)	(285.3)	(322.0)
Obligation Budget	2,005.9	2,264.6	2,605.9	3,077.9
Percent of GDP				
Revenues	14.7	15.5	16.2	17.1
Disbursements	16.7	17.5	18.2	19.1
Surplus/(Deficit)	(2.0)	(2.0)	(2.0)	(2.0)
Obligation Budget	16.8	17.4	18.0	19.0
Growth Rate				
Revenues	13.7	15.6	15.8	18.1
Disbursements	11.6	15.1	14.8	17.5
Surplus/(Deficit) *	2.0	(11.9)	(7.1)	(12.9)
Obligation Budget	9.7	12.9	15.1	18.1
GDP	*11,914.5*	*12,990.3*	*14,463.5*	*16,179.0*
*Gross Financing Mix (%)***				
Foreign	*8.0*	*15.0*	*11.0*	*9.0*
Domestic	*92.0*	*85.0*	*89.0*	*91.0*

Notes:
* A positive growth rate indicates an improvement in the fiscal balance.
** Estimates from BTr

Sources: DBM, DOF and NEDA

3.3 Hence, for 2015, as shown above, the budget deficit is set at P285.3 billion, higher than the 2014 level by P19.1 billion or 7.1%. With the economy expected to grow strongly between 7.0-8.0 percent, and adding the impact of tax administration improvements, revenues are projected to reach P2,337.3 billion, 15.8% more than the 2014 collections. Relative to the size of the domestic economy, revenues are expected to register at 16.2% of GDP, higher by 0.7 percentage point from the 2014 programmed revenue effort of 15.5%. This will be anchored on improved tax effort of the Bureau of Internal Revenue of 11.9% up from 11.2%, and that of the Bureau of Customs (BOC) of 3.2% from 3.1% tax effort in 2014 to 2015 in view of intensified BOC organizational reform and anti-smuggling campaigns.

3.4 The projected levels of revenue and deficit for 2015 will allow disbursements to stretch to P2,622.6 billion, up by P338.3 billion or 14.8% from the P2,284.3 billion programmed in 2014. The disbursement-to-GDP ratio will expand by around three fourths of a percentage point from 17.5 % to 18.2 % in 2015. This expansion will translate to an obligation budget ceiling of P2,606 billion, up by

P342 billion or 15.1 % more than the 2014 budget level of P2,264.0 billion. With the Forward Estimates or the cost of ongoing and approved new programs incorporated in the FY 2014 Budget amounting to some P2,318.7 billion, the level of uncommitted funds in the FY 2015 Budget available for expanded and new programs and projects comes to around P287.3 billion, roughly accounting for 11% of the budget ceiling. These will need to be allocated among the priority programs in Section 4.0 below.

3.5 The indicative budget ceiling for each department/agency for FY 2015, as shown in Annex A, corresponds to the updated Forward Estimates and are premised on the following, among others:

3.5.1 The budgetary requirements of the School Building Program and Health Facilities Enhancement Program are included in the ceilings of DepEd and DOH, respectively. Similarly, the requirements for the implementation of the CARP are already incorporated in the respective ceilings of CARP Implementing Agencies.

3.5.2 The Personal Services (PS) level of the DOST is already adjusted to include the annual requirements of the Magna Carta Benefits for the Hazard Allowance and Longevity Pay pursuant to DBM-DOST Joint Circular No. 1[1], dated June 25, 2013. Similarly, the DBM approved magna carta benefits of the health and social workers are incorporated in the DOH and DSWD PS levels.

It will be noted that while the agency level indicative ceilings are presented for each department, the department secretary is encouraged to review these ceilings and redistribute them, if necessary, to better fulfill the objectives of the department.

