Technical Notes on the 2017 Proposed National Budget

A Budget for real change

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Acronyms

AFP	Armed Forces of the Philippines
ALGU	Allocations to Local Government Units
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
BESF	Budget of Expenditures and Sources of Financing
BFAR	Bureau of Fisheries and Aquatic Resources
BIR	Bureau of Internal Revenue
BoC	Bureau of Customs
BRT	Bus Rapid Transit
CAR	Cordillera Administrative Region
CARP	Comprehensive Agrarian Reform Program
CCET	Climate Change Expenditure Tagging
CCT	Conditional Cash Transfer
CHED	Commission on Higher Education
CO	Capital Outlay
COFOG	Classification of Functions of Government
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DFA	Department of Foreign Affairs
DND	Department of National Defense
DOE	Department of Energy
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
ECCD	Early Childhood Care and Development
FMR	Farm-to-Market Road
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GOCC	Government-Owned and/or Controlled Corporation
ITS	Integrated Transport System
LGU	Local Government Unit
MMDA	Metro Manila Development Authority
MOOE	Maintenance and Other Operating Expenses
NCCAP	National Climate Change Action Plan
NCR	National Capital Region
NEA	National Electrification Administration
NEDA	National Economic Development Authority
NEP	National Expenditure Program
NDRRMF	National Disaster Risk Reduction and Management Fund
NFA	National Food Authority
NHA	National Housing Authority
NHIP	National Health Insurance Program
NIA	National Irrigation Administration
NNC	National Nutrition Council
NIA	National Irrigation Administration
OPAPP	Office of the Presidential Adviser on the Peace Process
PAMANA	Payapa at Masaganang Pamayanan
PGF	Pension and Gratuity Fund
PFM	Public Financial Management
PNP	Philippine National Police
PNR	Philippine National Railways
PSF	People's Survival Fund
RA	Republic Act
SHFC	Socialized Housing and Finance Corporation
SLP	Sustainaible Livelihood Program
SPF	Special Purpose Fund
STEP	Special Training for Employment Program
TESDA	Technical Education and Skills Development Authority
TIMTA	Tax Incentives Management and Transparency Act
UHC	Universal Health Care
VAT	Value-Added Tax

I. Introduction and Principles of the 2017 Proposed National Budget

A budget for and by the people. A budget for real change -- in the here and now.

In the simplest of words, President Rodrigo Roa Duterte described the National Budget for Fiscal Year 2017 -- the first for his six-year administration.

Presenting the document for approval to the members of the 17th Congress of the Philippines on August 15, 2016, six weeks from when he officially took office as the 16th President of the Republic, President Duterte linked the 2017 Proposed National Budget to the promise he made to the electorate when he launched his bid to lead the nation, and anchored its implementation on the commitment he embraced when he won the people's mandate.

Change was the theme and message of the Duterte political journey from Davao to Malacanang. And as it resonated across the country, and eventually transitioned from a campaign slogan to a national goal, the concept was dissected, refined, and ultimately re-cast to advocate "real change," understood at its simplest and most basic to mean "a better Philippines," "a better life for Filipinos."

For the administration, as expressed by the President himself in various speeches and issuances, a "better Philippines" means respect for and preservation of law and order, economic development that is equitable and sustainable, and government service that is reliable, efficient and honest. And "better lives for Filipinos" should translate to feeling safe and secure on the streets and at home, experiencing on a personal level the fruits of development and progress that result from sound economic policies, and enjoying the services and benefits of a well-run and responsive bureaucracy.

All of these are characteristic of a functioning government -- one whose power and resources, in President Duterte's perspective, are not solely for the use of the few in authority, but rather, and more importantly, to ensure the availability and delivery of economic benefits and social services to the people.

That the promise of "real change" caught on, resonated as a much-anticipated prospect, and became a rallying force across a wide spectrum of classes was by itself a statement that there was a problem. That indeed there were conditions in the country that needed to change. That in spite of improvements in the country's economy and the internationally-commended growth performance scored over the past few years, definitely achievements of the previous administration, these somehow had no felt impact on the Filipino people in real-life situations, confronting real problems they felt the government should address.

Addressing a Core Problem

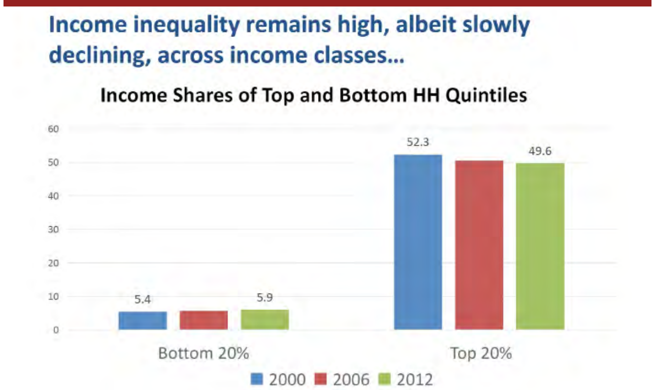
In deciphering the people's desire for real change as expressed in their ballot, the Duterte administration identified the erosion of faith in the government to be the core problem it has to address. This could be the result of long periods of unmet needs, such as, for instance, relief from hunger and poverty, security against crimes and lawlessness, ease of travel to and from their workplaces, job opportunities and skills for productivity.

The irony, however, which has intensified the people's clamor for change, is that they were experiencing all these in a time of supposed growth and prosperity.

The Nagging Puzzle: Fast GDP growth but slow reduction in poverty incidence. Why?
High growth relatively a recent phenomenon.
High population growth, resulting in 10M+ more Filipinos in 6 years.
Growth has not been broadly shared across socioeconomic classes and regions
Agriculture, Fishery and Forestry grew by only 1.4 % annually in 2010-2015; -3.3 % in 1st Semester of 2016.
Food prices, in particular rice, rose; poverty level increased by almost 30 % during the period 2009 to 2015.

Figure 1, for instance, shows the extreme inequality between the top and bottom quintiles of the population, reflecting how the benefits of growth have been inequitably distributed.

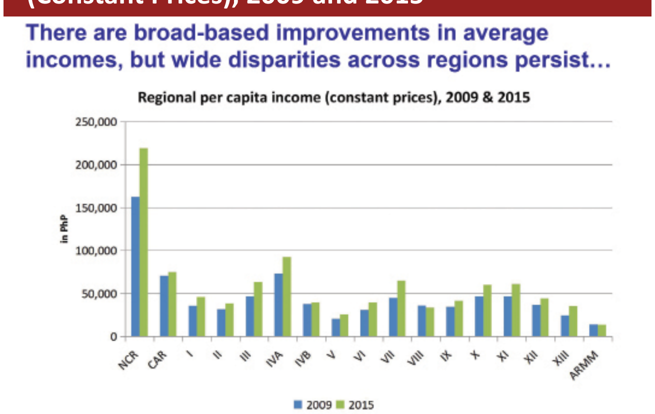
Figure 1. Income Shares of Top and Bottom HH Quintiles (2000, 2006, and 2012)



Sources: World Bank; World Development Indicators

And in Figure 2, the disparity in incomes across regions, which has persisted for years.

Figure 2. Regional Per Capita Income (Constant Prices), 2009 and 2015



Source: Philippine Statistics Authority

Restoring the people's faith in government, therefore, would require addressing or meeting their felt needs by establishing the mechanisms to study the situation, designing the strategies to focus on solutions, and implementing the programs and activities necessary to effect the solutions. In short, making the change real, and making it happen.

It was towards this vision -- to set in motion the process for real change -- that the 2017 Proposed National Budget was crafted.

It is a budget intended to give "flesh and bone" and meaning to the administration's commitment to real change. And this can only happen, the President explained, if the Filipino is at the center of the budget. If it is created for the people and by the people.

A Budget for and by the People

The Duterte administration proposes a total Budget of P3.35 trillion for Fiscal Year 2017. This is 11.6 % higher than the P3.0018 trillion budget allocated for 2016, and is equivalent to 21.0 % of the Gross Domestic Product (GDP).

Key Numbers in the 2017 Budget	
P3.35 T	Proposed Total Budget for FY 2017
P348.2 B	Increase in the Budget from 2016 to 2017 in Pesos
11.6 %	Percentage increase in the Budget from 2016 to 2017
P2.48 T	Total Revenues to be generated (which is 15.6 % of GDP)
P2.313 T	Revenues in the form of Taxes (which is 14.5% of GDP)
P166.5 B	Revenues in the form of Non-Taxes (which is 1.0% of GDP)
P2.0 B	Revenues from Privatization (0% of GDP)
P631.3 B	Total Borrowings to support vital services and to pay loans
P505.0 B	Domestic Borrowings, which is 80% of Total Borrowings
P126.3 B	Foreign Borrowings, which is 20% of Total Borrowings

This 2017 Budget may be approached and appreciated from various dimensions or perspectives. The Budget will be tackled in these ways in the subsequent presentations in this publication. The expenditure priorities will likewise provide an insight into the direction and thrusts of the administration.

Creating a budget for and by the people means ascertaining that every peso spent -- whether made part of the budget through revenues or borrowings -- will advance the cause of the people or move them closer to attaining what they aspire for. For most Filipinos, that is defined simply as having a home, being employed to get out of poverty, having their children in school, being healthy and being able to move around the community in ease and safety.

In the Here and Now

In the here and now, it means for the government, improving infrastructure in the country, which will happen with increased infrastructure spending. It also means addressing the causes of criminality, which threatens the safety and security of the people. And, to address poverty and food insecurity, providing the resources for agriculture and rural development.

Budget priorities will, thus, dwell primarily on improved infrastructure spending, targeting specifically horizontal infrastructure, land and rail transport, including in the rural areas, particularly Mindanao. As regards peace and order, the administration will deal squarely with security issues, and in fact has already begun an all-out anti-drugs campaign that is fully supported by political will and resources. Greater attention will also be given to the men in uniform, who are responsible for securing the country and its people from external and internal threats.

Table 1. 2017 Expenditure Priorities

Particulars	Budget	% increase over 2016
Infrastructure	P860.7 B	13.8
Agriculture & Rural Development	P93.45 B	1.3
Human Capital Development		
Education	P699.95 B	27
Health	P151.5 B	14.2
Social Protection & Livelihood	P295.2 B	22
Peace & Order	P206.6 B	19.2
Domestic Security	P147.8 B	13
Competitiveness & Productivity		
Department of Science & Technology	P20.8 B	14.2
Department of Information & Communications Technology	P3.56 B	
Technical and Skills Development Authority	P6.9 B	6.9
Climate Change & Disaster Management		
National Disaster Risk Reduction & Management Fund	P37.3 B	-4.1
Department of Environment & Natural Resources	P29.4 B	31.8

But perhaps most important is the focus the Duterte administration gives directly to people -- uplifting their lives in the here and now, and arming them for a better future -- through human capital development. Focusing a great part of the Budget on improvements and enhancements in education, health, and social services is an affirmation that the administration truly believes that the people are vital to the country's progress, and that it is the people who should first enjoy the fruits of that progress.

The components and features of each of these priorities will be discussed more extensively in the rest of the chapters.

Principles of the Proposed 2017 National Budget

The first Budget of the Duterte administration is rooted in the following key principles:

A just and disciplined fiscal policy. Although the country's finances are in good shape and it is recognized as among the world's most credible debtors, earning for itself investment grade ratings, underspending by the previous administration has led to a slowdown in the delivery of much-needed services to the citizenry. Outdated tax rates have also added to the people's financial burden. To address this problem, the Duterte administration will impose fiscal rules designed to benefit the people. These will include increased spending for infrastructure and social services, and the streamlining of government operations for more efficient delivery of services. It will also pursue measures aiming to lower the tax burden on the poor.

Focus on social order and equitable progress. The budget will fund the vision for an orderly, just and stable society, through professional police and military forces; a justice system that works; and a clean and mean bureaucracy. Equitable prosperity for all will require a reliable transport network, food security, decent living for farmers and fisherfolk, and ample safety nets for the poorest and vulnerable.

What you see is what you get. Launching "an era of credible budgets", the administration is determined that what the people have been presented, and see in the Budget, is what they will get in terms of services and benefits. Spending will be boosted through the streamlining of the release of funds, improving budget planning and preparation alongside capacity building of agencies to create and implement programs and projects, reforms and amendments to improve procurement rules, and ensuring compliance with the Supreme Court landmark decisions (i.e. PDAF, DAP).

Accountability to the people. The administration will place greater emphasis on accountability, with the people empowered by Executive Order No. 2, s. 2016, imposing a Freedom of Information (FOI) policy, initially in the Executive Branch, and later through an FOI law which will cover all branches of government. The EO empowers the public to demand information regarding the Budget and call attention to abuses and poor performance.

Local Government Units (LGUs) as able partners in national development through additional support to LGUs based on their adherence to the standards of good governance, their capacity in generating enough resources and delivering basic services.

These principles, which will be the hallmark and cornerstone of the 2017 Budget, and its implementation by the government and its agencies, will ensure that the Filipino people will be at the center of all programs and activities, and every action of the government will make prudent and productive use of the resources entrusted to it by the people themselves.

As President Duterte concluded in his message on the 2017 Budget, the document, *"more than being a collection of figures and provisions... is an embodiment of our people's clamor for real change and a compassionate government."*

II. Financing the National Expenditure Program

The Macroeconomic Environment

The World Economy Continues to be Uncertain

Within the first half of 2016, the World Bank (WB) and the International Monetary Fund (IMF) revised their growth projections for the world economy -- from 2.9 % to 2.4 %, and from 3.4 % to 3.1 %, respectively.

The downward revision was due to several events that have been affecting both advanced and emerging economies for a number of years.

For one, the plunge in oil prices in the global market since 2014 has led to great economic losses for the oil-producing countries and market players. This was further aggravated by the gloomy economic outlook and the continuing slowdown in major economies like China and Japan. The Chinese economy has been experiencing some slack in its manufacturing sector since 2012, and given its influence on international trade, this development is exerting a further slowdown of the global economy. The Japanese economy, on the other hand, is in a difficult situation with regard to its exports, as a result of its policy of strengthening of its domestic currency combined with a weak external demand.

In light of these developments, emerging markets and developing economies (EMDEs) relying strongly on exports to the advanced economies are continuing to be adversely affected, while import-dependent economies could be in a better position to weather through the headwinds.

Moreover, the exit of the United Kingdom from the European Union (EU), or “Brexit”, is also causing uncertainties in the global financial market. Although the initial effects of the Brexit are contained, its actual impacts are yet to be seen and felt in the medium- and long-term.

Finally, in a more recent development, the US Federal Reserve System is expected to raise interest rates later this year, given a strong consumer spending. The rate adjustment could cause a major outflow of capital from emerging countries and affect global business operations.

The Resilient Philippine Economy

These current developments in the global front continue to pose risks to the Philippine economy and its financial markets. The outflow of capital from foreign investments and weaker external demand could slow down growth. It must be noted, however, that in 2015, when similar scenarios took place, the country still managed to post a respectable economic growth of 5.9 %, comparable to the fastest growing countries in the South and East Asia regions – China, India, and Vietnam, among others.

In the first semester of 2016, the domestic economy grew faster by 6.9 %, driven by strong domestic consumption and investment spending, offsetting a weak external trade. The low inflation environment, increased employment opportunities, and stable inflow of remittances fueled stronger domestic consumption. Alongside this, growth in construction and the resurgence of the manufacturing sector drove investment spending, both in the private and public sectors. Hence, investments and manufacturing have in the past few years become drivers of growth, along with consumer spending.

On the supply side, economic growth was driven by the industry and services sectors, which grew by 7.9 % and 8.0 %, respectively, during the first half of 2016. Agriculture production, however, was severely affected by the El Niño phenomenon, which resulted in a negative growth for the sector.

Overall, given the current circumstances, the Philippine economy is projected to be on track to hit a growth target of between 6 % to 7 % for 2016.

Looking Forward

The Duterte administration has committed to sustain the current macroeconomic, fiscal, and monetary policies. The country’s macroeconomic fundamentals are therefore expected to remain strong and robust, characterized by resilient domestic economic growth, low inflation and interest rates, favorable fiscal position, and a broadly stable Peso amidst the uncertain global economic environment.

The economy is projected to grow between 6.5 % and 7.5 % in 2017, and between 7.0 % and 8.0 % from 2018 until 2022. This sustained strong economic growth is necessary to achieve the inroads to poverty reduction that the administration has set for itself.

Current data on poverty and subsistence incidence, unemployment, underemployment, and income inequality indicate the daunting tasks to be undertaken towards achieving inclusive growth and making the strong economic growth felt by everyone, especially the poorest of society. In order to address these and to further stimulate the economy, public spending will be improved, from policy, planning to execution to raise the government's contribution to economic growth. Infrastructure development and social security programs will be prioritized to create jobs and address the inequality prevailing among the different regions of the country.

Medium-Term Macroeconomic Assumptions

Gross Domestic Product (GDP). The Duterte administration projects that strong domestic demand and investment will continue to propel economic growth in light of the current macroeconomic thrusts and fiscal plans. As such, the administration vows to sustain most of its current macroeconomic, fiscal, and monetary policies for the medium-term. In addition, the government will focus on improving the magnitude and implementation of the infrastructure program to address the poor state of its road network, mass transport and connectivity, irrigation and other agriculture systems, and other infrastructures essential for boosting the productivity of the different economic sectors. This, while it raises its social services like education, health and social protection towards global standards to sustain the development of the country's human resources.

Inflation. The headline inflation, or the general prices of goods, is expected to remain near the low-end of the DBCC-approved target of 2.0 % to 4.0 % for 2016. For the medium-term, inflation is projected to remain close to the midpoint of the target range as a result of the projected slight increase in oil prices over the medium-term.

Domestic Interest Rates. The DBCC continues to use the 364-day Treasury Bill (T-bill) rate as a gauge in determining policies and programs for budget purposes. The 364-Day T-Bill rate averaged 2.1 % in 2015. The T-bill rate is expected to be within 2.0 % to 4.0 % in 2016 and within 2.5 % to 4.0 % for the medium-term in view of the low inflation rate and the fiscal discipline which is expected to continue.

Peso-Dollar Foreign Exchange Rate. The Peso is expected to remain sensitive to the concerns over global economic recovery, expected US Fed rate adjustments, and developments in the UK and EU, and the Chinese economy. Over the medium-term, however, the country's strong macroeconomic fundamentals and foreign exchange inflows could support a stable Peso. The government projects that the exchange rate will be between P45 and P48 per US dollar from 2016 to 2019.

Table 1. Medium Term Philippine Macroeconomic Indicators, 2011-2019

Particulars	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP Growth Rate (%)	3.7	6.7	7.1	6.1	5.9				
Budget Assumption						6.0-7.0	6.5-7.5	7.0-8.0	7.0-8.0
Inflation Rate (%)	4.6	3.2	3.0	4.1	1.4	2.0-4.0	2.0-4.1	2.0-4.2	2.0-4.3
364-Day T-bill Rate (%)	2.4	2.0	0.7	1.8	2.1	2.0-4.0	2.5-4.0	2.5-4.0	2.5-4.0
ForEx Rate (P/US$)	43.30	42.25	42.45	44.40	45.5	45-48	45-48	45-48	45-48
Exports Growth (%)*	-6.9	7.6	3.6	9.0	-13.1	3.0	6.0	8.0	10.0
Imports Growth (%)*	9.5	1.9	-0.7	2.4	-3.2	7.0	10.0	11.0	12.0

Source: PSA; Assumptions adopted by Development Budget Coordination Committee as of July 5, 2016

*Actuals per PSA; Projections based on BESF Tables

Budget Sensitivity to Macroeconomic Parameters

Macroeconomic developments affect not only the economy but the national budget as well. Any fluctuation in these parameters can have a positive or negative impact on government disbursements and/or revenues. As such, it is crucial that the government has a proactive stance in managing the volatilities.