4.0 PRIORITY PROGRAMS

4.1 **Social Protection and Social Services.** To accelerate poverty reduction to meet the Millennium Development Goal on poverty incidence of 16%, and at the same time, sustain the equalization of opportunities for all, the following social services will need to be expanded:

4.1.1 Conditional Cash Transfer (CCT) program to provide an income lifeline and social protection to 4.3 million of the poorest families, including the expansion of the program to enable high school students in these families to graduate from secondary education. The provision of sustainable job opportunities to the graduating 284,000 families will entail a substantial

[1] Rules and Regulations on the Grant of Compensation-Related Magna Carta Benefits to Scientists, Engineers, Researchers and Other Science and Technology Personnel

expansion from the 2014 target of 33,000 families. In addition, some 663,000 families are targeted to be provided with seed capital for livelihood, likewise, a significant increase over the 78,000 target in 2014.

4.1.2 Education and manpower development programs to attain the outcome of better quality jobs, and provide the labor force with the skills demanded by an increasingly competitive economy such as that being ushered in by the ASEAN Tariff Harmonization in 2015. This will be done through (1) improved education and skills outcomes of the labor force; (2) development of the competencies required for inclusive growth in key employment generating sectors (KEGS) and; (3) develop globally competitive HEIs and programs. From 2.9 % of GDP for 2014, the spending for education is targeted to increase to 3.1 % of GDP in 2015.

The Department of Education (DepED) will have to aim at improving the quality and relevance of the basic education curriculum to raise accomplishment and completion rates for some 21 million children and prepare for the introduction of the Senior High School (SHS) to 1.1 million students in 2016. To reduce the costs, improve the quality, and maximize the use of existing resources, DepED will have to aggressively expand the involvement of the private sector and the higher education institutions (HEIs) in the SHS through the expansion of the GASTPE Program or through a voucher system. To hasten the construction of some 33,000 needed classrooms and schoolbuildings, the feasibility of a third public private participation project must be looked into.

The Technical Education and Skill Development Authority, on the other hand, must aggressively pursue its goal of enhancing the competencies of Filipino workers to respond to the skill needs of the economy, especially of the growth centers. This can be done by expanding the access to quality TVET Education and providing more Institution-Based Training (IBT) and Enterprise-Based Training (EBT) programs. It is also critical for labor market information to equip technical vocational providers and to institutionalize the Philippines Qualifications Framework (PQF)[2]. By 2016, the TVET should be fully integrated with the secondary and tertiary education systems.

Likewise, the Commission on Higher Education (CHED) shall aggressively pursue the Public Higher Education Reform Agenda (PHERA) to improve the efficiency of, enhance the access to, and upgrade the quality of public

[2] As defined by TESDA, Philippine Qualifications Framework describes the level of education qualifications and sets the standards for qualifications outcomes for identified key growth areas by sector. It is a quality assured national system for the development, recognition and award of qualifications based on standards of knowledge, skills and values acquired in different ways and methods by learners and workers of a certain country.

higher education. More institutional capacity building programs will need to be conducted in SUCs to reduce the duplication of courses, enhance the market orientation of the courses, and close underperforming courses. The modernization of facilities and resources (e.g., science laboratories, libraries, various ICT and R&D equipment) will also have to be continued especially, to provide incentives for performing SUCs.

4.1.3 Universal Health Care Program to ensure the provision of affordable and quality health services by expanding the reach of primary preventive health services and the Philippine Health Insurance Corporation (PhilHealth) insurance benefits to cover both the poor and the near poor families. The updating of the National Household Targeting System (NHTS) may augment the 14.7 million families already identified under PhilHealth for 2014, of which 95% is targeted to be covered by 2015, up from 90% in 2014. Additional target beneficiaries shall include those who are employed in the informal sector given the passage of the Sin Tax law. The improvement of benefit coverage programs shall continue being implemented and the percentage of public health facilities providing No Balance Billing (NBB) is targeted at 70% by the end of 2015. In terms of health facilities in the rural areas, the upgrading and construction of 10,652 barangay health stations (BHS) and 1,576 rural health units (RHUs) nationwide as well as the hiring of health practitioners and personnel to man them shall be prioritized over hospital facilities. The support will also include the provision of preventive health services and distribution of complete treatment packs for both common and contagious diseases (i.e., infections, diabetes, hypertension, etc.) to the underprivileged and marginalized. Similarly, efforts to attain health MDGs will have to be strengthened. The spending for health services by the national government is projected to increase to 0.8 % of GDP in 2015 from 0.7 % in 2014.