Peso-to-US Dollar Exchange Rate. A depreciation in the value of the Philippine peso against foreign currencies can have a positive impact on revenues. For instance, a one peso depreciation against the US dollar can increase tax revenues collected, especially through imports and customs, by P9.2 billion. However, this also translates to an increase in government's disbursements by P2.0 billion, to pay for the debts that are foreign-denominated. In the end, however, a depreciation is still a favorable development fiscal-wise due to the P7.2 billion net increase of the budget balance or the revenue or fiscal space.

A budget balance therefore increases the resources available for spending on critical projects and programs, which in turn helps the economy to further expand.

On the other hand, a one percentage point increase in the London Inter-Bank Offered Rate, a benchmark interest rate for foreign debt, would cost the government an additional P4.6 billion to pay for the government's debt.

Inflation. A one percentage point increase in inflation would give the government an additional revenue of P18.4 billion, which will widen the country's budget balance by the same amount. This will help the government expand its delivery of programs and services.

Table 2. Budget Sensitivity to Macroeconomic Parameters, 2017 (in billion pesos)

Indicator	Change	2017 Revenues	2017 Disbursements	2017 Budget Balance[1/]
Peso-to-US Dollar Exchange Rate	P1.00 depreciation	9.2	2	7.2
Treasury Bill Rate (all maturities)	1 percentage point increase	0.5	3.2	(2.7)
LIBOR (180-day)	1 percentage point increase		4.6	(4.6)
Inflation Rate	1 percentage point increase	18.4		18.4
Real GDP Growth Rate	1 percentage point increase	19.3		19.3
Growth Rate of Imports	1 percentage point increase	3.7		3.7

Source: Department of Finance and Bureau of Treasury
[1/] A negative figure in the budget balance means an increase in deficit

Imports. As previously mentioned, imports can similarly help improve the country's fiscal health through the increase in taxes levied on imports or increasing the flow of imports. A one percentage increase in the inflow of imports will increase the tax revenues by P3.7 billion, which in turn will increase the budget balance by the same amount.

Interest Rates. Interest rates must be kept low and stable in order to lessen the risk of shock in financing and hence encourage investments in financial and physical assets by the investing public. An increase in the rates can be a double-edged sword which can hurt or benefit the economy. For instance, while an increase in the Treasury Bill Rate by 1 percentage point can increase the amount of revenues collected from withholding taxes by P500 million, it can also increase the cost of paying the country's debt by P3.2 billion. This will create a budget deficit of P 2.7 billion, which will need to be financed by more borrowings.

GDP Growth Rate. Higher economic growth can generate larger revenues. With more revenues generated, either the need to borrow to finance the budget deficit can be reduced or the revenue increase can fund additional vital projects and programs identified. It is projected that an increase of one percentage point in real GDP growth can translate to P9.3 billion in additional revenues.

The Macroeconomic Parameters and Their Importance

The macroeconomic fundamentals are important factors in the attainment of the goal of this administration of real change. The stability of the economy will increase its resiliency to financial and economic shocks brought about by external events. The shocks might result in losses, whether in the actual or potential revenues that a government can collect. These potential revenue losses, however, can be reversed through macroeconomic policies that can enhance the growth and productivity of the Philippine economy.

II. Financing the National Expenditure Program

The National Fiscal Strategy

Sound macroeconomic fundamentals, robust OFW remittances, and strong domestic consumer and investment activities have enabled the Philippine economy to be one of the fastest growing among the emerging markets over the past few years. The adoption of a policy of fiscal consolidation coupled with better expenditure prioritization during the Aquino administration has been one of the key ingredients to this development. This has been sustained through the transition into the Duterte administration.

A look back at the economic landscape over a few years shows that the fiscal consolidation[1] strategy undertaken in the previous administration has enforced fiscal discipline. The P314.5 billion fiscal deficit in 2010, equivalent to 3.5 % of GDP, was markedly reduced by more than 50 %, to P121.7 billion or 0.9 % of GDP by 2015 given the stable growth of revenues and the slower-than-planned expansion of government spending. Outstanding debt thus declined to 44.7 % of GDP by 2015, from 52.4 % in 2010 given the strong GDP expansion and the lower-than-programmed deficit in later years.

This national fiscal consolidation strategy also ultimately resulted in a minimal public sector deficit. Limiting the budget deficit to no more than 2 % of GDP, coupled with the surpluses realized by the LGUs (averaging 0.6 % of GDP), the three social security institutions (equivalent to 0.5 % of GDP), and the government financial institutions (equivalent to 0.1 % of GDP), reduced the public sector deficit to -0.9 % of GDP from 2010 to 2015. (*Table 4*)

A critical factor to these consolidation efforts was the relatively strong and stable growth of revenues, primarily pursued through revenue administration reforms that shored up government's coffers and exacted discipline

Table 3. Highlights of Fiscal Performance, 2010-2015

Particulars	2010	2011	2012	2013	2014	2015
Revenues						
Total revenues	P1,207.9 B	P1,359.9 B	P1.543.9B	P1,716.1B	P1,908.5B	P2,109.0B
Total revenue growth	7.5%	12.6%	12.9%	11.8%	11.2%	10.5%
As % of GDP	13.4%	14.0%	14.5%	14.9%	15.1%	15.8%
Tax effort	12.2%	12.1%	12.4%	12.9%	13.6%	13.70%
Disbursement						
Total Disbursements	P1,522.2 B	P1,557.7 B	P1,777.8 B	P1,880.2 B	P1,981.6 B	P2,230.6 B
Total Disbursements growth	7.1%	2.3%	14.1%	5.8%	5.4%	12.6%
As % of GDP	16.9%	16.0%	16.8%	16.3%	15.7%	16.8%
Debt Management						
Total NG Debt	P4,718.2 B	P4,951.2 B	P5,437.1 B	P5,681.1 B	P5,735.2 B	P5,954.5 B
Fiscal Deficit	(P314.5 B)	(P197.7 B)	(P242.8 B)	(P164.1 B)	(P73.1 B)	(P121.7)
Fiscal Deficit-to-GDP	-3.5%	-2.0%	-2.3%	-1.4%	0.6%	-0.9%
Interest payment, as percentage of GDP	3.3%	2.9%	3.0%	2.8%	2.5%	2.3%
Interest payment, as percentage of revenues	24.4%	20.5%	20.4%	18.9%	16.8%	14.6%
NG Outstanding Debt as % of GDP	51.7%	49.3%	51.9%	47.0%	45.4%	44.7%

Data: BTr, DoF, DBM

[1] A policy to reduce the government's deficit and debt

and compliance from taxpayers. These reforms included an aggressive campaign to plug tax leakages (going after smugglers and tax evaders etc.), the revamping of the Bureau of Customs (BoC) to weed out corruption, and the increase in the excise tax on alcohol and tobacco products, which reinforced the government's enforcement mechanisms. Largely as a result of these, revenues have grown steadily over the past five years, from P1,359.9 billion in 2011 to P2,108.9 billion in 2015, averaging an annual growth rate of 11.8 %. As a percentage of Gross Domestic Product (GDP), revenues grew from 13.4 % of GDP in 2010 to 15.8 % by 2015.

Aside from disciplining the revenue side, a market-responsive liability management strategy was also implemented to actively bring down the debt burden. Among the efforts launched and resolutely pursued were: extending debt maturity to enable the government to fund critical and high impact programs; gearing the borrowing mix towards domestic lenders to lessen vulnerability to foreign exchange risks; and conducting liability management exercise through redenomination (to local currency) and buybacks to increase peso-denominated portfolio and reduce foreign currency debt.

Table 4. Public Sector Borrowing Requirement, 2010-2015 (As Percent of GDP)

2010	2011	2012	2013	2014	2015
(4.2)	(2.3)	(2.1)	(0.8)	(0.3)	(0.9)

Source: Fiscal Statistics Handbook, 2004-2013

The relatively low expansion of government disbursements (averaging 8.0 % from 2011-2015), contributed to the fiscal consolidation but also led to lower economic yearly growth rates. The main culprits identified through a study of the 10 largest underspending departments were: a) weak agency planning; b) poor procurement capacities as indicated by the bidding delays and bid failures experienced; and c) poor operational planning as indicated by lack of coordination among implementing agencies and issues with Right of Way clearances.

Nonetheless, actual national government expenditures in terms of obligations expanded by 63.9 % from P1,472.98 billion in 2010 to P2,414.64 billion by 2015, increasing by 10.6 % a year. Maintenance expenditures rose by 17.4 % annually, driven by the expansion of programs in education, health, and social protection. Meanwhile, infrastructure outlays grew from P169.84 billion (1.7% of GDP) in 2011 to P622.6 billion (4.7% of GDP) by 2015. These hikes in government spending directly buttressed economic growth.

The FY 2016 Fiscal Position

Government disbursements picked up in 2015 from a slower pace in recent years. Spending grew by 12.6 % in 2015 from only about 5.6 % on average from 2013 to 2014, as the government started to implement measures to facilitate budget execution and timely implementation of programs and projects.

This upward trend continued towards the first semester of 2016 as government disbursements expanded by 13.9 % to reach P1,221.3 billion, compared to the 8.5 % growth for the same period in 2015. The acceleration resulted from the implementation of Administrative Order No. 46, series of 2015, which directed departments and agencies to implement measures to facilitate budget execution. Some of these measures include the designation of full-time support staff to the agency's Bids and Awards Committee (BAC), increasing the number of BACs in big departments , and the designation of full-time responsible officers for the Full-time Delivery Unit.

The early passage of the 2016 General Appropriations Act (GAA) and the comprehensive release of agency allotments, except those items for later release, have likewise contributed to the growth in spending.

Maintenance and other operating expenditures expanded by 20.8 % during the first half of 2016 relative to the 17.6% during the first semester of 2015. Infrastructure and other capital outlays, in particular grew by 52.3% during this period compared to the 10.1% of the preceding year.

Personal services on the other hand, expanded by 18.9% vis-à-vis the 7.4% growth in 2015 with the implementation of the Salary Standardization 4 program (as provided for in Executive Order No. 201, series of 2016) and the substantial number of new teacher and police positions. With revenue inflows slowing down slightly to 1.4 % yearly growth compared to a year before, a P120.3 billion deficit was incurred by the end of June, equivalent to 42.4 % of the P283.7 billion full year deficit for the year.

In July, the fiscal program for the full year was recalibrated by the Development Budget Coordination Committee to make the program more realistic and indicative of actual performance by trimming down the extent of shortfalls in both the revenue and disbursements programs. The revenue program was trimmed from a full year target of P2,696.8 billion (or 17.5 % of GDP) to P2,256.7 billion (or 15.5 % of GDP). Revenues fell short of expectation for the first semester of 2016, dipping to P191.9 billion, or 14.8 % of the P1,292.8 billion program due to lower tax collections. The gap, however, was narrowed down by non-tax revenues, which exceeded the target by P42.3 billion due to the P22.2 billion dividends remitted by the government-owned and/or controlled corporations (GOCCs) in April 2016.

Similarly, disbursements were trimmed from P3,005.5 billion (19.5% of GDP) to P2,645.6 billion (18.2 % of GDP) based on the historical seasonability of government outlays during a national election year. Thus, the country's fiscal deficit is projected to widen to P388.9 billion or 2.7 % of GDP, from 0.9 % in 2015 and from 2 % or P308.7 billion original target in 2016.

Despite the reduction in the revenue forecast for 2016, total revenues are still expected to grow by 7.0 % from the 2015 actual revenue performance. The growth will be fuelled by the tax administration measures of the two main revenue generating agencies the Bureau of Internal Revenue (BIR) and the BoC as well as the recent passage of the Customs Modernization Law. The BIR projects a 0.5 % increase in the value-added tax (VAT) efficiency, 0.3 % increase in corporate income tax efficiency, and 0.2 % in Personal Income Tax efficiency. The BoC, on the other hand, foresees an improvement in its tax collection efficiency from addressing undocumented importation and valuation concerns.

Notwithstanding the larger projected fiscal deficit for 2016, the outstanding debt of the national government is still projected to lead to a smaller debt burden of 42.7 % of GDP or P6,187.1 billion by the end of 2016 in the face of the strong GDP growth.

The Medium-Term Fiscal Program

From the economic perspective, the Duterte administration began its journey to real change – defining development and progress as inclusive and sustainable – desiring ample fiscal space[2] in which to plan for and implement the policies and programs that will make the change happen.

Hence, from Day 1, the administration put in motion the strategies it intended to pursue to achieve its goals for a more progressive nation, a more disciplined and productive citizenry, and generally a better life for all Filipinos.

Sustaining the momentum of growth, and ensuring that it is ultimately lasting and inclusive, is thus the administration's overarching objective.

In view of this, the supporting fiscal strategy is one where the government will focus on improving revenue

Table 5. Fiscal Aggregates, FY 2015-2019

Particulars	2015 Actual	2016 Outlook	2017 Proposed	2018 Proposed	2019 Proposed
Levels (in billion pesos)					
Revenues	2,109.0	2,256.7	2,481.5	2,990.1	3,326.5
Disbursements	2,230.6	2,645.6	2,959.7	3,517.1	3,907.3
Fiscal Balance	-121.7	-388.9	-478.1	-526.9	-580.7
Obligation Budget	2,606.0	3,001.8	3,350.0	3,825.1	4,208.6
Percent of GDP (%)					
Revenues	15.8	15.5	15.6	17.0	17.2
Disbursements	16.8	18.2	18.6	20.0	20.2
Fiscal Balance	-0.9	-2.7	-3.0	-3.0	-3.0
Obligation Budget	19.58	20.66	21.01	21.77	21.74
Growth Rate (%)					
Revenues	10.5%	7.0%	10.0%	20.5%	11.3%
Disbursements	12.6%	18.6%	11.9%	18.8%	11.1%
Fiscal Balance					
Obligation Budget	23.5	15.2	11.6	14.2	10.0
GDP (in billion pesos)	13,307.3	14,528.9	15,937.4	17,564.7	19,358.0

[2] Fiscal space is defined as the available funding which the government could use for its priority programs.

effort and raising the deficit ceiling, in order to expand the spending levels, particularly for infrastructure and other socio-economic programs and projects. Legislative and administrative measures will be the catalyst for more intensified efforts to mobilize additional revenues, which despite consistent growth, remain below the average of peer countries. The adoption of a higher deficit limit remains consistent with a manageable debt level and will provide additional fiscal room while the tax base expands and stabilizes with the revenue measures.

Over the medium-term, the expenditure program will expand–from a P3.01 trillion base in 2016, to P3.35 trillion in 2017, up to P3.83 trillion in 2018, and P4.21 trillion in 2019.

Disbursements are seen to be increasing gradually from 2017 to 2019, with a projected P2.96 trillion in the first year of the mid-term, to P3.91 trillion in the last year.

The expenditure growth will enable the government to provide better infrastructure projects and social services and ensure that the country's economic growth will be felt by all Filipinos. This expansion of spending for the government's infrastructure and social programs will require greater funding through new tax measures on the one hand, and the fiscal deficit on the other, is expected to increase from 2.7 % of GDP projected in 2016 to 3.0 % of GDP from 2017 to 2019.

Table 6. FY 2017- 2019 Medium Term Expenditure Program By Sector (in billion pesos)

Sector/Sub-Sector	2017 BESF	2018	2019
Economic Services of which:	924.0	1,132.2	1,258.1
Agriculture and Agrarian Reform	120.5	132.8	146.5
Infra (Power, Water, Transp and Com only)	550.4	721.0	805.4
Others	253.1	278.4	306.2
Social Services of which:	1,344.8	1,542.2	1,703.5
Education, Culture and Manpower Devt	700.0	799.2	884.5
Health	151.5	183.9	203.2
Social Security, Welfere and Em-ployment	295.2	341.2	376.0
Others	198.2	218.0	239.8
Defense	147.8	162.5	179.5
General Public Services	581.8	622.0	664.9
Net lending	16.8	16.8	16.8
Debt Services-Interest Payment	334.9	349.5	385.8
Total	3,350.0	3,825.1	4,208.6

The government thus aims to steadily increase revenues from P 2.26 trillion in 2016, at 15.5 % of GDP, to P 2.48 trillion in 2017, P2.99 trillion in 2018, and to P 3.33 trillion in 2019 -- which is 17.0 %, 17.0%, and 17.2 % of GDP, respectively.

Aside from its revenue efforts, the government will also resort to loans. The government sees an increase in net financing requirement, from P 388.9 billion in 2016 to P 478.1 billion in 2017. In 2018 and 2019, the net financing requirement will be at to P526.9 B and to P580.7 billion, respectively.

Over the medium-term, social services will continue to get the highest share of the budget with P1,344.8 billion (40.1 % of the budget) in 2017, P1,542.2 billion (40.3 %) in 2018, and P1,703.5 billion (40.5 % of the budget) in 2019 to improve education, health, social protection and housing services. It is estimated to increase by an average of P194.6 billion or 15.1 % yearly, expanding from 7.7 % of GDP in 2016 to 8.8 % of GDP by 2019. Economic services, on the other hand, will increase by an average of 14.8 % or P141.37 billion yearly over the medium-term to amount to P834.03 billion (27.8 % of the budget, 5.7% of GDP) in 2016 to P1,258.1 billion (29.9 % of the budget, 6.5 % of GDP) by 2019.

Revenues

To adequately cover the increase in expenditures, the administration aims to energize revenue collection through new tax measures which will promote greater equity and efficiency, and control leakages and corruption.

As mentioned, over the past six years, the government has managed to improve revenues collection, from a base of P1,207.9 billion in 2010 to P2,108.96 billion in 2015, growing by an average of 11.8 % annually. Revenues as a percentage of GDP similarly posted increases within this period. In 2017, revenues as a percentage of GDP are projected at 15.6 %, at 17.0 % in 2018, and at 17.2 % of GDP in 2019. (*Table 5*)

The Sin Tax Reform Law in 2012 has steadily increased the tax levied on tobacco and alcohol products by 0.4-0.6 % of GDP, contributing a big chunk to revenues, with most of the proceeds specifically earmarked for the Department of Health to fund its universal health care programs for the poor and the rural communities.

In addition to the Sin Tax Law, other efforts have been put in place to help achieve the revenue targets for 2016, such as plugging the sources of leakages in tax collection, particularly the smugglers, and tax evaders, and eliminating corruption.

Despite these efforts, however, the Philippines continues to lag behind its ASEAN neighbors in terms of revenues collected as a percentage of GDP.

The Duterte administration, therefore, is challenged to further intensify its efforts in revenue collection, if it aims to achieve its goal of delivering more services that will effect real change.

Table 7. Revenue Effort of ASEAN Countries, 2010-2015 (As percent of GDP)

Country	2010	2011	2012	2013	2014	2015
Cambodia	13.2	13.2	15.2	14.9	15.7	17.1
Indonesia	15.4	16.3	16.3	15.7	15.5	13
Lao PDR	15.7	16.4	17.7	18.1	17.2	19.3
Malaysia	20.0	21.0	22.1	21.7	20.6	18.9
Myanmar	11.4	12	23.3	22.3	24.2	20.9
Philippines	13.4	14	14.5	14.9	15.1	15.9
Singapore	14.5	14.9	15.7	15.4	15.7	16
Thailand	17.3	18	18.3	18.1	17.1	16.3
Vietnam	27.6	26.1	22.9	22.1	21.5	22.1

Source: ADB Basic Statistics (2010-2016)

The administration foresees higher revenue collection for 2017 of P 2.481 trillion, or a 10.0 % increase from the 2016 level. The tax revenues would still be the largest contributor, amounting to P 2.313 trillion or 90 % of the total projected revenues. The BIR is expected to fund almost 80 % of it, while the BoC and other agencies will provide the remaining 20 %.

Non-tax revenues and privatization will fill up the remaining 6.8 % of the expected revenue collection. However, the revenues gained in these two sectors will decline by P44 billion in non-tax revenues, while P2 billion will be sourced from privatization.

Revenues are expected to grow by 20.5 % in 2018 as a result of the passage of proposed tax measures in the Comprehensive Tax Reform Program (CTRP). Through this program, tax revenues are expected to increase by 22 % to reach P2,821.3 billion or 16.1 % of GDP. However, these will not be reflected in the revenue target to be submitted annually to Congress unless the tax measures are enacted by Congress.

Tax Revenues. Tax collection has been consistently the largest contributor to revenues, and the same is projected to happen in the mid-term. The tax revenue effort has continued to improve from year to year, as it increased in revenue proceeds from P1.720 trillion or 13.6 % of GDP in 2014, to P 1.815 trillion or 13.6 % of GDP in 2015, P2.044 trillion or 14.1 % of GDP in 2016, increasing further to P2.313 trillion or 14.5 % of GDP in 2017.

The burden of the tax collecting agencies will double as the government veers away from the privatization, as well as the non-tax means in fueling the government. Additionally, the burden will come from the tax reforms being pursued by the government, including lower rates on taxes such as personal income tax, corporate income tax, property tax and capital interest tax. Despite the lowering of taxes on net income and profits, however, the government projects it to be still the greatest contributor on the tax revenues. The lowering of income tax may broaden the tax base or the number of people paying their taxes.

Table 8. Breakdown of Revenues, 2015-2019 (in Billion Pesos)

Particulars	2015 (Actual)	2016 (Outlook)	2017 (Proposed)	2018 (Proposed)	2019 (Proposed)
REVENUES	2,109.0	2,256.7	2,481.5	2,990.1	3,326.5
% of GDP	15.8	15.5	15.6	17.0	17.2
% of Growth	10.5	7.0	10.0	20.5	11.3
Tax	1,815.5	2,044.0	2,313.0	2,821.3	3,155.5
BIR	1,433.3	1,620.0	1,829.2	2,189.7	2,435.9
BoC	367.5	409.0	467.9	614.8	701.9
Others	14.6	15.0	15.9	16.8	17.8
Nontax	230.7	210.7	166.5	166.8	169.0
BTr	110.1	90.0	58.6	55.8	54.4
Fees & Charges	36.4	40.0	44.0	47.1	50.7
Others	84.3	80.7	64.0	64.0	64.0
Privatization	**62.8**	**2.0**	**2.0**	**2.0**	**2.0**

(Note: may not sum up due to rounding off)

Reform in the Income Tax System. The lowering of the tax rate of personal income tax, from 32 % to 25 % over three years, and the reduction to five income brackets from the present seven brackets, will incur for the government a revenue loss of P51.9 billion for the first year, P72.1 billion for the second year, and P85.5 billion for the third year.

To offset the losses in revenues that will be incurred once such policy is implemented, the government intends to undertake the following:

1. *Increase the excise taxes on gas, diesel, and other petroleum products.*

Petroleum products are currently taxed at varying rates, ranging from exempt to P5.35 per liter or kilogram. There has been no upward adjustment in excise tax rates for these products since 1997; the rates have been either fixed in nominal terms, reduced or eliminated.

The government, through the Department of Finance (DOF), is proposing a P10 per liter excise tax on gasoline and P6 per liter/kilogram for diesel, kerosene, LPG, and fuel oil. The P10 rate was derived by indexing the existing tax rate of gasoline (P4.35/liter) by cumulative inflation factor of 2.37, then applying the same amount of increase (P5.96) to diesel, kerosene, LPG and fuel oil.

The proposed tax rates will be indexed by 4.0 % every year thereafter. As a result, additional revenue collections will reach P130.5 billion in the first year of its implementation.

2. Proposed Excise Tax on Sugar-Sweetened Beverages (SSBs)

The proposal is for a single rate of P10 per liter, regardless of form (powder or fluid), to be applied to sugar-sweetened beverages. This is expected to generate about P35.1 billion annually without elasticity or P25.2 billion with elasticity.

3. Proposed Expansion of the Value Added Tax (VAT) Base

Currently, the standard VAT rate applied on certain goods and services is at 12 %. Under the Tax Code, exemptions are allowed for 23 transactions such as agricultural and marine products and education services. Zero rating is typically applied to exports and suppliers of export-oriented enterprises.

The proposal is to expand the VAT base by removing all exemptions except on agriculture, health, banks, education, and the financial sector. The removal of all zero-rating except direct exports is also proposed. This will result in an additional revenue of P68.6 billion in the initial year of implementation.

Table 9. Proposed Reform In the Income Tax System

Income Bracket	Tax Rate
PROPOSED TAX SCHEDULE (Year 1)	
0 - 150,000	0%
Over 150,000 - 300,000	15% of the Excess over 150,000
Over 300,000 - 450,000	22,500+20% of the Excess over 300,000
Over 450,000 - 600,000	52,500+25% of the Excess over 450,000
Over 600,000	90,000+30% of the Excess over 600,000
PROPOSED TAX SCHEDULE (Year 2)	
Income Bracket	**Tax Rate**
0 - 150,000	0%
Over 150,000 - 300,000	12% of the Excess over 150,000
Over 300,000 - 450,000	22,500+17% of the Excess over 300,000
Over 450,000 - 600,000	52,500+22% of the Excess over 450,000
Over 600,000	90,000+27% of the Excess over 600,000
PROPOSED TAX SCHEDULE (Year 3)	
Income Bracket	**Tax Rate**
0 - 150,000	0%
Over 150,000 - 300,000	10% of the Excess over 150,000
Over 300,000 - 450,000	22,500+15% of the Excess over 300,000
Over 450,000 - 600,000	52,500+20% of the Excess over 450,000
Over 600,000	90,000+25% of the Excess over 600,000

Source: Department of Finance

With these revenue measures, the revenue effort is estimated to increase from 17% of GDP in 2018 to 18.1% by 2022.

Non-tax Revenues and Privatization. About P166.5 billion will be generated from non-tax revenues in 2017, lower by 9.49 % than the 2016 level. The decrease is due to a decline in the income collected from Treasury Operations, which amounts to P10.1 billion. The same will hold for the National Government Income collected by the Bureau of the Treasury, from P48.81 billion in 2016 to P27.483 billion in 2017. The non-tax revenues, including collected fines, penalties and such, are expected to decrease next

Table 10. Revenues from Proposed Measures (in million pesos)

Particular	Proposed Revenue Measures				
	2018	2019	2020	2021	2022
Total Revenues	188,470	178,464	170,214	187,024	205,167
Revenue Effort	1.1%	0.9%	0.8%	0.8%	0.8%
Tax Revenues	188,470	178,464	170,214	187,024	205,167
Tax Effort	1.1%	0.9%	0.8%	0.8%	0.8%
BIR	108,921	88,928	70,250	75,273	79,675
BIR Effort	0.6%	0.5%	0.3%	0.3%	0.3%
BOC	79,550	89,535	99,946	111,751	125,492
BOC Collection Effort	0.5%	0.5%	0.5%	0.5%	0.5%

year. Most of the fund will thus be coming from the Malampaya Royalties and other non-tax revenues, as well as the fees and charges imposed by several agencies in their delivery of services and programs.

Privatization, on the other hand, will have the sharpest decline in 2016, amounting to P60 billion. This is due to the surge in 2015 caused by the turnover to government of the coco levy funds by the Supreme Court. In the coming years, the privatization program is seen to provide a stable nominal contribution of P2 billion to the available funds of the government.

Tax Expenditures. The government has several agencies like the Philippine Economic Zone Authority and Board of Investments, collectively known as investment promotion agencies (IPAs), which oversee the granting of income-tax holidays, exemptions, deductions, among others, to registered business entities according to the law. These agencies are expected to entice investors in particular areas, which will in turn translate to job creation.

In 2014 alone, the cost of tax incentives amounted to P126.21 billion, and for every year from 2015 to 2017, the projected cost is estimated to amount to an average P163.97 billion[3], equivalent to 1.1 % of GDP.

The Tax Incentives Management and Transparency Act (TIMTA), which was signed into law in December 2015, enables the IPAs and the government to look at the tax returns and the enjoyed tax incentives through the submission of reports of these registered business entities. This will enable the government to monitor the given tax incentives and conduct cost-benefit analysis of the tax incentives.

Disbursements

Based on the above medium-term fiscal framework, an obligation budget program amounting to P3,350.0 billion in 2017 can be supported. This total obligation program, based on historical trends, will translate to estimated cash disbursements of P2,854.4 billion for the programs and projects obligated for 2017; the rest will be progress payments to be settled in the coming years. However, some P105.3 billion of the previous years' accounts payable, are also projected to be claimed in 2017, resulting into a total projected disbursements of P2,959.7 billion to be paid in 2017.

Given the administration's thrust to accelerate infrastructure investments and socio-economic programs, cash requirements are expected to increase.

Table 11. Cash Disbursement Program (in billion pesos)

Particulars	FY 2016	FY 2017
Obligation Program	3,001.8	3,3350.0
Less: Obligations to be paid in the coming years	458.6	495.6
Current Obligations Paid/Liquidated	2,542.3	2,854.4
Add: Prior Year's Commitments	102.4	105.3
Cash Disbursement Program	2,645.6	2,959.7

For 2017, total cash disbursements are estimated at P 2.959 trillion, higher than the 2015 and 2016 levels of P2.230 trillion and P2.645 trillion, respectively. Such disbursements are to fund the operations of the government in delivering services across the country and to cover the accounts payable of the government from the prior fiscal year.

Debt Management

Fiscal discipline led to the decreasing debt to GDP ratio over the last six years – from 52 % of GDP in 2010 to 45 % of GDP in 2015. The government aims to continue along this course on a proactive debt management, striking a balance between easing the debt burden on expenditures and more strategic borrowings, focused on improved and expanded services to the people.

The administration will also maintain the current reforms to ensure better performance in managing the debt, from depending more on domestic loans rather than on foreign loans and engaging in transactions that allow the government to pay its obligations at some later time.

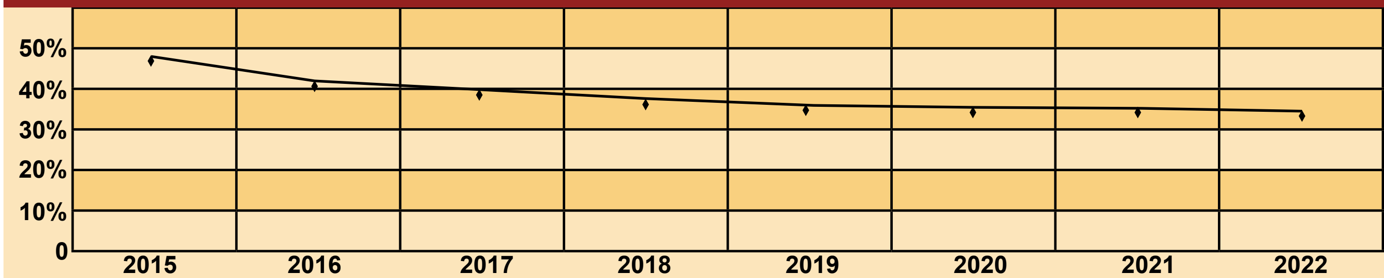
Gross Borrowings. In funding the expenditure program, the government seeks to borrow from different markets. There was a drop in the amount of gross borrowings across time, from P747.20 billion in 2010 to P609.6 billion in 2015. This will increase in the medium term, however, from P631.3 billion in 2017, to P647.5 billion in 2018, and P892.4 billion in 2019. This is to cover the increasing expenditures for infrastructure and social services.

As a financing strategy, the government will rely more on domestic rather than foreign borrowings, with a ratio of 77:23, further improving this to 80:20 from 2017-2019. The decision is based on the precautionary measures taken by the government against the volatility of the external economic environment.

About P126.3 billion will be borrowed from foreign sources, such as program and project loans,

[3] Average cost projected from 2015-2017

Figure 1. Debt-to-GDP Ratio, 2015-2022



while P505.0 billion will come from domestic sources such as treasury bills (P40.0 billion) and fixed rate treasury bonds (P465.0 billion).

Outstanding National Government Debt. The government has been able to trim down a big chunk of the national debt – principal and interests – in recent years. As mentioned, this was due to the recorded strong growth of the economy, which was more effectively captured by revenue collecting agencies, the slower growth of disbursement and the more active liability management of government.

As a percentage of the economy, the government's debt will decline from 44.7 of GDP in 2015 to 42.7 % by end of 2016. It is expected to decline further to 40.9 % of GDP in 2017 and to 35.4 % of GDP by 2022.

The government is taking a proactive stance in managing liabilities by addressing the inherent risks in its debt portfolio. Subject to market conditions and domestic market liquidity, the proposed 80:20 ratio in favor of of local currency financing is meant to increase the share of peso denominated debt and thereby mitigate risks in foreign exchange.

What these all point to is a positive outlook for the economy – with responsibility resting on the government, and which it accepts as a commitment to the people's command, to bring the benefits of an improved economy into the people's lives and homes.

The current fiscal space gives room for the government to increase spending. While this requires bigger borrowings, they are much needed in its vision of an equitable and just society. Together with the sound macroeconomic fundamentals that stabilize the economy and allow higher growth -- the fiscal space can make real change, the promise of the new administration, attainable.

Table 12. National Government Financing, 2015-2017 (in million psesos)

Particulars	2015	2016	2017
Gross Foreign Borrowings	189,538	157,051	126,259
Program Loans	71,973	32,491	68,179
Project Loans	28,203	28,560	34,080
Bonds and other Inflows	89,362	96,000	24,000
Less: Amortization	124,756	175,270	79,415
Net Foreign Borrowings	64,782	(18,219)	46,844
Gross Domestic Borrowings	420,072	538,373	505,035
Treasury Bills	(17,303)	34,035	40,000
Gross Flotation	178,617	268,187	280,000
Maturities	195,920	234,152	240,000
Fixed Rate Treasury Bonds	437,375	504,338	465,035
Less: Net Amortization	242,003	3,351	5,803
Net Domestic Borrowings	178,069	535,023	499,232
Net Financing	242,851	516,804	546,076
Change in Cash	119,555	122,560	43,649
Budgetary Accounts	121,161	127,933	67,953
Non-Budgetary Accounts	(1,606)	(5,373)	(24,304)
TOTAL NET FINANCING REQUIREMENT	121,689	388,871	478,123

Source: 2017 BESF, Table D.1

Table 13. Outstanding Debt of the National Government, 2005-2015 (As percentage of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Domestic	38.1	34.4	31.9	31.2	30.8	30.1	29.5	32.8	30.8	30.2	29.2
Foreign	24.6	23.8	26.1	22.4	21.7	21.6	19.8	19.0	16.2	15.1	15.6

III. Dimensions of the 2017 Proposed National Budget

Understanding How the Money will be Spent

This section presents and analyzes the various dimensions of the 2017 Proposed National Budget -- by Sectoral Allocation, wherein expenditures are classified according to purpose; by Expense or Economic Classification; by Region; and by Department and Special Purpose Fund (SPF). Analyzing the composition of government expenditures based on its various dimensions will enable citizens to better understand the priorities of the government and how their taxes will be spent in 2017.

A. Budget by Sector

Since 2015, the Department of Budget and Management (DBM) has used two systems classifying the Budget according to sector or function.

Under the first system, or what may simply be referred to as the "old" or traditional system, the expenditure items, or programs and projects under agency budgets, are classified into five broad sectors that basically describe the functions that they serve. These five are economic services, social services, defense, general public services, and debt burden – each of which is further divided into sub-sectors.

The second system adopts the Classification of Functions of Government (COFOG), an international standard developed by the Organization for Economic Co-operation and Development (OECD), which identifies 10 sectors. Under this system, rather than classifying the budget of an entire agency under only one of the five sectors of the "old system," it is the budgets or allocations of the individual and specific programs and projects which are categorized into 10 sectors, irrespective of their agency groupings.

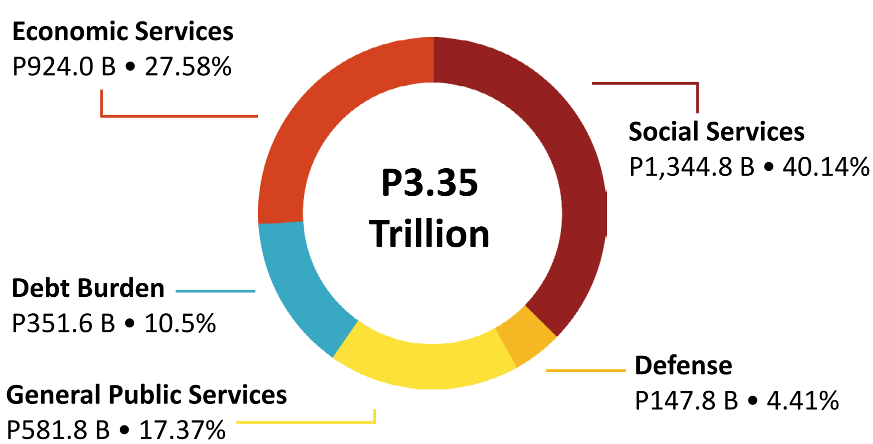
Compared with the "old" method, the COFOG system presents a refined functional classification of the Budget, presenting a more accurate picture of an agency's contribution to multiple socioeconomic objectives, and also to the thrusts and priorities of the administration, as reflected in its expenditures.

This, of course, entails the task of tagging the purpose of some 19,274[1] programs and projects in the budget. At present, this is done manually and presented in the BESF Table.

Budget by Sector, Using the Old/Traditional Method

In a presentation of the 2017 Budget by sector, using the old or traditional method, five sectoral or functional classifications are considered. This appreciation enables a better understanding of how the Duterte administration is ensuring that the country's economic growth is more inclusive and equitable, and will be experienced by all.

Figure 1. Budget by Sector 2017
(in billion pesos & percentage share)



[1]Estimated number of programs, activities, and projects (PAPs) in the 2016 Budget.

Social Services will receive the largest share – 40.1 % – of the 2017 Budget, which is markedly higher than its 36.7 % and 37.3 % share in the two preceding year. The budget for this sector has also expanded by the largest amount in 2017, an increase of P225.0 billion or 20.1 % more than the 2016 level. *(See Table 1)*

Relative to GDP, the expenditures for this sector will account for an 8.4 % share of GDP, moderately higher than the previous year's level of 7.7 % of GDP.

The administration will prioritize its investment in education, culture and manpower development with a funding provision of P700.0 billion – or 52.0 % of the social services sector – to develop its people, and take advantage of the country's demographic windfall and ensure a more capable and agile workforce. Social security, welfare and employment follows as a far second, with an allocation of P295.2 billion or 22.0 %, given the enhanced implementation of the Conditional Cash Transfer (CCT) program and the sustainable livelihood program. Health services is provided a P151.5 billion or 11.3 %, fueled by the proceeds of the Sin Tax Law passed in 2013 to fund the universal health care program.

Economic Services gets the second biggest share of the total Budget pie, with P924.0 billion. Increased by 10.8 % from its 2016 allocation, the sector's proposed budget will be used to stimulate the other engines of inclusive growth by building infrastructure facilities, strengthening agricultural and industrial capacities, developing natural resources, and promoting trade and industry.