4.1.4 Housing support prioritizing the relocation of Informal Settler Families (ISFs) in danger areas shall be continued. For 2014, the national strategy on housing shall provide socialized housing and resettlement for 16,807 ISFs in Metro Manila located in waterways and other danger areas; privately-owned lots; and areas for future infrastructure projects. This forms part of the FY 2011 to 2016 overall target of 104,000 housing units to be provided to the ISF. After typhoon Yolanda, nearly 930,000 families will need shelter assistance, initially temporary houses or housing materials to rehabilitate damaged houses and eventually permanent houses..

4.2 **Economic Expansion.** Rapid and sustained economic expansion is the other top priority of the Aquino Administration since it is a necessary condition in reducing poverty and promoting inclusive development. In contrast to the downturn in the economic performance of the country's Asian neighbors, the country's GDP growth has been on the uptrend. This has been due to its robust economic performance with its inward focus on buttressing the economic activity within its borders through public infrastructure and social services, especially in the promising sectors like the Information Technology-Business Process Management Services, and tourism. This is further boosted by improving fiscal strength and strong monetary and balance of payments position with the strong influx of OFW remittances; and continuous striving for better governance. And the country's credit raters and development partners are in agreement that the country continues to be a bright spot in the global economic landscape. To sustain and even better this growth expectation, the following programs will be supported in the 2015 budget.

4.2.1 **Strategic Transport Infrastructure Development.** The Philippine Development Plan for 2011-2016, envisions that the Philippine transportation system will be made "safe, secure, efficient, viable, competitive, dependable, integrated and people-oriented". To meet this sector outcome, the following strategies have been identified: (a) adopt a comprehensive long-term National Transport Policy (NTP); (b) develop strategic transport infrastructure and maintain/manage transport infrastructure assets; (c) develop an integrated multimodal logistics and transport system; (d) separate the regulatory and operation functions of transport and other concerned agencies; (e) comply with safety and security standards; and, (f) provide linkages to bring communities into the mainstream of progress and development. As a result of the experience from typhoon Yolanda and recent disasters, building standards will have to be upgraded to withstand stronger climate phenomena, and infrastructure facilities must be placed in "non- climate vulnerable" areas.

Hence, the Department of Public Works and Highways (DPWH) is targeting all national arterial roads and all national secondary roads to be paved in good condition by 2014 and 2016, respectively. Moreover, all national bridges will be made permanent by strengthening its design to be climate proof and/or retrofitted to comply with international seismic standards. In terms of annual targets, the DPWH is targeting 88.4% of national roads to be paved and 96.7% of temporary national bridges to be made permanent by end-2013 based on its Planning Tool submitted to the Office of the Cabinet Secretary. The upgrading of engineering design standards to consider the latest internally accepted technological advancements and climate change variability are estimated to start adding around 10%-30% to the costs of infrastructures beginning 2014.

Another strategy is to implement the recommendations of the High Standard Highway Master Plan (HSHMP) for the development of priority expressways and other high standard highways of Metro Manila, Metro Cebu, and Metro Davao. The plan comes complete with business case studies and market sounding activities and a long term road maintenance program for national roads. Among the priority projects under the HSSM, are the projects for PPP implementation such as the NAIA Expressway, TPLEx, NLEx-SLEx Connector Road, and CALA Expressway. PPP projects are encouraged and undertaken by the government to free scarce public resources for other priority concerns.

By end-2016, the following outcomes stated in the Department of Transportation Communications (DOTC) Planning Tool shall be achieved: (a) transport cost reduction by 8.5%; (b) lessening of logistics costs of goods and services from 23% to 15%; (c) sufficient airport infrastructure for 10 million foreign and 56 million domestic tourists; and, (d) reduced transport-related accidents.