The provision for power and energy, flood control, communications, roads, and transport will together amount to P550.4 billion, equivalent to 3.45 % of GDP and 59.6 % of the sector, larger in absolute and relative terms than the 2015 to 2016 allocation, which averaged P449.2 billion or 3.22 %. Agriculture and agrarian reform are allotted some P120.5 billion, accounting for 13.0 % of the total budget for the sector and 0.76 % of GDP.

General Public Services will receive the third largest allocation, with P581.8 billion, or 17.4 % of the total Budget. Its allocation has been increased by 16.8 % to enhance support for initiatives and programs to ensure public order and safety and the dispensation of justice. Under this sector, the budget for peace and order will increase by 19.2 % to P206.6 billion, accounting for 35.5 % of the total for the sector.

Defense also gets a double-digit increase of 13.1 %, from P130.7 billion in 2016 to P147.8 billion in 2017, to address primarily external threats. Part of the allocation will also be used to modernize the Armed Forces of the Philippines (AFP).

Debt Burden. Due to a downtrend in programmed borrowings in the past years and better liability management, the allocation for debt servicing is lower by P67.7 million – from P419.3 billion in 2016 to P351.6 billion in 2017. This is due to lower interest payments and net lending.

Its percentage share in the total budget has dropped to 10.5 %, from 14.0 % in 2016, leaving more fiscal resources available for productive expenditures.

Budget by Sector under COFOG

The COFOG scheme was first adopted in 2015, primarily to conform with the international standard of classifying the budget by function of specific programs and activities.

By adopting this system, the sectoral allocation of the National Budget can be readily compared with that of other countries which follow the same functional classification.

Unlike the "old" system which essentially considers or lodges the budget of an entire agency under only one

Table 1. Budget by Sector, 2015 to 2017 (in billion pesos)

Particulars	Allocation			As % of the Budget		
	2015	2016	2017	2015	2016	2017
Economic Services	708.0	834.0	924.0	29.3	27.8	27.6
Social Services	886.6	1,119.8	1,344.8	36.7	37.3	40.1
Defense	97.2	130.7	147.8	4.0	4.4	4.4
General Public Services	403.7	498.0	581.8	16.7	16.6	17.4
Debt Burden	319.1	419.3	351.6	13.3	14.0	10.5
TOTAL	**2,414.6**	**3,001.8**	**3,350.0**	**100.0**	**100.0**	**100.0**

Source: 2017 National Expenditure Program
Note: Figures may not add up due to rounding off

of five sectors or functions, the COFOG system is able to reflect the multiple contributions of an agency to different sectors.

The COFOG identifies 10 sectors or functions of government, namely: (1) General Public Services, (2) Defense, (3) Public Order and Safety, (4) Economic Affairs, (5) Environmental Protection, (6) Housing and Community Amenities, (7) Education, (8) Health, (9) Social Protection, and (10) Recreation, Culture, and Religion.

The first five sectors benefit the entire society while the last five are focused on individual citizens, most especially the poor and the vulnerable.

The table below presents the budget allocations from 2015 to 2017 on the basis of the COFOG.

Table 2. Sectoral Allocation Under the COFOG, 2015-2017 (in billion pesos)

SECTOR	2015	2016	2017
GENERAL PUBLIC SERVICES	1,012.30	1,250.60	1,271.00
Of which:			
General Services	226.30	258.30	270.70
Public debt transactions	319.10	419.30	351.60
DEFENSE	78.86	100.55	115.46
Of which:			
Military Defense	77.12	98.79	113.70
PUBLIC ORDER AND SAFETY	174.14	137.71	170.80
Of which:			
Police services	121.40	92.50	115.07
Law courts	19.81	18.96	23.17
Prisons	8.90	9.55	12.53
ECONOMIC AFFAIRS	445.47	499.18	565.50
Of which:			
General economic, commercial and labor affairs	12.19	17.91	18.29
Agriculture, forestry, fishing and hunting	118.85	107.80	108.73
Transport	291.62	347.70	418.89
ENVIRONMENTAL PROTECTION	5.40	6.68	7.54
Of which:			
Waste management	1.23	1.72	2.13
HOUSING AND COMMUNITY AMENITIES	12.27	14.31	11.61
Of which:			
Water supply	10.79	12.04	9.16
HEALTH	109.26	125.35	146.18
Of which:			
Public health services	37.87	43.58	40.22
Health insurance	36.31	43.84	50.22
RECREATION, CULTURE AND RELIGION	5.91	6.42	5.50
Of which:			
Cultural services	3.46	4.16	3.07
EDUCATION	387.45	490.63	637.77
Of which:			
Pre-primary and primary education	161.15	170.31	201.86
Secondary education	83.81	144.91	208.62
Tertiary education	33.52	37.25	48.02
SOCIAL PROTECTION	183.61	370.40	418.65
Of which:			
Old age (Senior Citizens)	17.63	117.17	158.69
Housing	28.58	32.52	14.41
Conditional Cash Transfer	61.48	62.67	78.69
Conflict-affected areas	7.83	7.94	12.31

Source: 2017 BESF Table B.8.c

Note: Numbers may not add up due to rounding off.

Examining the 2017 Budget on the basis of the COFOG, General Public Services has the largest allocation among the sectors – P1,271.0 billion, to fund general administration activities such as lawmaking, fiscal management, foreign affairs, public debt transactions, and other governance or regulatory services. This is followed by Education, (P637.77 billion), Economic Affairs (P565.50 billion), Social Protection (P418.65 billion), and Public Order and Safety (P170.80).

The last five sectors, in decreasing order of budget allocation are Health (P146.18 billion), Defense (P115.46 billion), Housing and Community Amenities (P11.61 billion), Environmental Protection (P7.54 billion), and Recreation, Culture and Religion (P5.50 billion)

More interesting than a reading of the allocations for the 10 COFOG sectors, however, is the analysis of the disaggregation for the major programs, into sub-programs.

The Education Sector, for instance, is sub-divided into primary, secondary and tertiary education. Similarly, under the Health Sector are shown the budgets for public health services and the national health insurance program. These data on the allocations for sub-programs provide greater information about the direction of government policies.

Under the Education Sector, the funding pressure brought about by the implementation of the Senior High School program under K to 12 becomes more apparent as one compares the fast catch up of the provision for secondary education from 2016 to 2017 (from P144.91 billion to P208.62 billion, an increase of 44 %) versus that for primary education (from P170.31 billion to P201.86 billion, an increase of only 18.5 %). However, greater attention is starting to be given to tertiary education with a sizeable 28.9 % increase of funds allocated from P37.25 billion in 2016 to P48.02 billion in 2017.

Under the Social Protection Sector, on the other hand, it appears that the cost of all the old age and medical allowances to be provided to senior citizens in 2017 (P158.69 billion), which will include the national health insurance coverage for indigent senior citizens, is higher than the expenditures for the Conditional Cash Transfer program of P78.69 billion. The combined percentage increases for these two sub-sectors from 2016 to 2017, however, is only slightly lower (32.2 %)than the percentage increase in the allocation for Conflict-Affected Areas, which is 55 % higher in 2017 than in the previous year.

B. Budget by Expense Class

A presentation of the 2017 Budget by Expense Class features its disaggregation into Personnel Services (PS), Maintenance and Other Operating Expenditures (MOOE), Capital Outlays (CO), and Financial Expenses (FinEx).

Table 3. Budget by Expense Class, 2016 to 2017 (in billion pesos)

Expense Class	Allocation 2016	Allocation 2017	As % of the Total Budget 2016	As % of the Total Budget 2017
Personnel Services	811.8	997.0	27.0	29.8
MOOE	1,103.1	1,215.9	36.7	36.3
Capital Outlays	692.4	800.3	23.1	23.9
Financial Expenses	394.5	336.9	13.1	10.1
TOTAL	**3,001.8**	**3,350.0**	**100.0**	**100.0**

Source: 2017 National Expenditures Program

Based on the presentation of the 2017 Budget on the basis of expense class, the following may be noted:

Maintenance and Other Operating Expenses (MOOE), which supports the operations of government agencies as it funds supplies and materials, transportation and travel, utilities such as power and water, and repairs, will receive the biggest share, with P1,215.9 billion, representing 36.3 % of the entire National Budget.

This allocation is 10.2 % higher than the 2016 level due to the expansion of key social and economic programs of the administration, such as the Basic Education Program of the Department of Education (DepEd), routine maintenance projects of the Department of Public Works and Highways (DPWH), and subsidies to government corporations, particularly for the socialized housing program of the National Housing Authority (NHA).

Personnel Services (PS) gets P997.0 billion, or 29.8 % of the total budget. Relative to the previous year, the PS allocation increased in 2017, in order to fund the requirements of new positions to be created, particularly the 53,831 additional teacher positions in the DepEd and the 10,000 police officer positions in the Philippine National Police (PNP). The increase will also fund the increments in the salaries of civilian government employees and allowances of the military and uniformed personnel (MUP) under the fourth Salary Standardization Program. Recognizing the risks that soldiers, policemen, other uniformed personnel face to safeguard the citizenry, the administration aims to ensure that additional funds are available to cover an increase in their compensation in 2017 on top of the rates under salary standardization.

Capital Outlays (CO), consistent with the administration's directive to increase infrastructure spending, gets a budget higher by 15.6 % – from P692.4 billion in 2016 to P800.3 billion in 2017. The increase will fund the construction of health facilities under the Department of Health, road infrastructure projects of the DPWH and the Department of Transportation (DOTr), and the construction of school buildings for the DepEd's K to 12 program. (*See discussion on Infrastructure under the Expenditure Priorities section for more details*.)

Financial Expenses (FinEx) are expenditures incurred in the process of owning or borrowing an asset or property. These include interest expenses, bank charges, commitment fees, guarantee fees, and trusteeship fees, among others. The allocation for FinEx decreased by 14.6 %, from P394.5 billion in 2016 to P336.9 billion in 2017, due to lower interest payments on debt. As a percentage of the total budget, FinEx likewise decreased, from 13.1 % the previous year to 10.1 % in 2017. This means that more resources are available and provided for productive expenditures in 2017.

Government Expenditures and Recipient Units

A more detailed or in-depth perspective of the Budget on the basis of Expense Class is presented in Table 4 (B.12) below, which shows the national government expenditures and the respective recipient units. Comparative figures are provided from 2015 to 2017.

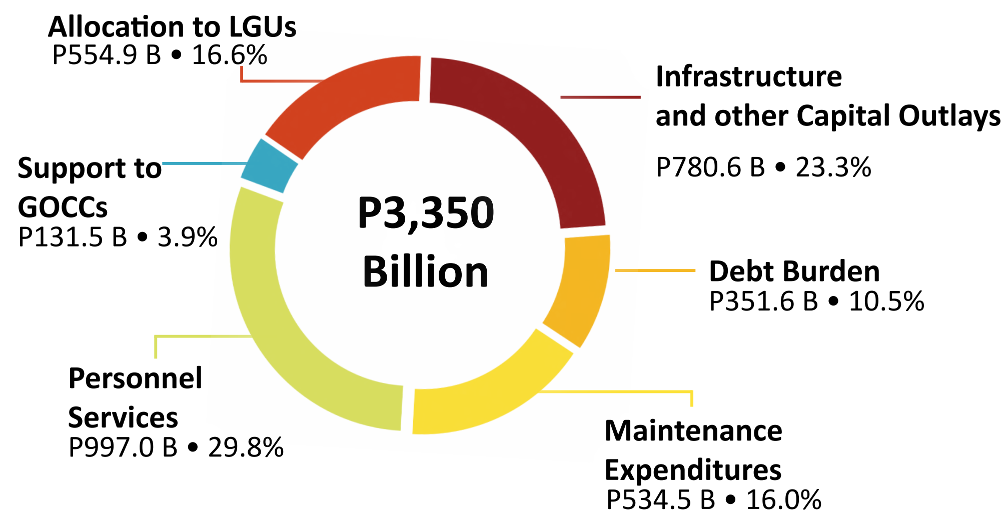
In this presentation, Government Expenditures as divided into (1) Current Operating Expenditures, composed of Personnel Services, Maintenance and Other Operating Expenses, Financial Expenses, Allotment to LGUs (Internal Revenue Allotment or IRA), Subsidy, and Interest Payments; (2) Capital Outlays, identified as Infrastructure, Capital Transfer to LGUs (IRA), Special Shares to LGUs, Equity, and Other Capital Outlays; and (3) Net Lending. Said expenditures are tracked to the enumerated recipients – National Government Agencies (NGA), LGUs, Government-Owned and Controlled Corporations (GOCCs), and Creditors.

Table 4. National Government Expenditures, By Recipient Unit, FY 2015-2017 (in Billion Pesos)

PARTICULARS	2015 ACTUAL OBLIGATION					2016 ADJUSTED PROGRAM					2017 PROPOSED PROGRAM				
	NGAs	LGU	GOCCs	Creditors	TOTAL	NGAs	LGU	GOCCs	Creditors	TOTAL	NGAs	LGU	GOCCs	Creditors	TOTAL
CURRENT OPERATING EXPENDITURES	1,078.0	313.4	66.9	309.4	1,767.6	1,335.0	344.5	31.0	392.8	2,103.3	1,531.5	401.2	80.4	334.9	2,348.0
Personal Services	682.6	0.035			682.6	811.8	0.024			811.8	997.0	0.03			997.0
Maintenance and Other Operating Expenses	393.6	1.4			395.0	521.6	1.6			523.2	532.5	11.7			544.3
Financial Expenses	1.7				1.8	1.7				1.7	2.0				2.0
Allotment to LGUs (IRA)		311.9			311.9		342.9			342.9		389.5			389.5
Subsidy			66.9		66.9			31.0		31.0			80.4		80.4
Interest Payments				309.4	309.4				392.8	392.8				334.9	334.9
CAPITAL OUTLAYS	475.8	95.4	66.1	-	637.3	656.4	141.2	74.3	-	872.0	780.6	153.6	51.0	-	985.2
Infrastructure	428.9	81.9	64.9		575.7	585.7	105.4	65.3		756.4	689.6	122.6	48.4		860.6
Capital Transfer to LGUs (IRA)															
Special Shares to LGUs		13.6			13.6		35.9			35.9		31.0			31.0
Equity			1.2		1.2			9.0		9.0			2.6		2.6
Other Capital Outlays	46.9	0.010			46.9	70.6	0.013			70.6	91.0				91.0
NET LENDING			9.7		9.7			26.5		26.5			16.8		16.8
TOTAL OBLIGATION	**1,553.7**	**408.8**	**142.7**	**309.4**	**2,414.6**	**1,991.4**	**485.8**	**131.7**	**392.8**	**3,001.8**	**2,312.0**	**554.9**	**148.2**	**334.9**	**3,350.0**

Source: 2017 BESF, Table B-12.
Note: Figures may not add up due to rounding off.

Figure 2. Budget by Expense Class, 2017



The figure above, which also presents the Budget by Expense Class, compares the appropriations for personnel services, infrastructure spending and maintenance spending relative to the allocations for LGUs, GOCCs, and debt burden.

Personnel Services (PS) will receive the biggest chunk of the Budget, with P997.0 B (29.8%). In second place is Infrastructure and Other Capital Outlays, with P780.6 B (23.3%), intended to support the administration's drive to accelerate infrastructure spending. Compared to the previous years, Infrastructure and Other Capital Outlays has overtaken maintenance spending in second place for 2017.

MOOE is allocated P534.5 billion (16.0%) to mainly support the delivery of social and economic services. Debt burden (interest payments and net lending) continues its downtrend to P351.6 billion or 10.5% of the budget versus its 14.0% share in 2016. (due to smaller allocations for interest payments (P334.9 B, 14.8% lower) and net lending (P16.8 B, 36.7% lower).

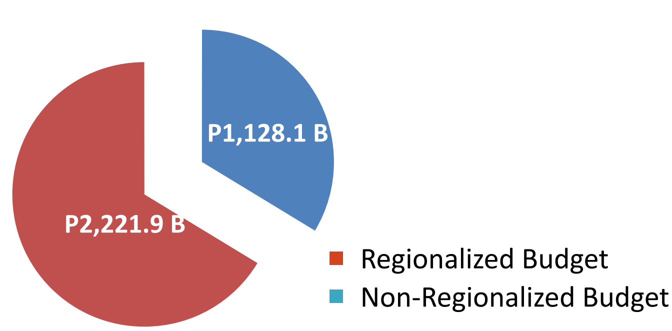
Allocations to LGUs is set at P554.9 billion (16.6%), which consist primarily of the Internal Revenue Allotment and Special Shares of National Taxes. Compared to 2016, it is 14.2% higher mainly due to the 81.5% increase of the Local Government Support Fund (LGSF) financial assistance downloaded to LGUs for the bottom-up budgeting projects and the rehabilitation of provincial roads.

Finally, support to GOCCs, in terms of equity and subsidy, is set at P131.5 billion, or a 3.9% share, higher than its 2016 allocation by 24.9%. The largest of these are the subsidies to be given to the Philippine Health Insurance Corporation (PHIC) for the national health insurance of indigents, and to the National Housing Authority for the resettlement Program.

C. Budget by Region

Analysis of the 2017 Budget by Region shows that almost 66.3 % of the proposed 2017 National Budget, or P2,221.9 billion, is allocated to the Regions, while

Figure 3. Regionalized vs Non-Regionalized Budget, 2017



the remaining 33.7 % falls under the Non-Regionalized Budget. This compares with the 47.7% and 58.9% regionalized shares of the 2015 and 2016 Budgets.

Among the regions, the National Capital Region (NCR) continues to get the highest allocation, with P519.3 billion, since this is where most of the national government agencies are located. The allocation also includes the budgets of Congress, the Offices of the President and the Vice President, and the Judiciary.

Net of the allocation for the National Capital Region, Luzon gets the largest allocation among the three main islands, with P782.2 billion or 23.4 % of the proposed budget. It is followed by Mindanao, with P545.5 billion, and Visayas, with P374.8 billion. In terms of growth, however, Mindanao has the highest increase, with 37.4 % increase over its 2016 allocation.

On a per capita basis, on the other hand, the following is worth noting. First, the average allocation for the regions in Mindanao, which have the highest poverty incidences, is larger than the average allocations for the Visayas and Luzon regions. In fact for 2017, the per capita allocation for the Mindanao regions will amount to P21,466 and will be 27% more than that of Luzon and 16.3% more than that of the Visayas regions. Second, the average per capita allocation to Mindanao will be increasing by 34.8% over 2016, substantially higher than those for Luzon (22.5%) and Visayas (23.7%). Third, the per capita allocation for ARMM is the smallest per capita allocation and while it is 8.4 % higher than 2015, this situation will need to be remedied in view of its poverty situation.

The non-regionalized budget consists of budgetary items which cannot be disaggregated by region prior to budget preparation. For 2017, it decreased by 8.5 %, from P1,232.5 billion in 2016 to P1,128.1 billion in 2017.