Hence, the DOTC shall be supported in its various strategies, as follows: (1) increase of urban mass transport ridership from 1.2 million to 2.2 million (2016) and generate time savings of P54 billion; (2) development of intermodal facilities; (3) improvement of transport linkages and efficiency to link production and consumption markets; (4) identification of effective policies and regulations; (5) identification and development of key airport tourism destinations to improve market access and connectivity; and, (6) imposition of standards and operating procedure.

Among the projects that are targeted to be completed by 2016 are the following:

- LRT 2 East Extension which will increase ridership by 120,000 pax/day;
- MRT 3 Capacity Expansion which will increase ridership by 350,000 pax/day;
- Integrated Terminal System which shall remove 8,000 buses from EDSA;
- Malvar and Common Station serving 100,000 pax/day; and,
- Common Ticket for LRT 1, LRT 2, and MRT 3 under the Automatic Fare Collection System (AFCS);

4.2.2 **Agricultural Development Programs** to realize the major potential of agri-based industry, one of major drivers for economic growth and poverty reduction. For this reason, the Department of Agriculture will have to shift from the sole promotion of the production of traditional crops to a more diversified, intensive, high value and market-oriented crop production in small farm holdings (e.g. coffee, coconut, palm, rubber and seaweeds) to purposively raise the income of farmers and farm workers, while still ensuring the sufficient yield of primary food staples needed for country's food security. To create job opportunities in the countryside, the DA must also actively work with the Departments of Agrarian Reform, Industry and Trade, and Tourism to create more efficient value chain systems for the fishermen, coconut and high value crop producers, processors and distributors, and increase opportunities to link the lagging rural communities with tourism areas and growth centers. The reorganization of the DAR will be supported in accordance with the result of the study group on the organizational reform of DAR, DA, and the Department of Environment and Natural Resources.

Thus, the preparation of the FY 2015 Budget will have to be based on the more outcome-based prioritization of rural infrastructure and facilities development, especially in terms of farm-to-market roads (FMR) and irrigation systems through the required formulation of an FMR Network Plan and Irrigation Master Plan. These Plans will have to consider 1) the strategic agriculture production areas to maximize their benefits, 2) the location of significant numbers of poor farmers and fishers to have an impact on poverty reduction, as well as 3) the location of processing, market and transport sites to link more lagging communities with progressive communities. The design and construction of these rural infrastructure facilities must also be enhanced to become climate-resilient.

4.2.3 The revival of the manufacturing industry would enhance productivity, increase the number of products for various markets, and provide quality employment. The government targets that the manufacturing sector should account for 23% to 23.5% share of the country's GDP in 2015-2016. The Board of Investments (BOI) is developing a Manufacturing Industry Roadmap. By 2025, the Roadmap seeks to increase by 30% the gross value added for the manufacturing industry and by 15 %, industry employment. To realize these targets, the government must actively address complementary horizontal and vertical measures. Horizontal measures cover investment promotion, addressing problems in power, smuggling, logistics and infrastructures and enhancing products where the country has competitive advantage. This can be attained through sustainable macroeconomic policies, tax policies and administration, efficient bureaucracy and secured property rights. Vertical measures include closing the supply chain gaps, expanding domestic market and exports, enhancing HRD skills, SME Development, Technology Upgrading, Innovation, and common facilities. The vigorous implementation of SME Development Program would aim to provide assistance, in terms of business development services, trainings and shared facilities, to some 100,084 MSMEs in 2015 and 105,000 MSMEs in 2016. The feasibility of providing the micro and small enterprises with financing, insurance and guarantees should be high in the priorities.

4.2.4 Research and Development (R&D), a component of Science and Technology and an acknowledged driver of productivity and competitiveness, will be harnessed to provide essential scientific interventions to the sectors of agriculture and industry. Interventions in the agriculture sector such as cutting edge technologies and engineered inputs should address strategic gaps in major stages of crop production and fish farming, and ensure greater yields and timely harvest. Meanwhile, R&D should also provide integral support in the manufacturing revival in terms of product research and innovation and technology development. Technology assistance will be provided to MSMEs through the Small Enterprise Technology Upgrading Program. The foundation of R&D in IT and in health will also be strengthened with the full implementation of the Philippine-California Advanced Research Institute (PCARI) Project.

4.3 **Job Creation and Livelihood Development** The World Bank (WB) in its "Philippine Development Report for Creating More and Better Jobs" pointed out that the challenge for inclusive growth is for the economy to yield more and better jobs for more than 10 million unemployed or underemployed Filipinos as of 2012. The WB estimated that about 14.6 million jobs have to be created in the next four years. To make this happen, the country's economy must be kept on a sustained path of economic growth. Accordingly, the following programs may need to be prioritized and done in a better way to close the employment gap.

4.3.1 Collaborative efforts between departments and agencies, including local governments, evidenced by program budgets, will be supported in the 2015 budget to promote more rural based industries 1) based on the further processing of agricultural crops in the area especially coconut and fish, 2) linked to a tourism site close to area, and 3) linking a lagging community to a growth center. These livelihood and employment opportunities will enhance the vibrant employment provided by the semiconductor, electronics and BPO industries to create more growth centers in the country. The regional and field offices of departments must be reoriented and strengthened to initiate, sustain, and propagate these productive employment and livelihood opportunities.

4.3.2 The government is targeting to raise its infrastructure spending from the current 3% of GDP in 2014 to the recommended 5% by 2016 to provide the physical facilities needed for growth. However, infrastructure development is not just about addressing infrastructure bottlenecks hindering growth; it is also a potential source for job creation.

According to a recent International Labor Organization (ILO) policy brief on the impact of infrastructure spending on employment,[3] a US$1 billion spent on large projects in advanced countries generates around 28,000 jobs, both directly and indirectly in equal proportions. Further, the brief states that infrastructure spending in developing countries has a substantially greater employment impact: US$1 billion spent in Latin America can yield up to 200,000 direct jobs; spending the same on labor intensive rural projects can create up to 500,000 direct jobs. The paper

[3] Policy Brief No. 1 of the ILO, entitled "Investments in Infrastructure: an Effective Tool to Create Decent Jobs"

concludes that infrastructure investments should be launched both to build up capital for sustainable development and for inclusive growth: human capital, including skills, employment (including green jobs) and entrepreneurship development and physical capital such as construction, rehabilitation and maintenance of infrastructures and natural and productive resources.

The Brief also provides some recommendations that, whenever feasible, decentralized investment should be preferred. They are usually faster and make the local population more committed to the project, aside from improving targeting and its proper use and maintenance. The works are basically on a smaller scale and involves less expensive tenders , less need for heavy machinery and hence greater job creation for the amount invested. They are more likely to be executed by local firms using workers from the area. Using a targeting mechanism, government policy therefore must focus on labor-intensive infrastructure than those that employ new technologies. The hinder job creation especially in geographical areas where unemployment rates are high. Based on data from the Department of Labor and Employment, unemployed persons are concentrated in the National Capital Region (NCR) at 11.3 % in 2011 followed by Calabarzon at 9.7 % with Ilocos Region and Central Luzon both at 8.5 %. The average unemployment rate for the entire country stands at 7.0 % for both male and female.

4.3.3 Grassroots Participatory Budgeting, known as 'Bottom-Up' Budgeting, will continue to be implemented. This is to ensure the inclusion of the funding requirements for development as identified by the poor communities themselves in the budget proposals of key frontline agencies. DBM-DILG-DSWD-NAPC JMC No. 4 dated November 26, 2013 provides participating agencies and local government units with the policy guidelines, processes and responsibilities in the Grassroots Participatory Budgeting approach to be applied in the preparation of the FY 2015 NEP.

4.4 Climate change and disaster risk management. The Philippines is ranked as the 3rd most vulnerable country to natural hazards and 4th most affected country by the adverse impact of climate change. This is due to its geographical location and exposure to climate related risks and is compounded by the degradation of its environment and unsustainable development practices. It is, therefore, highly vulnerable to existing and future climate change related risks.