Table 5. Per Capita Regional Allocation of the Expenditure Program, 2015 - 2017

PARTICULARS	2015		2016		2017	
	2015 (GAA)	Per Capita Allocation	2016 (GAA)	Per Capita Allocation	Proposed Budget	Per Capita Allocation
NCR	P416.7 B	32,361	P445.7 B	34,856	P519.3 B	40,199
LUZON	P499.6 B	11,204	P628.3 B	13,803	P782.2 B	16,904
Region I	P61.8 B	12,292	P79.0 B	15,194	P98.1 B	18,639
CAR	P34.3 B	19,933	P44.0 B	24,222	P56.4 B	30,518
Region II	P50.6 B	14,675	P64.2 B	18,107	P80.4 B	22,370
Region III	P113.6 B	10,129	P140.9 B	12,513	P167.4 B	14,647
Region IV	P160.8 B	9,253	P203.7 B	11,607	P259.1 B	14,497
Region V	P78.4 B	13,527	P96.5 B	15,701	P120.8 B	19,279
VISAYAS	P235.5 B	12,155	P298.3 B	14,916	P374.8 B	18,452
Region VI	P88.7 B	11,767	P109.3 B	13,997	P139.0 B	17,547
Region VII	P76.4 B	10,336	P100.9 B	13,337	P123.3 B	16,032
Region VIII	P70.3 B	15,845	P88.0 B	19,058	P112.6 B	23,932
MINDANAO	P324.0	13,423	P396.9 B	15,919	P545.5 B	21,466
Region IX	P54.7 B	15,044	P69.9 B	18,255	P90.3 B	23,182
Region X	P64.9 B	13,838	P84.0 B	17,561	P116.9 B	24,070
Region XI	P56.7 B	11,581	P69.9 B	13,828	P108.3 B	21,017
Region XII	P54.7 B	12,032	P65.8 B	14,040	P97.2 B	20,334
CARAGA	P43.0 B	16,555	P53.5 B	19,300	P76.7 B	27,126
ARMM	P50.1 B	13,261	P53.7 B	14,137	P56.0 B	14,380
TOTAL NATIONAL BUDGET	**P2,606.0 B**	**25,807**	**P3,001.8 B**	**29,075**	**P3,350.0 B**	**31,929**

Sources:
2015: Actual Population as of August 1, 2015, PSA, Census of Population
2016-2017: Population Projections, PSA as of August 18, 2016
Note: Figures may not add up due to rounding of

The non-regionalized budget is further classified into Nationwide and Central Office allocations. The former are allocations to be distributed to various regions of departments and agencies, and multi-user special purpose funds (SPFs)[2]. The latter are allocations managed by the head office of departments and agencies such as the centrally-managed items under the DOH for Cancer Centers, Military Hospitals, LGU hospitals, and Rehabilitation Centers in military camps.

D. Budget by Department and SPFs

The departments with the top ten highest allocations account for 51.9 %, or P1,738.0 billion of the total proposed Budget. The SPFs get 40 %, or P1,338.6 billion.

Top Ten Departments. The departments with the highest allocations reflect the administration's priority areas. Topping the list is the Department of Education (DepEd) with P567.6 billion. Its budget for 2017 has been increased by 31 % to adequately fund the K-to-12 program, including the provision of classrooms, seats, additional teachers, and learning materials, as well as boost assistance to students and teachers in private education. (*See discussion on Education under the Expenditure Priorities section for more details.*)

Table 6. Top Ten Departments[3] (in billion pesos)

Department	2016 Budget	2017 Budget	% Increase/ (Decrease)
DepEd	433.4	567.6	31.0
DPWH	397.1	458.6	15.5
DILG	125.4	150.1	19.7
DOH (Incl. PHIC)	125.0	144.2	15.4
DND	117.7	134.5	14.3
DSWD	110.9	129.7	17.0
DOTr	44.3	55.5	25.2
DA	48.9	45.3	(7.5)
DENR	22.3	29.4	31.8
DOF	20.2	23.0	13.9
Total Allocations	**1,445.2**	**1,738.0**	**20.3**

Source: 2017 National Expenditure Program, DBM.

Consistent with the government's priorities to increase infrastructure spending to more than 5 % of the country's GDP, the **Department of Public Works and Highways** (DPWH) will get P458.6 billion. The bulk of these funds will be used to improve road transport not only in Metro Manila and Metro Cebu, but also in Mindanao through the Mindanao Logistics Infrastructure Network (MLIN). The budget for MLIN has increased by 61 % to help lower the cost of logistics in the region, as well as to allow for faster mobility.

In the third spot is the **Department of the Interior and Local Government** (DILG). The DILG moved a notch higher from fourth place in 2016, to third place in 2017. The 19.7 % increase in its budget will support primarily the administration's fight against criminality.

The **Department of Health** (DOH) has also moved a rank higher, from fifth to fourth place, to ensure that Filipinos are provided with adequate healthcare. Part of its budget will be tapped for the construction of four new drug abuse treatment and rehabilitation centers in the Cordillera Administrative Region, Region IV-B, Negros Island Region, and Region XII.

To intensify domestic security, the **Department of National Defense** (DND) will get a 14.3 % increase over its 2016 budget. Part of its P134.5 billion budget will be used for the AFP Modernization Program.

The **Department of Social Welfare and Development** (DSWD) retains its sixth rank, to sustain the provision of social protection to poor Filipinos through the Pantawid Pamilya program, sustainable livelihood program, and social pension for indigent senior citizens, among others. Starting 2017, the government will provide a Rice Allowance for eligible beneficiaries of the Conditional Cash Transfer (CCT) program.

The **Department of Transportation** (DOTr) climbs a step higher, from eight to seventh place, to help address traffic congestion and other transportation problems in the country, particularly in the metropolis.

Landing on eighth place is the Department of Agriculture (DA), with an allocation of P45.3 billion. Among the top ten departments, the DA is the only department whose budget has decreased due to: 1) the reduced requirement of the Philippine Rural Development Project (PRDP) for 2017, a foreign-assisted project; 2) non-recurring items such as the Bottom-up Budgeting (BuB) and the Payapa at Masaganang Pamayanan (PAMANA); and 3) other locally funded projects. For 2017, the DA will invest heavily on agriculture development to raise farmers' incomes as well as ensure food security.

[2]Multi-user SPFs include interest payment, Contingent Fund, Pension and Gratuity Fund, Miscellaneous Personnel Benefits Fund, Allocations to Local Government Units, etc.
[3]Net of the budget for the State Universities and Colleges (SUCs)

The **Department of Environment and Natural Resources** (DENR) takes the ninth spot with a budget of P29.4 billion. Its budget increased by 31.9 % from the 2016 level, reflecting the highest spike among the departments in the top ten list. The increase will support programs like the National Greening Program intended to alleviate the effects of climate change.

The **Department of Finance** (DOF) completes the top ten list, with a P23.0 billion budget, 13.6 % more than its 2016 allocation. Part of this allocation will be used to beef up revenue collections, to compensate for lost revenues with the anticipated move to lower the income tax rate.

Special Purpose Funds. For 2017, Special Purpose Funds (SPFs) amount to P1,338.6 billion, higher by only 4.3 % from the 2016 level of P1,283.5 billion. Of this amount, only P77.6 billion is considered under lump-sum SPFs, or funds that could not be disaggregated at the time of preparation of the 2017 proposed Budget.

These include the National Disaster Risk Reduction and Management Fund (NDRRMF), which is tapped to respond to calamities and disasters, and the Contingent Fund, which is used to cover the funding requirements of new or urgent programs and activities of national government agencies and GOCCs or legal obligations that should be paid during the year. The release of these funds are subject to the approval of the President.

There are also certain items under the Allocations to Local Government Units (ALGU) which cannot be disaggregated during budget preparation. These include the Barangay Officials Death Benefits Fund, and Share in the Proceeds of Fire Code Fees, among others.

Table 7. Allocation for Special Purpose Funds, 2016-2017 (in billion pesos)

SPFs	2016 (Adjusted)	2017
Budgetary Support to Government Corporations	131.8	148.2
Allocations to Local Government Units	485.8	554.9
National Disaster Risk Reduction & Management Fund	38.9	37.3
Contingent Fund	2.5	5.5
Miscellaneous Personnel Benefits Fund	96.3	96.1
Pension & Gratuity Fund	110.0	142.3
Customs Duties & Taxes, Including Tax Expenditures	25.5	19.5
Debt Interest Payments	392.8	334.9
Net Lending	16.8	16.8
TOTAL	1,283.5	1,338.6

Source: DBM
Note: Figures may not add up due to rounding off

Among the SPFs that can be disaggregated are the Budgetary Support to Government Corporations, Miscellaneous Personnel Benefits Fund, Pension and Gratuity Fund (PGF), and some items in the ALGUs. The hefty increase in the PGF is attributed to the additional provision for Military and Uniformed Personnel pension due to the increase in the salary levels and the payment of incentives to personnel affected by the Rightsizing or Rationalization programs.

IV. Expenditure Priorities

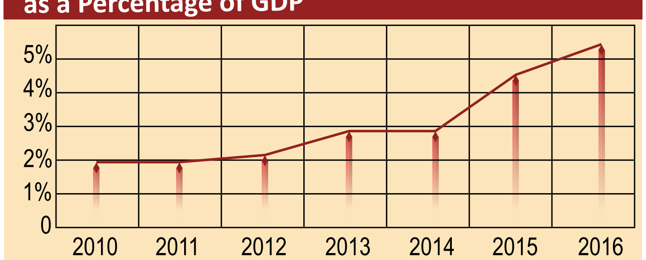
Infrastructure

Filling the Infrastructure Gap

Government infrastructure spending has always been recognized and accepted as one of the drivers of sustained and equitable economic growth, especially for developing countries. However, it does happen that due to various factors, the levels of infrastructure spending necessary to effect the desired growth are not reached. This results in gaps in an otherwise sustained and equitable growth, manifested in problems in the delivery of services or decreased benefits for the people, especially the poor and marginalized.

In the last few years, the Philippines' infrastructure spending had fallen short of the ideal level of 5 % of Gross Domestic Product (GDP) for developing countries. From 2010 to 2016, the budget allotted for infrastructure development increased from 1.8 % of GDP in 2010 to 5.2 % of GDP by 2016. However, actual spending on infrastructure averaged only 2.9 % of GDP, a situation brought about by various factors, principally the weak institutional capacity of implementing agencies as indicated by the lack of well-developed pipeline projects, deficiencies in project design, frequent delays and failures in procurement, and poor coordination during execution.

Figure 1. Infrastructure Spending in the Philippines as a Percentage of GDP



This low spending on infrastructure has expectedly led to an infrastructure gap in the country, warding off a number of potential investors, slowing down trade, and constraining economic growth, particularly in the lagging regions. Hence, not surprisingly, the Philippines received the least foreign direct investments (FDI) among the ASEAN-5 countries, accounting for a measly 0.7 % of the intra-ASEAN FDI in 2015[1], compared to the 6.4 %, 9.7 %, and 42.1 % of Thailand, Vietnam, and Indonesia, respectively. Likewise, the country ranked 71st among 160 in the 2016 Logistics Performance Index[2], placing last among its neighbors.[3]

The underspending on infrastructure has also restricted the mobility of goods and people, translating to foregone employment opportunities and slackened economic growth.

Accelerating Infrastructure Spending

Confronted with this reality and resolved to address the challenges, the Duterte administration intends to hike infrastructure spending to 5.4 % of GDP in 2017, aiming to steadily raise this to as much as 7 % of GDP within the next six years. This renewed emphasis on infrastructure development is inherently tied to the goals of achieving robust and equitable economic growth.

The 2017 Budget provides P860.7 billion for infrastructure development. This is P104.2 billion or 13.8 % higher than in 2016. Table 1 summarizes the categories of these infrastructure outlays to be either constructed or rehabilitated from 2015 to 2017.

The road networks to be implemented by the DPWH, DA, ARMM, and agencies and LGUs comprise the largest component of P328.2 billion or 38.1 % of the government's entire infrastructure program for 2017. This is followed by the school buildings to be constructed and repaired primarily by DepEd (P124.6 billion or 14.5 %) and the flood control systems (P75.8 billion). The other components to be funded and implemented within other sectoral areas will be discussed in their respective presentations.

Land Transportation: Opening Lanes for Progress and Productivity

Long hours on congested roads and in traffic jams have of late been the norm rather than the exception for travelers and motorists in the country's key population

[1]Association of South East Asian Nations. (2015). Foreign direct investment net inflows, intra and extra ASEAN. Retrieved from http://asean.org/storage/2015/09/Table-252.pdf.
[2]The Logistics Performance Index attempts to measure the performance of logistics supply chains in domestic and international trade.
[3]World Bank. (2016). The Logistics Performance Index. Retrieved from http://lpi.worldbank.org/.

and business centers like Metro Manila, Cebu, and Davao. This is a result of simultaneous constructions started in the last few years, further aggravated by the concentration of economic activities in areas already strained by a burgeoning population, and the constant rise in motor vehicle sales especially in Metro Manila.

More than the aggravation and irritation suffered by the mobile population, traffic congestion results in significant losses, estimated to reach as much as P2.4 billion daily, according to a 2014 study by the Japan International Cooperation Agency (JICA). Without proactive interventions, these losses can climb to P6.0 billion daily by 2030.[4]

Table 1. Infrastructure Outlays, 2015 to 2017 (in Billion Pesos)

Particulars	2015	2016	2017
Infrastructure Outlays	575.67	756.44	860.65
Percent of GDP	4.3%	5.1%	5.4%
Growth Rate	66.3%	31.4%	13.8%
of which:			
Road Networks	223.48	298.08	328.18
Flood Control Systems	48.33	69.01	75.82
Seaport Systems	2.65	1.81	2.67
Airport Systems	12.25	9.58	5.71
School Buildings	72.47	91.29	124.62
Hospitals and Health Centers	9.45	19.21	10.01
Irrigation Systems	26.53	23.59	26.03
Other Infrastructure Assets	131.37	170.42	224.53

Highways, Roads, and Bridges

The construction of new highways, roads, and bridges is now seen as critical to support the increasing number of vehicles on the road, especially in Metro Manila, which has a bloated vehicle density of 3,677 per square kilometer, far higher than that of Singapore (1,360) or Tokyo (967).[5] More importantly than ever, and especially for an archipelagic country like the Philippines, land transport infrastructure is vital in expanding economic opportunities, particularly in production areas and when natural barriers like land or water bodies prevent transport mobility in the disadvantaged communities.[6] Roads, bridges, and highways would enable more efficient mobility and enhance the conduct of economic and social activities, while also spurring additional business and economic enterprises.

To address the gaps in land transport infrastructure, which have largely been responsible for the traffic congestion in the urban centers, a budget of P199.2 billion has been allocated for road transportation in 2017.

The National Road Network Services (NRNS) of the Department of Public Works and Highways (DPWH) will receive the bulk of this total, P194.7 billion, which is 19.8 % higher than the 2016 budget. A sizable chunk of the NRNS budget will fund the Mindanao Logistics Infrastructure Network (MLIN) – with an allocation of P31.5 billion, 61 % higher than the 2016 budget. The MLIN aims to address the high cost of transport and the inadequate infrastructure logistics in Mindanao by building 839 km of roads and bridges to improve linkage roads to key ports and other production areas.

The DPWH will use the rest of its budget to maintain 999.2 km of national roads, construct an additional 2,882.8 km of national roads and 25,869.8 lineal meters (lm) of bridges, as well as complete 585.9 km of paved roads. Among the major road projects that will begin construction in 2017 are the P35.4 billion Cavite-Laguna Expressway, spanning 44.6 km, the P4.9 billion Panguil Bay Bridge connecting the City of Tangub in Misamis Occidental and the Municipality of Tubod in Lanao Del Norte, the P2.4 billion C-2/R-7 Interchange Project for 1.6 km, and the P2.7 billion EDSA-Taft flyover covering 2.7 km.

P11.8 billion of the DPWH budget will be focused on continuing to provide access roads to tourist destinations. Notable among these projects to be funded are the Pancian, Pagudpud-Adams Road leading to different waterfalls in Ilocos Norte, P230 million; the Circumferential Road leading to Lake Mainit in Surigao del Norte, P230 million; the NRJ-Cumawas-Tinuy-an Falls Road in Surigao del Sur, P234 million; the Clark Green City-Mac Arthur Access Road leading to Clark Green City in Tarlac, P250 million; and the Borongan-Llorente Closed Canopy Forest Area spanning various barangays in Maydolong, Eastern Samar, P300 million.

[4]Japan International Cooperation Agency. (2014). JICA transport study lists strategies for congestion free MM by 2030. http://www.jica.go.jp/philippine/english/office/topics/news/140902.html
[5]Santiago, R. (2016). Easing Metro Manila Traffic Congestion. Retrieved from http://opinion.inquirer.net/91905/easing-manila-traffic-congestion
[6]Dy, R. (2016). Bridges for Development. Retrieved from http://www.bworldonline.com/content.php?section=Opinion&title=bridges-for-development&id=132663

Table 2. DPWH Allocation Regional Breakdown, 2015 to 2017 (in million pesos)

	2015 GAA		2016 GAA		2017 NEP	
NCR	19,795	8.83%	23,634	7.40%	23,384	6.83%
Northern Luzon	52,461	23.39%	73,138	22.90%	67,207	19.63%
Southern Luzon	46,049	20.53%	62,532	19.58%	60,081	17.55%
Visayas	40,273	17.96%	59,130	18.51%	58,551	17.10%
Mindanao	65,701	29.29%	100,989	31.62%	133,127	38.89%
SUB-TOTAL:	224,279	100.00%	319,421	100.00%	342,351	100.00%
Inter-regional/Nationwide	50,144		45,362		79,162	
TOTAL	**274,422,399**		**364,782,681**		**421,512,776**	

Source: Department of Public Works and Highways

Table 3. DOTr Regional Allocation of Infrastructure Outlays, 2015 to 2017 (in million pesos)

	2015 GAA		2016 GAA		2017 NEP	
NCR	15,301	38.83%	10,349	35.02%	8,666	22.02%
Northern Luzon Region 1 CAR Region 2 Region 3	1,161	2.95%	2,744	9.28%	208	0.53%
Southern Luzon Region 4A Region 4B Region 5	9,293	23.58%	7,381	24.98%	7,970	20.25%
Visayas	4,969	12.61%	4,063	13.75%	4,445	11.30%
Mindanao	3,962	10.06%	2,080	7.04%	6401	1.63%
SUB-TOTAL:	34,686	88.03%	26,618	90.07%	21,930	55.72%
Central Office	18	0.05%	18	0.06%	5,589	14.20%
Inter-regional Nationwide	4,700	11.93%	2,916	9.87%	11,839	30.08%
TOTAL	**39,404**	**100.00%**	**29,551**	**100.00%**	**39,357**	**100.00%**

Source: Department of Transportation

Bus Systems and Terminals

The Department of Transportation (DOTr), which is tasked to implement and oversee infrastructure projects directly related to transport systems, has been allocated a budget of P4.9 billion for this, 25.2 % higher than in 2016. Among the projects to be undertaken by the DOTr are the Integrated Transport Systems Project, P433 million; the Cebu Bus Rapid Transit (BRT) Project, P1.0 billion; the DOTC-Road Transport Infrastructure Project, P2.5 billion; and the Manila BRT Lines 1 and 2, which are to receive P937 million and P7 million, respectively.

The BRT projects are expected to alleviate traffic congestion in various urban centers of the country, starting with Metro Manila and Metro Cebu, as they will offer efficient, cost-effective, and convenient means of mass transport. The Manila BRT Phase 1 will have 17 stations spanning 27.7 km, running from the Manila City Hall to Philcoa in Quezon City, with 280 buses. Its Phase 2 counterpart will have 63 stations serving Mega Manila, with an estimated 1,151 buses transporting passengers through EDSA, Makati, Ortigas, and NAIA. The Metro Manila BRT Project is expected to be operational by 2020.

The Cebu BRT, on the other hand, is partly funded by the World Bank and will cover some 33 stations, spanning over 23 km. It is due for completion by 2018, barring any setback.