Painful and costly lessons learned from the super typhoon Yolanda has taught the government to shift its focus away from a reactive approach focused on disaster rehabilitation and recovery and towards a preventive one focused on prevention and preparedness. This is the most effective way to alleviate the climate change impact on the country. Hence, the FY 2015 Budget will support this preventive approach as well as activities to fully operationalize the merging/harmonization of Climate Change Adaptation and Mitigation (CCAM) and Disaster Risk Reduction Management (DRRM) actions/interventions. More specifically, it will provide for the pre-positioning for calamities in the form of 1) setting up a stronger calamity response coordinating mechanism, stockpiles of food, and relief goods, as well as equipment centers needed for relief efforts, 2) introducing policies and measures for climate resiliency in all aspects of community life – housing, public buildings and infrastructures, agriculture and industry and 3) preparing climate and geo-hazard vulnerable areas as identified by the Mines and Geo-Sciences Bureau (MGB).

The RAY program will require some P360.9 billion for relief, rehabilitation and reconstruction from 2013 to 2017. Some P235.8 billion will be needed in 2015-2017 for shelter and resettlement (P110.2B), public infrastructure (P17.9B), livelihoods, enterprises and services (P66.7B), social protection (P15.0B), among others. In order to lessen the impact on new resource allocation, agencies will need to identify existing programs, activities and projects which either are no longer needed or can be deferred or postponed. This is particularly true for those meant for the Yolanda affected regions as these will be supplanted by the recovery and reconstruction activities. Moreover, engineering designs and structural specifications of public infrastructures will have to be updated by the DPWH. Hence, all infrastructure projects to be incorporated in the FY 2015 Budget will need to incorporate these new resiliency specifications. In addition, clearance from the MGB must be secured as to the climate change safety of the location of the infrastructure.

The large scope of recovery and reconstruction brought about by the unprecedented magnitude of the disaster calls for institutional arrangements that combine strong leadership and central coordination and oversight with quick and flexible delivery and implementation at the local level. Coordination between government agencies and engagement with international donors, civil society organizations and the private sector will be based on common recovery and reconstruction goals with standards set by the government, communities and LGUs responsible for implementation, and private sector and civil society organizations providing technical/institutional support and the monitoring function.

It is recognized that the private sector has already played a critical role in opening up supply chains, committing production, and accelerating logistical arrangements, Hence, government needs to define new modalities to encourage and facilitate the active involvement of the private sector in implementing the Reconstruction Assistance on Yolanda (RAY). These include: a) expansion of public-private partnership (PPP) arrangements for major investment programs; b) streamlining processes to accelerate the issuance of licenses to operate new businesses, especially those that help re-establish critical supply chains; c) facilitating bulk purchase arrangements from the private sector for goods that help meet basic needs of affected communities; and d) fostering business-community links through adopt-a-town partnership.

5.0 FOCUS GEOGRAPHICAL AREAS

Geography is a major determinant of economic growth and human development. A place can be considered to be developed, when all the necessary growth factors are present. However, economic activity is unevenly distributed across space, and as a result, conspicuous gaps in wealth, in the density of population and economic activity, and in the compositions of regional economies persist. In the Philippines, the physical space is unusually diverse, fragmented, and hazard-prone. Hence, a geographical convergence of living standards which require an integrated, locally anchored service delivery, most crucially at the provincial level must be pursued. The absence of this policy may lead to a more serious problem of persistent underdevelopment – i.e., regions producing consistently and significantly below their production possibilities.

Addressing underdevelopment in a growth-enhancing way necessarily requires basing policies on the many and varied types of underdevelopment dynamics to be found in the regions. In other words, a "one size fits all" policy framework or mechanically-applied criteria for intervention[4] will not succeed. Different types of territories will need to be identified and considered, as well as different aims of intervention.

In the updating of the PDP 2011-2016, the need for spatial dimension, guided by the principles of efficiency, equity and durability, is emphasized. The following are the types of provinces determined by the Human Development and Poverty Reduction (HDPR) cluster that the FY 2015 budget must prioritize to achieve inclusive development.