Rail Transportation: Getting on Track

Long queues, cramped train coaches, technical glitches, and a generally unsafe and uncomfortable travel environment are presently the regular bane of the train-riding public. The Metro Rail Transit (MRT) 3 for instance, which has a projected capacity of 350,000 passengers per day, is now forced to handle an average daily ridership of 500,000.[7] Adding to their woes, MRT commuters have to endure reduced train speeds of 40 kph, from 65 kph, due to poor maintenance and mismanagement.[8]

The situation is much the same in most of the other rail transport systems such as the Philippine National Railways (PNR) and Light Rail Transit (LRT) 1, primarily due to the inadequate maintenance capabilities of the contracted entities.

It is this harsh and inescapable reality encountered daily by the commuting public, largely composed of the masses, that the government seeks to address through the development and maintenance of an efficient rail transport network system. Focusing on this infrastructure component will ensure more effective and convenient modes of mass transportation, providing a viable alternative to private transport – aiming to translate to less vehicles on road networks.

As the agency mandated for this task, the DOTr, with a budget of P55.5 billion, is set to implement a nationwide pipeline of railway projects, most of which will be located in Luzon and Metro Manila where traffic congestion is at its worst, along with urban centers in Cebu and Mindanao.

The commitment to develop the rail transport system will be backed by the P24.9 billion allocation for the DOTr for 2017, double its 2016 allocation. The MRT 3 line has been given a budget of P4.8 billion for 2017, which will enable it to maintain affordable fare prices for passengers. A separate allocation of P1.0 billion for the MRT 3 Rehabilitation and Capacity Expansion Project will ensure the efficient operation of the MRT 3, which has been plagued by such problems as technical malfunctions and capacity issues over the years.

Further, to accelerate the extension of the railway systems, the LRT Line 2 West Extension (from the Recto Station to the Pier 4 Station) and the LRT Line 1 Cavite Extension (from the Baclaran Station to the Bacoor Station) are allocated P100 million and P3.8 billion, respectively. The North-South Commuter Rail Project Phase I (spanning 37 km from Tutuban, Manila to Malolos, Bulacan) will receive P2.5 billion in 2017, P2 billion more than the 2016 allocation, in order to speed up the construction of the said rail system. Phase 1 is targeted to be completed by 2020.

Lastly, the North-South Rail Project Phase II (spanning 653 km from Tutuban, Manila to Matnog, Sorsogon) will receive P9.4 billion for the first year, to finance right-of-way acquisitions (P2.3 billion) and resettlement activities (P7.1 billion). Phase 2 of the project is the Public-Private Partnership (PPP) component, with an estimated cost of P214 billion.[9] This is still subject to the approval of the NEDA Board, but the project is expected to be awarded soon thereafter with five (5) major bidders already in place.

These construction projects will be complemented by administrative reforms such as measures to reduce queuing time by making train tickets available at commercial outlets.

Air Transportation: Levelling Up Aviation Infrastructure and Services

Air transportation in the Philippines has been similarly facing numerous challenges, such as inadequate runways and infrastructure facilities, poor maintenance, and congestion. This exacerbates the already strained business environment and activity among the regions and islands in the country, and hampers the growth of tourism. Air traffic control is another issue, spawned by expanding air travel demand that outpaces the development of air traffic capabilities.[10]

To mitigate these challenges, the air transport projects of the DOTr are provided P5.6 billion for 2017. Provisions for the major ongoing airport construction will be sustained, such as for the New Bohol (Panglao) Airport Development Project, which is given an appropriation of P2.2 billion in 2017, slightly higher than the 2016 level of P2.1 billion. Likewise, the Cotabato Airport and the Bicol International Airport will receive P341 million and P675 million, respectively.

The New Communication and Navigation Airport Development Project will have an allocation of P200

[7]Palanca, T. (2015). On the MRT: A Capacity Conundrum. Retrieved from http://www.rappler.com/views/imho/93492-mrt-capacity-conundrum-data-research

[8]Metro Rail Transit Philippines. (2014). Management Issues. Retrieved from http://mrt3.com/index.php/operations

[9]PPP Center. (2016). North-South Railway Project (South Line). Retrieved from https://ppp.gov.ph/?ppp_projects=north-south-commuter-rail-south-line

[10]Chanco, B. (2016). Fixing airport experience. Retrieved from http://www.philstar.com/business/2016/07/11/1601459/fixing-airport-experience.

million in 2017. Funded from the DOTr Office for Transportation Security (OTS) allocation, among the equipment to be purchased are 20 units of Dual View X-ray machines amounting to P118.8 million, 8 units of Bottled Liquid Scanners for P21 million, and 10 units of Body Scanners for P140 million, to be situated in airports throughout the Visayas and Mindanao.

Maritime Transportation: Speed over Safe Waters

In an archipelago such as the Philippines, the importance of safe and efficient maritime transport cannot be overstated. The mobility of goods and people has vital implications on the economy, primarily in the sectors of industry, trade, and tourism. It is imperative that the country's maritime transport systems be developed for better inter-island integration and global competitiveness.

In 2017, maritime transport through the DOTr and the Philippine Coast Guard (PCG) will have an allocation of P4 billion, 76.9 % higher than in 2016. Notable items in this budget include P1.6 billion for the Maritime Safety Capability Improvement Project (MSCIP) and P1.0 billion for the Philippine Ports and Coast Guard Capacity Development (PPCGCD).

The MSCIP is a foreign assisted project financed through a loan from the JICA. It aims to improve the capabilities of the PCG in responding to maritime incidents such as search and rescue, salvage work, environmental protection, and enforcement of maritime law. Ten (10) additional 40-meter multi-role response vessels (MRRV) will be procured to foster maritime safety in the ten Coast Guard Districts. The MSCIP project will also have a Phase II, which involves the acquisition of two (2) additional 92-meter multi-role response vessels for high endurance and heavy weather conditions. Meanwhile, four (4) 24-meter patrol vessels and one (1) 82-meter patrol vessel will be acquired through the PPCGCD project. These projects will boost the fleet of PCG for search and rescue, which currently has only fourteen (14) boats, tenders, and ships combined.

Ports, lighthouses, and harbors will also be rehabilitated, improved, and constructed for a total amount of P1.1 billion. Funding provisions include P450 million for the Barangay Pag-asa Port in Palawan, P357.7 million for the San Fernando Port in Cebu, P30 million for the Limasawa Port in Southern Leyte and P10 million for the Volcano Island Port in Batangas.

Beyond ports, another noteworthy maritime transport project is the Pasig River Ferry System, which is allocated P119.4 million for its operations, maintenance, and improvement.

Public-Private Partnership: Reforms for Revitalizing the Partnership

The government is well aware that increased government spending may not be enough to immediately close the infrastructure gap. The revitalized public-private partnership (PPP) program will therefore be continued to involve the private sector and foreign investors in major infrastructure projects.[11]

Consequently, reforms are being instituted to hasten the rollout of PPP projects, from an average duration of 29 months to 20 months. Moreover, investors will be allowed to submit unsolicited bids to propose innovative and viable projects outside the national pipeline, which can charge low user fees. The lowering of user fees is preferred over premium payments to lower risks; and hybrid projects are being planned to exploit the comparative advantage of the national government and the private investors in construction versus maintenance operations.

Thus, hybrid PPP set-ups may be introduced, wherein the government will be in charge of construction while operations will be entrusted to the private sector.[12] This way, the government can take advantage of lower borrowing rates through development assistance, while the private sector can be utilized to efficiently manage operations.

By the end of 2017, the administration aims to rollout 17 PPP projects worth an estimated P580 billion. This is in addition to the 12 PPP projects (worth P217.4 billion) that have already been awarded under the Aquino administration.[13]
As of September 2016, 13 PPP projects are under implementation (worth P292.3 billion). Forty (40) more projects are in the PPP pipeline for a total of P1.14 trillion. Among the big ticket projects are the P170.7 billion North-South Railway Project and the P122.8 billion Laguna Lakeshore Expressway Dike Project. Other projects include the operation, maintenance, and development of the New Bohol Airport, Davao Airport, Iloilo Airport, and the operation and maintenance of LRT Line-2.

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[11]Public Private Partnership Center. (2016). Gov't considers hybrid PPP deals. Retrieved from http://www.bworldonline.com/content.php?section=TopStory&title=Govt-considers-hybrid-PPP-deals&id=130721.
[12]Public Private Partnership Center. (2016). Budget Chief Duterte admin to usher in golden age of infrastructure. Retrieved from http://ppp.gov.ph/?in_the_news=budget-chief-duterte-admin-to-usher-in-golden-age-of-infrastructure
[13]Lopez, M. (2016). Gov't targets 17 PPP auctions by 2017. Retrieved from http://www.bworldonline.com/content.php?section=TopStory&title=gov&8217t-targets-17-ppp-auctions-by-2017&id=129987

Table 4. Selected National Government PPP Projects[16]

Project	Implementing Agency	Cost
New Bohol (Panglao) Airport Development, Operation and Maintenance	DOTC and CAAP	P 4.57 Billion
Davao Airport Development, Operation and Maintenance	DOTC	P 40.57 Billion
Operation and Maintenance of LRT Line 2	DOTC and LRTA	No Capital Expenditure
North-South Railway Project (South Line)	DOTC	P 170.7 Billion
Regional Prison Facilities	BuCor and DOJ	P 50.18 Billion
New Centennial Water Source Project	MWSS and DPWH	P 18.72 Billion

Source: Public Private Partnership Center Pipeline of Projects

Approaching the Golden Age

Consistent with the government's infrastructure agenda, the National Economic and Development Authority (NEDA) Board has approved nine (9) additional projects worth a total of P171.3 billion.[14]

The noteworthy big-ticket projects include the improvement of the Ninoy Aquino International Airport (NAIA) for P74.6 billion; the construction of the Metro Manila Bus Rapid Transit (BRT) system, P37.8 billion; and the initial implementation of the Metro Manila Flood Management Project that will rehabilitate 36 pumping stations and construct 20 additional pumping stations for P23.5 billion.

The NEDA Board has also adopted new policies to streamline the government's approval process for major public infrastructure projects. The economic hurdle rate[15] has been reduced from 15 % to 10 % due to improved economic conditions in the country. At the same time, the Investment Coordination Committee (ICC) has raised the project floor from P1 billion to P5 billion to declog the pipeline of projects. This means that projects worth less than P5 billion will now be delegated to the heads of agencies, but they will still be required to report these projects to the ICC prior to implementation.

A lot of work remains to be done in order to address the Philippines' infrastructure backlog. It will probably take years of catching up, but the first steps have already been taken by hiking infrastructure spending to at least 5 % of GDP.

Thus, projects, network plans, and new policies are already being launched to better respond to the country's transport infrastructure gap and traffic issues.

A revised set of implementing rules and regulations (IRR) to the Procurement Law (RA 9184) has also been introduced to clarify, simplify, and standardize the procurement procedures for infrastructure projects and a procurement professionalization program is being conducted to complement this revised IRR. These reforms are on top of the continued implementation of the Early Procurement Policy, allowing agencies to proceed with procurement activities short of award so long as the President has approved the NEP, and implementing a 24/7 construction policy for infrastructure projects.

Knots in the PPP process are also being studied and untangled, to harness the private sector's and foreign investors' resources and creativity. On the part of citizens, discipline, trust, and support are needed now more than ever, as transport and infrastructure reforms cannot be instituted by the government alone.

Indeed, the Golden Age of Infrastructure is within reach with an active government and a responsible citizenry.

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[14]National Economic Development Authority. (2016). NEDA Board Approves Nine Projects in First Meeting. Retrieved from http://www.neda.gov.ph/2016/09/15/neda-board-approves-nine-projects-in-first-meeting-changes-in-the-investment-coordination-committee-icc-review-policies-also-green-lighted/.
[15]The economic hurdle rate is the minimum rate of return required by the government before approving major public infrastructure projects. It takes into account the risk involved in the project, economic conditions in the country such as the cost of financing, among other things.
[16]Public Private Partnership Center. (2016). Pipeline of projects. Retrieved from https://ppp.gov.ph/?page_id=26075

IV. Expenditure Priorities

Human Capital Development

A Government for the People, Development for the People

Human capital development is at the core of the government's pursuit of progress. For the Duterte administration, the Filipino people are not only the most important means for economic growth -- they are, and should be, at the receiving end of economic growth.

Achieving equitable development is only possible with optimal investments in human capital. It is for this reason that the 6th point of the Duterte administration's 10-point socioeconomic agenda is to "invest in human capital development, including health and education systems." At the same time, the administration will see to it that adequate social safety nets will be put in place to uplift the living conditions of the impoverished. This is embodied in the 9th point of the socioeconomic agenda, which mandates the improvement of social protection programs "to protect the poor against instability and economic shocks."[1]

Education: For Knowledgeable and Productive Members of Society

Over the past decade, improvements have been made in the public's access to basic education. For instance, the implementation of The Kindergarten Act of 2012 (RA 10157) has boosted kindergarten net enrolment rates by at least 20 percentage points since 2012[2]. However, the observed gains in education, such as in net enrolment rates and completion rates, have not always been on an upward trend.

Table 5. Net Enrollment Rates, 2010-2015

	2010	2011	2012	2013	2014	2015
Kindergarten	57%	74%	77%	76%	79%	55%[3]
Elementary	96%	97%	95%	94%	93%	90%
Secondary	65%	65%	65%	65%	63%	68%

Source: Department of Education 2015 Year-End Report

Table 6. Completion Rates, 2010 – 2015

	2010	2011	2012	2013	2014	2015
Elementary	72%	71%	73%	78%	83%	83%
Secondary	75%	74%	75%	76%	79%	74%

Source: Department of Education Key Education Statistics as of August 31, 2016

In terms of resources in the education sector, there is a need for additional inputs, especially with the full implementation of K to 12. On top of the 2017 targets, there is still a requirement balance of 66,463 classrooms; 2.2 million school seats; 34,436 teachers; 13,841 computer packages; and 179.6 million copies of instruction materials. Administrative issues like underspending of appropriations have also hindered the implementation of certain programs, including K to 12[3,5]. Clearly, administrative reforms must complement the provision of materials and infrastructure to further boost the quality of basic education, and its accessibility to the public.

In response to this situation, the Department of Education (DepEd) promptly convened a mid-year review of Project Procurement Management Plans (PPMPs) to catch up on procurement, particularly with the big-ticket items. Leadership supervision over Finance and Administration has also been introduced, with the designation of three undersecretaries and one assistant secretary, namely: an Undersecretary for Budget and Performance Monitoring, an Undersecretary for Disbursements and

[1] De Vera, B. (2016). Duterte economic team to present 10-point agenda before businessmen. Retrieved from https://ppp.gov.ph/?in_the_news=duterte-economic-team-to-present-10-point-agenda-before-bizmen

[2] UNESCO. (2015). Philippine Education for All 2015 Review Report. Retrieved from http://unesdoc.unesco.org/images/0023/002303/230331e.pdf

[3] The sudden drop in Kindergarten enrollment is due to DepEd Order No. 1, s. 2015 declaring that "Kindergarten children should be at least 5 years old by June 1, 2015" instead of October 31 as required by previous policies.

[4] DepEd. (2016). Final FY 2017 budget kit HOR.

[5] Monzon, A. (2016). LGUs, PNP top list of Ombudsman cases. Retrieved from http://www.bworldonline.com/content.php?section=Nation&title=lgus-pnp-top-list-of-ombudsman-cases&id=124173

Accounting, an Undersecretary for Administration, and an Assistant Secretary for Procurement. A Financial Management Information System (FMIS) will also be developed to track the status of budget releases to the DepEd. Improvements in accounting systems, internal controls, budget utilization, and delivery systems are also expected to eliminate underspending[6].

Increased support for technical-vocational education has been a welcome development -- but much is still to be done to bring it at par with our ASEAN neighbors. Furthermore, job mismatching continues to be a problem due to limited employment opportunities, limited labor market information, and inadequate academic preparation[7]. This contributes to unemployment, especially for the youth. In addition to educational training that is more responsive to the demands of the global labor market, support for science and technology and improvements in labor information systems must be pursued to maximize employment opportunities, especially for the manufacturing and services sectors[8,9].

Basic Education

Holding the greatest potential to realize the promise of human capital development, the DepEd will receive P567.6 billion for 2017, a budget 30.0 % higher than in 2016. Of this amount, P118.8 billion will be used for basic educational facilities, including the construction of 37,492 classrooms and the provision of 2,942,172 seats for K to 12. This will help narrow the gaps on the road to the goal of universal basic education.

The Philippines is a signatory to the 2000 World Education Forum, which aims to ensure universal basic education for all. However, a report by the United Nations Educational, Scientific, and Cultural Organization (UNESCO) forecasts that the Philippine government will miss this target by as much as 23 percentage points for Kindergarten net enrolment, 5 percentage points for elementary level net enrolment, and 35 percentage points for secondary level net enrolment, among other indicators[10].

Against this background, universal basic education for all Filipinos remains to be the primary educational objective of the government, which has reserved the highest budgetary allocation for the Education Department.

P19.5 billion has been allocated for the creation of 53,831 teacher positions and 13,391 non-teaching-related positions to ensure the smooth operations of public schools and to maximize the learning opportunities of students. Another P14.39 billion will be used to acquire learning resources, such as 55.8 million textbooks and instructional materials, as well as provide Science and Mathematics equipment to 5,449 schools. The target outputs are summarized in Table 7.

Table 7. Basic Education Targets for 2017

Particulars	Kinder	Elementary (Monograde)	Junior High School	Senior High School
Class Size	25 per class	40 for Grades 1 and 2 45 for Grades 3 to 6	45 per class	40 per class
Seats	1 per pupil	1 per pupil	1 per pupil	1 per pupil
Learning Materials	1 per pupil	8 per pupil for Grades 1 to 3 9 per pupil for Grades 4 to 6	8 per pupil	10 per pupil for Grade 11 14 per pupil for Grade 12
Water and Sanitation	50 students per washroom	50 students per washroom	50 students per washroom	50 students per washroom

Source: Department of Education

[6] DepEd. (2016). Final FY 2017 budget kit HOR.
[7] DOLE. (2011). Philippine Labor and Employment Plan 2011 – 2016. Retrieved from http://www.dole.gov.ph/fndr/bong/files/PLEP-26%20April%20version.pdf
[8] Magkilat, B. (2016). Job skills mismatch to dampen PH growth –study. Retrieved from http://www.mb.com.ph/job-skills-mismatch-to-dampen-ph-growth-study/
[9] Miraflor, M. (2016). Job mismatch can be resolved. Retrieved from http://www.mb.com.ph/job-mismatch-can-be-resolved/
[10] UNESCO. (2015). Philippine Education for All 2015 Review Report. Retrieved from http://unesdoc.unesco.org/images/0023/002303/230331e.pdf

Tertiary Education

For tertiary education, the total subsidy for state universities and colleges (SUCs) will be hiked to P58.8 billion, reflecting an 18.4 % increase from the 2016 budget. Pursuant to the Higher Education Reform Roadmap 2[11], P9.0 billion will be used to fund the modernization of buildings and facilities of SUCs. The Expanded Students' Grants-in-Aid Program for Poverty Alleviation will also be allocated P2.4 billion, targeted to benefit 38,719 students.

The Commission on Higher Education (CHED) will also receive P13.4 billion. Of this amount, P5.8 billion is allocated for the Student Financial Assistance Programs for 445,836 beneficiaries. Meanwhile, P4.6 billion will go to the K to 12 Transition Program. This will fund the graduate school education of 12,257 students, the development grants of 1,883 faculty members, and the institutional grants of 125 beneficiaries.

Technical-Vocational Education

Under technical-vocational education, the Technical Education and Skills Development Authority (TESDA) has been given a budget of P6.9 billion for 2017. The Training for Work Scholarship Program (TWSP) will receive P2.2 billion, to benefit 293,333 enrollees and 264,000 graduates. The Private Education Student Financial Assistance (PESFA) is allotted P200 million to support 11,000 beneficiaries.

The total budget for technical-vocational education has been increased by P10 million compared to the 2016 allocation.

Finally, to address job mismatching, the Department of Labor and Employment will complement the efforts of the TESDA with programs to develop Filipinos into agile and competent workers. One example is the DOLE's Jobstart Philippines Program, which will facilitate the employment of unemployed youths by offering life skills training, job matching, technical training, among others, to aid them in finding jobs with partner institutions.

Continuing and New Policy Directions

Existing partnerships with the private sector will be continued and expanded to advance the advocacy of basic education for all. The "Adopt-a-School" program, which allows private entities to provide assistance to schools, and Brigada Eskwela, which brings together parents, teachers, and community members to pool their resources to get schools ready for school opening, are examples of these partnerships.

In accordance with the Duterte administration's anti-drugs policy, the drugs component in science and health subjects will be expanded starting Grade 4. Hence, a comprehensive policy on illegal drugs, including drug testing, education and awareness, prevention, protection, and rehabilitation will be implemented, especially for erring students.

Finally, efforts to promote the Alternative Learning System (ALS) will be pursued more aggressively, particularly for those who cannot be reached by the formal basic education system. For instance, ALS will be introduced in drug rehabilitation centers, while alternative learning methods will be developed for hard-to-reach mountain regions, small islands, and densely populated areas.

Healthcare: Promoting Good and Healthy Living

Improvements in healthcare in the Philippines have largely been sustained, as evidenced by the traditional key indicators such as maternal mortality, infant mortality, and malnutrition rates. However, the government has yet to meet the goals defined in the Philippine Development Plan of 2011 - 2016. The current level of maternal mortality ratio is more than double the target, while the Philippines is short by 4 percentage points in infant mortality ratio, and 7.8 percentage points in the prevalence of underweight children under five years of age.

Health insurance coverage via PhilHealth has reached 92 % of the projected 101.45 million Filipinos. However, there are still gaps that have to be addressed, such as the limited benefits offered by PhilHealth, thus still requiring out-of-pocket expenditures by patients.

As regards healthcare resources, there is still a dearth of health workers, health facilities, and equipment. The revenue and health gains from the implementation of the Sin Tax Law must also be sustained. Currently, 85 % of the revenues from Sin Taxes automatically go to PhilHealth for the improvement of public health services.

In order to address the healthcare situation of the country, the Department of Health is allocated P94.0

[11] The Higher Education Reform Roadmap is a combination of reforms by the Commission on Higher Education (CHED). It attempts to address issues in tertiary education, particularly the lack of overall vision, deteriorating quality and limited access to higher education.

Table 8. Health Indicators versus PDP Targets

Particulars	2015 Actual	2016 Target	Probability of Attaining 2016 Target
Maternal Mortality Ratio (per 100,000 live births)	114	50	Low
Infant Mortality Rate in % (per 1,000 live births)	21	17	High
Prevalence of underweight children under 5 years of age	21.5	12.7	Medium

Source: Department of Health

billion. In addition, P50.2 billion will fund the National Health Insurance Program for the premium subsidies of 15.5 million indigent families and 5.5 million senior citizens.

The Health Facilities Enhancement Program is also given P21.9 billion for the construction, rehabilitation, and modernization of 58 DOH hospitals, 16 drug abuse treatment facilities, and 126 other national government hospitals. An additional 2,528 Barangay Health Stations will also be constructed, in addition to the repair and upgrade of 510 Barangay Health Stations. These facilities are expected to add to the existing 17,904 Barangay Health Stations and 5,700 school-based health clinics to ensure accessible health services to all.

Health human resource funding will be at P7.0 billion to hire a total of 435 doctors, 15,321 nurses, 3,100 midwives, and 243 dentists for the continued implementation of the Doctors to the Barrios and the Rural Health Practice Program.

Meanwhile, the National Immunization Program is given P7.1 billion to fully immunize 2.4 million children nationwide, 200,000 more than the targeted beneficiaries last year. P3.1 billion of this amount will also be used to procure dengue vaccines. Immunization can avert two to three million deaths every year just from diphtheria, tetanus, measles, and rubella (german measles) alone[12].

Some P2.8 billion will be provided in 2017 under the Program Convergence Budgeting of the DOH, National Nutrition Council (NNC), and the Early Childhood Care and Development Council (ECCDC), to support early childhood care and development (ECCD). Part of the amount will be used to finance the second year of the ECCD Intervention Package for the First 1,000 Days which aims to reduce maternal and infant mortality and the stunting of growth among children during the first 1,000 days of life. Catering to the full development of children in their first years of life will help fill in the gap in reducing malnutrition. The First 1,000 Days program is being implemented from 2016 to 2018 in nine regions and in 10 provinces with high poverty magnitude.[13]

Population growth and control remains an issue to be addressed as the Philippine population has swelled to over 100 million. Annual population growth rate has slowed down, but at a very slow pace, declining from 1.9 % between 2000 and 2010 to 1.72% between 2010 and 2015[14]. These statistics do not bode well for future economic growth prospects. Studies have shown that there is a positive correlation between total fertility rate and poverty incidence. At the level of households, a larger family size is also associated with higher poverty incidence[15]. Thus, to improve family planning, P4.3 billion, 87 % higher than the 2016 budget. is allocated for the Family Health and Responsible Parenthood.

All in all, these programs are intended to improve the accessibility and quality of healthcare in the country in line with the thrust of human capital development.

Housing: Adequate Shelter for All

Adequate shelter is a prerequisite to living a dignified life. Clearly, the lack of shelter is a manifestation of poverty. It also exposes families to undue hazards, such as security concerns and vulnerability to natural hazards. Also, homelessness limits the opportunities and life prospects of people.

It is for these reasons that the government must focus on the needs of informal settler families (ISFs), especially

[12]Philippine Council for Health Research and Development. (2016). DOH launches nationwide school immunization program. Retrieved from http://www.pchrd.dost.gov.ph/index.php/news/library-health-news/4772-doh-launches-nationwide-school-immunization-program

[13]National Nutrition Council (2016). 2016 Nutrition Month Theme Foucses on the First 1000 Days. Retrieved from http://www.nnc.gov.ph/opportunities/job-vacancies/40-10-kumainments/1477-2016-nutrition-month-theme-focuses-on-the-first-1000-days

[14]Philippine Statistics Authority. (2016). Highlights of the Philippine Population 2015 Census of Population. Retrieved from https://psa.gov.ph/content/highlights-philippine-population-2015-census-population

[15]UP School of Economics. (2012). Population, poverty, politics and the Reproductive Health Bill. Retrieved from http://www.econ.upd.edu.ph/perse/?p=1282

those residing in dangerous areas and displaced by calamities. More so since the number of ISFs is expected to hit 5.56 million by the end of 2016[16].

To fund housing objectives, P12.6 billion will be allocated to the National Housing Authority (NHA). P600 million of this fund will go to the Resettlement Program for the construction of 8,347 housing units throughout the country. Meanwhile, P12.1 billion will be used to fund various projects such as the Housing Program for informal settler families residing in danger areas, Housing Assistance Program for calamity victims – permanent housing for Typhoon Yolanda Victims, construction of low rise buildings, and construction of community facilities for existing relocation sites, among other programs, for a total of 28,362 housing units. Of these, 19,842 will be for families affected by the Supreme Court's Mandamus of 2008, directing the clean-up of the Manila Bay area, while the remaining housing units will mostly be for displaced Typhoon Yolanda victims and the resettlement of indigenous peoples.

In addition to the NHA, the National Home Mortgage Finance Corporation (NHMFC) will be allocated P1.5 billion. Of this amount, P240 million will be for the Community Mortgage Program for 3,047 housing units. P1.2 billion will be given to the Socialized Housing Loan Take-Out of Receivables (SHeLTeR) Program for 2,726 housing units. Lastly, the Social Housing Finance Corporation (SHFC) will have P280 million for 200 housing units in the Housing Program for Informal Settler Families Residing in Danger Areas in Metro Manila. This amount will augment the P3.4 billion funds provided to SHFC in previous years but which remain unutilized for the SHFC housing programs. Implementation-wise, these projects will be accompanied by policies that prohibit demolition without relocation and ensuring that relocated households will have access to running water, electricity, and livelihood opportunities[17,18]. Ultimately, these reforms will serve to better address the housing concerns of Filipinos.

In addition to the budget for housing, P5.6 billion will also be allocated for electrification, to ease the living condition of families with no access to power. The National Electrification Administration (NEA) is provided P1.8 billion to bring power to 2,410 sitios and 72,300 households. The Department of Energy will have P820 million for the electrification of 185,000 households in both off-grid and on-grid areas. This is expected to boost household and industry productivity, especially in the countryside. The goal, then, is to achieve 90 % household electrification by 2017. The National Power Corporation will also receive P2.8 billion for the construction of transmission lines and sub-stations; and for the repair and maintenance of generating assets in the off-grid areas.

Social Protection and Sustainable Livelihood: Safety Nets for the Poor

Sufficient and appropriate social safety nets must be put in place to promote the welfare of the poor and to protect them from shocks. Despite experiencing high levels of growth in recent years, poverty incidence in the Philippines remains at 26.3 %. Despite improvements in food security, the hunger rate is still high at 13.4 %, according to SWS estimates[19]. These statistics only reinforce the need to achieve more equitable growth that will lift poor Filipinos out of poverty. It is for this reason that one of the ten points in the Duterte administration's socioeconomic agenda is to improve social protection programs, including but not limited to the government's Conditional Cash Transfer (CCT) program.

For this, P169.4 billion is allocated to social protection, 6.3 % higher than the budget for 2016.

The bulk of the social protection fund will go to the Department of Social Welfare and Development (DSWD), with a total budget of P129.7 billion. Of this amount, P78.7 billion will be allocated to the Conditional Cash Transfer Program, a program designed to spur health and educational investments for the poorest of the poor in the hope of breaking the cycle of poverty. At the same time, the monetary support provided will respond to the

[16]Flores, H. (2016). Housing backlog to hit 5.56M – Leni. Retrieved from http://www.philstar.com/metro/2016/08/23/1616279/housing-backlog-hit-5.56-m-leni

[17]HUDCC. (2015). Housing Sector Accomplishment Report 2015. Retrieved from http://www.hudcc.gov.ph/sites/default/files/styles/large/public/document/Accomp_July%202010%20to%20December%202015-FINAL-2.pdf

[18]Dioquino, R. (2016). Robredo backs Duterte's relocation-before-demolition order. Retrieved from http://www.gmanetwork.com/news/story/574244/news/nation/robredo-backs-duterte-s-relocation-before-demolition-order

[19]Social Weather Station. (2016). SWS Survey Review. Retrieved from https://www.sws.org.ph/pr20160127_2016%20SWS%20Survey%20Review_FINAL.pdf

immediate needs of eligible families. Overall, 4,402,253 households will benefit from the Regular CCT program, while 218,377 households will be covered under the Modified CCT[20]. Last year, a LISTAHAN survey was undertaken to reconfirm the status of CCT beneficiaries.

Included in the budget for CCT is the P23.4 billion earmarked for the Rice Allowance program for 3,000,000 households. For the first time, CCT-beneficiary families will receive 20 kilos of rice per month for 12 months to ensure the availability of the staple food item for the poorest Filipinos.

Other primary programs of the DSWD will also be sustained. The Kalahi-CIDSS National Community-Driven Development Program (KC-NCDDP), an anti-poverty scheme aiming to empower communities, is allocated P10.73 B for 2017 to cover 18,506 barangays across all the regions in the country except ARMM, Region II, and NCR. ARMM is excluded because it has its own community-driven development program called ARMM-BRIDGE, to address the unique situation in the Region. The municipalities in Region II did not qualify the targeting criteria of KC-NCDDP based on municipal class and poverty incidence. Likewise, NCR has been excluded because KC-NCDDP only covers rural municipalities.

Meanwhile, the Sustainable Livelihood Program, which seeks to improve the socioeconomic status of program beneficiaries either through micro-enterprise development or employment facilitation, is allocated P9.1 billion to reach some 381,978 targeted beneficiaries.

The Supplementary Feeding Program is given a budget of P3.43 billion to cover 1,746,199 day care children. The proposed P17.94 billion Social Pension for Indigent Senior Citizens will provide a monthly stipend of P500 to 2,809,542 target beneficiaries ages 60 years and above. This is a drastic increase from the targeted 1,368,941 beneficiaries for 2016.

Development for the People

Overall, these programs are expected to raise the standard of living of the poorest Filipinos to finally achieve the objective of cutting poverty incidence to as low as 16 % by 2022.

What these all translate to is the expressed desire and intention of the Duterte administration to deliver on its promise to improve the lives of Filipinos through investment in and development of human capital through various programs and projects on education, healthcare, housing, and social protection. From a macro perspective, this will boost productivity and enable the country to maximize its socioeconomic development potential. At the level of households, this will ensure healthier, more educated, and more prosperous Filipinos.

[20]Modified CCT is similar to the regular CCT, but it caters to households not included in the database of the household targeting system by virtue of homelessness or geographic isolation. Beneficiaries include homeless street families, Indigenous Peoples in geographically isolated and disadvantaged areas, or victims displaced by natural disasters or armed conflict.

IV. Expenditure Priorities

Agriculture & Rural Development

Assuring Food for the Food Producers

For generations, the country's rural areas have lagged behind in the overall economic growth achieved by the Philippines, and poverty and unemployment rates are highest among agricultural workers.

This is the problem which underlies a key objective of the Duterte administration's socioeconomic agenda of agricultural development, asset reform, promotion of technology and innovation, value chain and agribusiness. Currently, about half of the population and some 40 % of the labor force are in the rural areas, and where agriculture is the primary source of income.

In these areas, which still comprise a majority of the regions of the Philippines, significant disparities exist, unemployment and underemployment are high, and labor skills are limited, with low productivity and return. The component of the total labor force that are in these areas work the land and sea, their harvests providing food for the rest of the population. And yet, while they compose the biggest chunk of the workforce and are spread across vast areas of the country, agricultural workers, the farmers and fisherfolk, are the poorest among the sectors, and the rural areas in which they are found register the highest poverty incidences.

The growth of the agriculture sector has always been the weakest among the economic sectors, averaging 1.4 % per year for the past five years from 2011-2015. Although the yields of the major commodities posted positive growth rates, they still fall below the targets indicated in the Philippine Development Plan (PDP). Likewise, rice production recorded an average of 3.9 tons/hectare, which is lower than the PDP target of 4.5 tons/hectare despite the biggest budgetary support it has been receiving.

Among the sectors too, agriculture is the most vulnerable to the impacts of climate change and natural calamities, the Philippines being one of the most disaster-prone and climate-change vulnerable countries in the world. In fact, it ranks fourth in the world among countries hit by the highest number of disasters over the past 20 years. It ranks 13 out of 186 countries most vulnerable to climate change. Tropical storms, which hit the country average eight to nine times a year and are expected to increase in severity because of climate change, aggravate the risk.

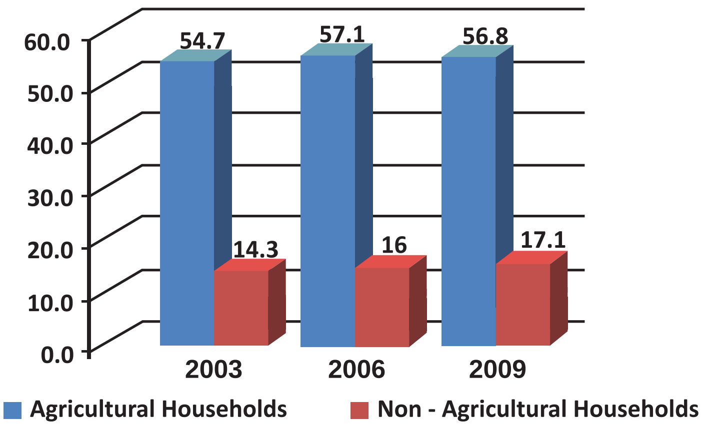
Trade liberalization and other free trade agreements are the other challenges for the agriculture and fisheries sector. In 2015, the quantitative restriction on rice expired, ushering a more liberalized trade regime for agricultural commodities. Cheaper food commodities produced by other countries flooding the domestic market prove disadvantageous to the country's small farmers and fisherfolk, who produce the same commodities at higher prices.

Clearly, this is one current Philippine reality to which the Duterte administration has and indeed is resolved to bring real change. And considered the primary change agent for this effort is the Department of Agriculture (DA), the government agency responsible for the promotion of agricultural development by providing the policy framework, public investments, and support services needed for domestic and export-oriented business enterprises. The Department of Agrarian Reform (DAR) is likewise a key player in this effort, fast-tracking the resolution of the agrarian reform program to provide greater security of tenure and access to finance in the rural sector.

The DA's primary concerns are 1) improvement of farm productivity to enhance the country's food security; 2) increase in income and the generation of income opportunities for farmers, fisherfolks, and other rural workers by expanding the linkage between industry and services; and 3) improvement of the sector's resilience to risks and climate change. It is also mandated to ensure social justice, equity, productivity and sustainability in the use of agricultural resources. The DAR's concerns, on the other hand, are land acquisition and distribution to improve the security of tenure of the farmers in the land that they till.

[1] United Nations Office for Disaster Risk Reduction (UNISDR)
[2] Climate Change Vulnerability Index

Figure 2. Poverty Rate by Type of Households, 2003 to 2009, Philippines



Note: A household is considered as agricultural if total income earned from agricultural activities is greater than or equal to the total income earned from non-agricultural activities.
Source of basic data: Family Income and Expenditure Survey (FIES), NSO

Food Security for Food Producers First

One of the harshest ironies of the modern world is when food producers go hungry. Even more tragic is when the situation becomes the norm, and continues to go unrecognized, unaddressed and unabated for decades.

In the Philippines, as in any agriculture-based country, it is the toil of farmers and fisherfolk that ensures the availability of food for Filipinos and even other populations abroad. And yet, quite often, these very same farmers and fisherfolk are not able to secure food for themselves and their families. This may be because the yield is not enough or the proceeds from the sale of their produce are not sufficient to even provide for their subsistence. Access to the benefits of their toil is therefore denied them, which is a painful reality that our food producers continue to experience.

Over the past few years, farmers and fisherfolk have consistently posted the highest poverty incidences among the nine basic sectors in the Philippines. In 2012, for instance, poverty incidences for farmers and fisherfolk were at 38.3 % and 39.2 %, respectively[3]. Comparing agricultural and non-agricultural households, poverty incidence has likewise always been consistently higher in the former.

In 2009, poverty incidence among agricultural households was 57 %, compared to only 17 % among non-agricultural families. This means that agricultural workers (the food producers) could barely afford to provide their families with what they themselves could produce. On the labor front, in 2015, the agriculture and fisheries sector held 30 % of the total Filipino workforce, but accounted for only 12 % of the Gross Domestic Product (GDP)[4].

Agriculture Development

The Duterte administration recognizes the crucial role that the agriculture and fisheries sector plays in development, specifically in the thrust of ensuring food security for all Filipinos. But it is also keenly aware that any development in this sector, if it is to impact positively on the country's overall growth and productivity, should take into account the situation and needs of its primary stakeholders, the farmers and fisherfolk. Otherwise, these farmers and fisherfolk -- the food producers -- would themselves continue to suffer from food insecurity.

Thus, in its goal to effect real change through sustainable, inclusive and equitable growth, the administration has made agriculture and rural development a key thrust. With a special focus on the food producers, policies and programs will aim to boost their productivity, thereby enhancing food security for all Filipinos, including this important segment of the population.