5.1 **Provinces with High Poverty Magnitude**. These are provinces where opportunities for growth may be present but the poor are unable to participate in the growth process. The list shows the provinces with the biggest number of poor households. Zamboanga del Sur in Region 9 and Cebu in Region 7 top this list.

List 1: Poor Provinces Based on Magnitude:

Region	Provinces with High Magnitude of Poor Households	Number of Poor Households
Region I	Pangasinan	148,601
Region 4A	Quezon	122,139
Region 5	Camarines Sur	136,208

[4] Cohesion Policy in the European Union: Growth, Geography, Institutions, Thomas Farole, Andrés Rodríguez-Pose, Michael Storper, 2009

Region 6	Negros Occidental	138,664
Region 6	Iloilo	122,770
Region 7	Cebu	151,425
Region 8	Leyte	132,377
Region 9	Zamboanga del Sur	170,181
Region 11	Davao del Sur	111,655
ARMM	Sulu	122,218
	Total	**1,356,238**

Source: National Household Targeting System for Poverty Reduction (DSWD, 2012)

Strategies to be adopted in these provinces:
- Promote higher economic growth to create opportunities for employment;
- Enable the poor to participate in the growth process through improvements in human capital, and flexible work arrangements

Interventions to be pursued:
- Building roads that will connect lagging areas to growth areas;
- Providing social protection and basic services for human capital improvement;
- Promoting agri-based industries; and
- Encouraging investments in BPO, tourism, real estate, and retail trade.

5.2 **Provinces with High Poverty Incidence**. In contrast to the previous list, these provinces essentially have lesser opportunities for growth as they are generally characterized by small population, low density, and remote areas.

List 2: Poor Provinces Based on Incidence

Region	Provinces with High Poverty Incidence	Poverty Incidence (2012)
CAR	Apayao	61.4
Region 5	Masbate	51.3
Region 8	Eastern Samar	63.7
Region 8	Northern Samar	50.2
Region 9	Zamboanga del Norte	54.4
Region 10	Camiguin	53.6
Region 12	North Cotabato	52.4
Region 12	Saranggani	53.2
ARMM	Lanao del Sur	73.8
ARMM	Maguindanao	63.7

Source: National Statistics Coordination Board (2012)

Strategies to be adopted in these provinces:
- Provision of social assistance programs while economic opportunities are being created; and
- Creation of programs that promote economic and physical mobility

Interventions to be pursued:

- Providing social protection and basic services;
- Undertaking infrastructure construction that will provide opportunity for jobs;
- Short-term job creation induced by infrastructure investment (port facilities, cash-for-work, etc.);
- Promoting investments in the tourism industry; and
- Promoting investments in and setting up agri-based industries (seaweeds, fisheries, coconut)

5.3 **Provinces Vulnerable to Shocks and Disasters.** These are provinces where the marginally non-poor can easily slide to poverty, and the poor can slide deeper to poverty, given shocks or disasters, natural or man-made.

List 3: Provinces Vulnerable to Shocks and Disasters

Region	Multi-Hazard Provinces a/	Number of Poor Households b/
Region 1	Ilocos Norte	24,890
Region 1	Ilocos Sur	34,213
CAR	Abra	17,544
CAR	Benguet	17,947
Region 2	Cagayan	38,270
Region 2	Quirino	8,492
Region 2	Isabela	54,678
Region 2	Nueva Vizcaya	16,500
Region 3	Zambales	23,804
Region 3	Pampanga	55,328
Region 3	Aurora	9,333
Region 4A	Cavite	58,536
Region 4A	Laguna	55,417
Region 4A	Rizal	48,360
Region 5	Catanduanes	16,743
Region 6	Antique	38,157
Region 6	Iloilo	122,770
Region 7	Bohol	70,028
Region 8	Eastern Samar	38,487
Region 8	Leyte	132,377
Region 8	Northern Samar	59,262
Region 8	Southern Leyte	23,185
Region 9	Zamboanga del Sur	170,181
Region 9	Zamboanga Sibugay	74,643
Caraga	Dinagat Islands	12,869
Caraga	Agusan del Sur	65,473
Caraga	Surigao del Norte	45,343
Caraga	Surigao del Sur	59,179
	Total	**1,392,009**

Source: a/ DOST and DENR (2012)
b/ National Household Targeting System for Poverty Reduction (DSWD, 2012)

Strategies to be adopted in these provinces:

- Risk reduction and mitigation;
- Social insurance and social protection; and
- Income diversification

Interventions to be pursued:

- Redevelopment/resettlement of communities in vulnerable area;
- Climate change risk mitigation and adaptation;
- Short-term job creation induced by infrastructure investments (e.g., cash for work); and
- Promoting investments in and setting up agri-based industry (coconut and value-added products)

6.0 GUIDELINES

6.1 All new and expanded programs to be included in the FY 2015 Budget Proposal to Congress must aim for inclusive development. Only programs/projects (whether existing or new) rating high on the programs listed in Section 4.0 shall be included in the final FY 2015 budget proposal. Low ranking agency proposals shall be discarded or their resources shall be realigned to the high ranking ones. All infrastructure projects must conform with the upgraded building and resiliency standards that will be issued by the DPWH. They should be consistent with Section 20 of the General Provisions of the 2014 General Appropriations Act, which prohibit locating infrastructure projects in critical geohazard areas or no-build zones identified by the MGB.

6.2 The list of programs/projects shall be further narrowed down by matching their locations to the focus/convergence areas enumerated in Section 5.0

6.3 The central offices of departments shall continue to guide and coordinate with their regional offices in determining the focus areas in each region, the intervention required, and the intensity of resource allocation. This approach will provide for a more targeted and rational basis of resource allocation for discussion with the Regional Development Councils, local government units, and other regional offices of agencies. Special focus shall be given to implementing the rehabilitation and reconstruction in the Yolanda affected areas and assisting the ARMM complete its Reform Program in preparation for the turnover to the Bangsamoro in accordance with the Framework Agreement on the Bangsamoro and the associated law. To fund the RAY, existing agency budgets shall be reprogrammed to incorporate the reconstruction program by cancelling or deferring activities and projects which are not urgent and/or can be postponed. To assist in the identification of such programs and projects, agencies are encouraged to do zero based budgeting or program evaluation studies.

6.4 To ensure a coordinated effort among the agencies participating/ contributing to the programs in Sections 4.0 and 5.0 above, the program budgeting approach shall be adopted. The lead agencies identified in Annex B shall gather their participating agencies to a meeting to conduct a consistency check in assumptions, targets, beneficiaries, focus areas, and implementation timelines and resources. The proposed budget of the lead and participating agencies may be refined or amended as a result of the meeting. The lead agencies shall be responsible for accomplishing BP Form 201-Schedule D of the FY 2015 Budget Call that will lay out the comprehensive program expenditures.

6.5 To improve the quality of new programs and projects coming into the budget, the following aspects or features of all new and expanded programs and projects shall be identified using the attached form in Annex C:

6.5.1 Key outcome and output targets that will be achieved and their contribution to rapid growth and inclusive development;

6.5.2 Strategies/interventions that will be supported and their potential impact - In determining the strategies, departments/agencies shall aim for interventions that will aggressively promote sustainable employment among the underemployed and unemployed, raise productivity and incomes for the poorest segments of the economy, and attract investments in focus programs and areas listed in Section 4.0 above.

6.5.3 Spatial dimensions or geographical focus areas of the strategies – The geographical focus and specific locations (by region, province and city/municipality) of the programs/projects shall be identified;

6.5.4 Probable risks to be encountered in the program/project and measures which will be taken to mitigate the risks; and

6.5.6 Support needed from other departments to be able to push for identified strategies, identifying the agencies and their role in the program/project.

7.0 For immediate compliance.

FLORENCIO B. ABAD
Secretary

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