To promote equitable growth, particularly in the rural areas, the administration is providing a total budget of P93.4 billion for agricultural development in 2017, to improve the income of Filipino farmers and fisherfolk,

[3]Philippine Statistics Authority (PSA) 2012 official poverty statistics for the basic sectors
[4]International Fund for Agricultural Development. 2009. Enabling Poor Rural People Overcome Poverty in the Philippines accessed at www.ifad.org/documents/10180/3407a4bc-4505-4c7a-bcc4-edb5f0bc3819

Table 9. Allocations for Agriculture Development (in billion pesos)

Particulars	2015	2016	2017
Agriculture Development	**88.89**	**92.26**	**93.45**
Growth Rate	4.6%	14.1%	1.3%
Department of Agriculture	47.15	48.94	45.29
National Irrigation Administration	23.37	32.74	36.36
National Food Authority	4.25	4.25	5.10
Philippine Coconut Authority	2.91	1.29	1.44
Sugar Regulatory Administration	-	1.80	1.40
Philippine Crop Insurance Corporation	1.30	1.60	2.50
Philippine Rice Research Institute	0.72	0.52	0.56
Philippine Fisheries Development Authority	0.52	0.29	0.22
National Dairy Authority	0.17	0.19	0.19
National Tobacco Administration	0.49	0.64	0.39

Source: a/ 2016 and 2017 appropriation inclusive of P15 million SAGF
b/ inclusive of 2014 supplemental appropriations obligated in 2015

and to ensure food security for the entire population. The overall budget is 1.3 % higher than the 2016 level of P92.26 billion. *(See Table 1.)*

The Department of Agriculture (DA) is provided with P45.3 billion for research and development, market development, credit support services for the various commodity programs in agriculture and fishery, and the construction of farm-to-market roads. Complementing this main provision is the P48.2 billion or 51.5 % of the program distributed among the attached agencies and GOCCs of the DA.

A study of the regional allocation of the total budget of the DA *(see Table 2)* provides a keener understanding and better appreciation of the priorities and thrusts of the administration, and the focus of its programs.

The regional budgets are determined based on the following considerations: (1) Physical targets of the regional field units (RFUs); (2) Geographic/area focus which are directed to the regions with the most number of poor, highest incidence of poverty, and those with multiple climate and geo-hazard vulnerabilities; (3) Area prioritization using the expanded vulnerability and suitability analysis (e-VSA) and value chain analysis (VCA) developed under the Philippine Rural Development Project (PRDP); and (4) Comparative advantage or agricultural potential of the province/region. However, for interventions on rice production, top producing provinces are prioritized in budget allocation.

After the National Capital Region, the regions with the highest budgets, as determined by their percentage to the total, are Region III (Central Luzon), at 8.40 %; Region II (Cagayan Valley), 7.60 %; Region XI (Davao Region), 5.24 %; and Region XII (Soccksargen), 5.01%. Regions II and III in Luzon are composed of rice-producing provinces, while Regions XI and XII are in the island of Mindanao, a priority area of development for the administration.

The Budget for the Autonomous Region in Muslim Mindanao (ARMM) is lodged with the Central Office as well as the allotments for market development, policy development, international affairs and the capital outlay for information and communications technology (ICT) activities.

Agricultural Development Program

The Administration's Agricultural Development Program is designed to empower the farmers, fisherfolk, and other stakeholders by improving their income through a more productive and competitive agriculture and fisheries sector. The allocation for specific programs has been increased by P7.0 billion, from P19.9 billion to P26.9 billion, to enable modernization through new technologies and mechanization. Production support will also be provided, in the form of free seeds and fertilizers, as well as post-harvest facilities and trainings.

The Agricultural Commodity Programs, which aim primarily to support the productivity of farmers and fisherfolk, and the agencies that will implement them, are discussed hereunder.

Table 10. Department of Agriculture Regional Allocation for FYs 2013-2017 (in million pesos)

Particulars	2013	2014	2015	2016	2017	Percentage Distribution
Office of the Secretary	**56,973**	**63,382**	**39,384**	**41,380**	**35,687**	**100.00%**
National Capital Region	36,791	30,561	14,007	16,837	10,068	28.20%
Region 1	1,145	1,9221	1,324	2,109	2,021	5.60%
Cordillera Administrative Region	1,184	2,172	1,853	1,106	1,267	3.60%
Region 2	1,599	1,790	2,035	2,444	2,705	7.60%
Region 3	1,507	1,883	2,215	2,296	3,002	8.40%
Region 4A	1,425	1,849	1,459	1,802	1,467	4.10%
Region 4B	1,093	2,058	1,366	1,342	1,394	3.90%
Region 5	1,551	2,816	1,665	1,488	1,743	4.90%
Region 6	1,916	2,520	1,698	1,590	1,506	4.20%
Region 7	1,052	2,111	1,318	1,222	1,589	4.45%
Region 8	1,380	2,641	1,675	1,392	1,369	3.80%
Region 9	1,132	1,718	1,240	1,267	1,246	3.50%
Region 10	1,187	2,151	1,714	1,586	1,558	4.40%
Region 11	1,673	2,008	1,452	1,468	1,872	5.24%
Region 12	1,296	3,005	2,808	2,333	1,789	5.01%
Region 13	1,044	2,176	1,554	1,098	1,091	3.06%

Support for Farmers

Rice Program. The Rice Production Enhancement Program is allotted P9.74 billion to increase production to 20.79 million metric tons (mt) of rice, from the 2016 target of 20.09 mt. This is 37.9 % higher than the P7.06 billion provided in 2016. The amount will be utilized for production support and market development services. In addition, the amount of P561 million is allocated to the Philippine Rice Research Institute (PhilRice) for its Rice Research and Development Program, for the development of climate-resilient and high-yielding seeds.

High Value Commodity Crop Program. The High Value Commodity Crop Development Program is aimed at agricultural diversification and production of crops with high market value or export potential especially in the poorest areas. It will be given P4.24 billion, 34.2 % higher than the 2016 allocation of P3.16 billion, to provide quality planting materials for priority commodities, as well as production facilities and equipment to support poor farmers. For 2017, the program targets to produce 9.64 million mt of bananas, 2.74 million mt of pineapples, 958 mt of mangoes, 79,755 mt of coffee, 6,786 mt of cacao and 438,950 mt of rubber.

Corn Program. Allocation for the corn program has increased by almost 26 %, from P2.25 billion to P2.83 billion, to fast track the production of 2.06 million mt of white corn and 4.52 million mt yellow corn.

Coconut Program. The Coconut Program is allotted P1.44 billion, which is 11.72 % higher than the 2016 budget. The budget targets to produce 15 million metric tons of copra and support the accelerated coconut planting and fertilization project, Kasaganaan sa Niyugan ay Kaunlaran ng Bayan (KAANIB) coconut intercropping project, smallholders oil palm plantation project, and agro-industrial hubs.

To address the specific needs of the coconut farmers, considered the poorest among the farmers, the DA and the PCA will revisit the Coconut Industry Development Roadmap to craft better strategies to uplift the coconut farmers' present conditions. This Roadmap will also inform and maximize the use of the Coconut Levy Funds when the law appropriating its use is passed.

Sugar Industry Development. The Sugar Regulatory Administration (SRA) will be given P1.40 billion to support 50 block farms and construct 35 km of farm-to-mill roads in compliance with the Sugar Regulatory Development Act (SIDA).

Table 11. Agricultural Commodity Programs-1

Particulars	2015	2016	2017
Agricultural Commodity Rice Program (DA)	**Php 6.79 B**	**Php 7.06 B**	**Php 9.74 B**
Palay	18.15 M MT	20.09 M MT	20.79 M MT
High Value Commodity Crop Program (DA)	**Php 2.40 B**	**Php 3.16 B**	**Php 4.24 B**
Banana	9.084 M MT	9.356 M MT	9.637 M MT
Pineapple	2.583 M MT	2.660 M MT	2.740 M MT
Mango	0.903 M MT	0.930 M MT	0.958 M MT
Rubber	0.398 M MT	0.418 M MT	0.439 M MT
Coffee	0.072 M MT	0.076 M MT	0.080 M MT
Cacao	0.006 M MT	0.006 M MT	0.007 M MT
Corn Program (DA)	**Php 2.03 B**	**Php 2.25 B**	**Php 2.83 B**
White Corn	2.13 M MT	2.75 M MT	2.06 M MT
Yellow Corn	5.38 M MT	6.27 M MT	4.52 M MT
Coconut Program (PCA)	**Php 2.91 B**	**Php 1.29 B**	**Php 1.44 B**
Coconut (copra)	14.7 M MT	14.8 M MT	15.0 M MT
Sugar Industry Development (SRA)	**-**	**Php 1.80 B**	**Php 1.40 B**
No. of Block Farms Assisted		62 block farms	50 block farms
No. of Farm-to-Mill Roads Constructed		72.18 km	35.00 km
Food Security Program (NFA)	**Php 4.25 B**	**Php 4.25 B**	**Php 5.10 B**
Volume of Palay Procurement	219,800 MT	211,292 MT	291,945 MT

Tobacco Program. The National Tobacco Administration (NTA) will receive P386 million for the implementation of programs that support tobacco growers. For 2017, NTA targets to boost tobacco farmers' productivity by increasing tobacco production by 5 % per hectare.

The tobacco industry helps provide livelihood and sustenance to more than "800,000 tobacco farmers and their families.[5]"

Diversification Program. The relative share of the budget provided for rice and corn – the traditional commodity focus of the DA -- compared to the share allotted to high value crops and other crops provides an indication of the pace of diversification of the DA program. In the 2017 Budget, 27.74 % or P12.56 billion of the DA budget will go for rice and corn while 9.36 % is allotted to high value crops and other crops. However, the percentage increase of the budget allotted to high value crops has significantly increased by 31.67 % from 2015 to 2016 and by 34.18 % from 2016 to 2017 compared to the combined budget for rice and corn, which increased only by 5.5 % from 2015 to 2016 and 35 % from 2016 to 2017. The diversification program will help raise the productivity and lessen the risk of the Philippine agriculture program in view of the country's lack of comparative advantage in rice production.

Support for Fisherfolk

Fisheries Program. For the Fisheries Program, P4.593 billion is allotted to enable the Bureau of Fisheries and Aquatic Resources (BFAR) to support the production target of 1.1 million mt of commercial fishing products, 1.3 million mt of municipal fishing products and 2.5 million mt of aquaculture products. It will also be

[5]National Tobacco Administration. Annual Report for CY 2015. Retrieved from http://nta.da.gov.ph/publications_reports.html.

Table 12. Bureau of Fisheries and Aquatic Resources Regional Allocation for FY 2013-2017 (in million pesos)

Particulars	2013	2014	2015	2016	2017	As % Share to the 2017 BFAR Budget
Bureau of Fisheries and Aquatic Resources	**4,650**	**4,915**	**6,315**	**6,703**	**7,012**	**100%**
Central Office	1,956	2,728	3,106	3,777	3,925	56.00%
Region 1	132	154	174	165	183	2.60%
Cordillera Administrative Region	48	35	54	38	109	1.55%
Region 2	184	117	170	173	210	2.99%
Region 3	195	168	214	190	219	3.12%
Region 4A	177	145	204	194	169	2.41%
Region 4B	247	233	213	208	214	3.05%
Region 5	266	175	285	250	262	3.74%
Region 6	141	169	221	209	163	2.32%
Region 7	207	105	319	316	344	4.90%
Region 8	234	194	303	283	249	3.55%
Region 9	173	124	207	176	141	2.01%
Region 10	150	110	177	152	173	2.47%
Region 11	154	115	192	154	164	2.34%
Region 12	125	129	162	134	170	2.42%
Region 13	175	144	206	186	175	2.50%
National Fisheries Research & Development Institute (NFRDI)	83	689	107	97	142	2.02%

used to support government efforts to promote fishery resources protection and law enforcement, investment in people, and research and technology.

After the Central Office, the regions with the highest budgets, as determined by their percentage to the total, are Region VII at 4.90 %; Region V (Bicol Region), 3.74 %; Region VIII (Eastern Visayas), 3.55 %; Region III (Central Luzon) at 3.12 %; and Region IV-B (MIMAROPA), 3.05 %.

Fish Ports. The Philippine Fisheries Development Authority (PFDA) will receive P225 million for the construction, rehabilitation and upgrading of fish ports such as the Navotas Fish Port, the country's premier fish center.

Agriculture Credit and Insurance Support Services

Crop Insurance Services. The Philippine Crop Insurance Corporation (PCIC) will receive P2.5 billion for the full insurance of 1,300,024 subsistence farmers and fisherfolk, to cover crops, livestock, fisheries, and other non-agricultural assets against losses due to natural calamities and other agricultural-related risks.

Agricultural Credit Support Services. P750 million will be transferred by the Agriculture Credit Policy Council to government financial institutions (GFIs) and cooperative banks, to be used exclusively for the establishment of a flexible credit facility for small farmers and fisherfolk. This facility will target to assist 15,553 farmers, fisherfolk and dairy entrepreneurs.

Other Food Security Programs

Palay Procurement Program. The National Food Authority (NFA) will receive P5.1 billion, to be used for the procurement of 291,945 mt of palay. This will be procured locally, from the 20.29 million mt of palay production target of the DA.

Livestock and Poultry Program. The Livestock and Poultry Program is allotted P2.54 billion to achieve the production of 2.14 million mt of hogs and 1.89 million mt of chicken, to supply both the domestic and foreign markets.

From the same amount, the Department of Agriculture (DA) targets to further improve its genetics and breeding program, animal health program and nutrition and forage development. It also aims to establish, upgrade and rehabilitate production centers, stock farms and multiplier farms.

Dairy Program. The National Dairy Authority (NDA) will be allotted P189 million for the implementation of the

Table 13. Agricultural Commodity Programs-2

Particulars	2015	2016	2017
Agricultural Commodity Programs Fisheries Programs (DA-BFAR)	**Php 5.09 B**	**Php 4.46 B**	**Php 4.59 B**
Commercial	1.08 M MT	1.1 M MT	1.1 M MT
Municipal	1.22 M MT	1.3 M MT	1.3 M MT
Aquaculture	2.35 M MT	2.25 M MT	2.5 M MT
Livestock and Poultry Program (DA)	**Php 2.47 B**	**Php 2.04 B**	**Php 2.54 B**
Hog	2.12 M MT	2.10 M MT	2.14 M MT
Chicken	1.66 M MT	1.82 M MT	1.89 M MT
Agriculture Infrastructure Irrigation (NIA)	**Php 26.53 B**	**Php 24.90 B**	**Php 26.03 B**
Service Area Generated	27,627 ha	19,660 ha	29,181 ha
Canal Linings, Pipes and Service Roads Repaired	2,330 km	867 km	2,915 km
No. of Structures Repaired	2,349 units	1,768 units	5,324 units
Farm-to-Market Roads (DA)	**Php 7.07 B[2]**	**Php 7.38 B**	**Php 5.41 B**
Constructed/Restored/Rehabilitated	707 km	737 km	541 km
Agriculture Credit Support Services Credit Support Services (ACPC)	**Php 1.38 B**	**-**	**Php 0.75 B**
No. of Borrowers/Beneficiaries	21,142	-	15,553
Crop Insurance Services (PCIC)	**Php 1.30 B**	**Php 1.60 B**	**Php 2.50 B**
No. of Subsistence Farmers/Fishfolks Covered	589,534	695,674	1,300,024

Herd Build-up Program, Dairy Enterprise Development Program, and Market Development Program.

Agricultural Infrastructure

The much-needed infrastructure facilities to increase yield will be provided. To speed up the repair, rehabilitation, and construction of farm-to-market roads, post-harvest facilities, and other infrastructure projects in designated key production areas, P7.1 billion is allocated.

Irrigation Program. A budget of P26.03 billion will be given to the National Irrigation Administration (NIA) to fund the expansion or extension of irrigation systems to cover an additional 29,181 hectares and to repair 2,915 km of canal linings and service roads, and to repair 5,324 structures. The NIA is also tasked to undertake irrigation projects with qualified irrigators' associations, consistent with the standards of the Department of Public Works and Highways (DPWH).

Farm-to-Market Roads (FMRs). To establish the much-needed connectivity between the production areas and the markets, P5.41 billion has been allocated for the construction, rehabilitation, and repair of farm-to-market roads (FMRs). By introducing geo-tagging as a requirement, the DA will ensure that the FMRs involved will lead to arterial or secondary roads and key production areas. Priority will be given to: (1) provinces producing major rice, corn, and high value commercial crops; and (2) areas with a majority of small farmers and/or fisherfolk and the incidence of poverty is high, as identified by the latest poverty statistics.

Farm-to-Mill Roads. From its budget of P1.40 billion, the Sugar Regulatory Administration targets to construct 35.00 km of farm-to-mill roads.

Drafting a Food Security Blueprint

As part of the Duterte administration's Food Security Blueprint, a National Color-Coded Agriculture and Fisheries Map is being prepared, to identify area-specific food production commodities based on the soil type and climatic conditions. The Color-Coded Guide Map will also better inform agricultural planners in providing area-specific, tailor-fitted technical assistance and logistical support. This will make food production more cost-effective and profitable.

The blueprint includes the conduct of scientific studies on the food eating habits and food consumption of Filipinos. The results of the National Food Consumption Quantification Study will enable the government to design a food production program that will guide the agriculture sector in producing the kind and quantity of food needed by the country.

Rural Development

Rural development, a key factor in food security, has been an ongoing challenge for the Philippines for decades. Though the problem is well acknowledged and has been intensely studied with a view to discovering and implementing a sustainable solution, efforts have failed, or at least been stymied, to extend development and progress -- and their benefits -- beyond the key metropolitan areas and into the countryside.

With a new perspective and approach to the problem -- this time from a Mindanao experience -- the Duterte administration takes on the challenge with a three-pronged approach: agrarian reform, rural electrification, and tourism development.

Agrarian Reform

Agrarian reform is an important component of rural development, and access to land by farmers is crucial in addressing issues of poverty and food security.

In the face of this truth, however, and after more than four decades of implementing agrarian reform in the country, and two years after the expiration of the Comprehensive Agrarian Reform Program Extension with Reforms (CARPER) Law, many Filipino farmers have yet to own the land they are tilling.

The Duterte administration is committed to the completion of land distribution to farmers, without depriving the landowners of their right to just compensation and due process. A total of P10.14 billion is earmarked for the Department of Agrarian Reform (DAR), for the distribution of 95,000 hectares of land and the provision of technical support services to Agrarian Reform Beneficiaries (ARBs).

From the same allocation, DAR will complete 5,392 irrigation projects to service 1,655 hectares.

In support of the implementation of genuine agrarian reform, DAR anti-farmer decisions will be reversed, a moratorium on land use conversion will be introduced and enforced, and cancellations of farmers' land ownership will be stopped.

Table 14. Agrarian Reform Program

Particulars	2015	2016	2017
Agrarian Reform Program Land Acquisition and Distribution	**Php 2.91 B**	**Php 2.46 B**	**Php 2.55 B**
Claim Folder Preperation and Documentation			
No. of ha with claim folders/documentation	122,235 ha	155,217 ha	77,664 ha
No. of farmer beneficiaries*			51,078
Survey			
No. of ha with approved survey plans	24,726 ha	108,654 ha	45,221 ha
Land Valuation			
No. of ha with Memorandum of Valuation	20,347 ha	90,463 ha	42,533 ha
EP/CLOA Registration			
No. of ha placed under LAD coverage	35,015 ha	105,000 ha	95,000 ha
No. of Agrarian Reform Beneficiaries*			101,964 ARBs
Support Services to Agrarian Reform Beneficiaries	**Php 106 B**	**Php 1.24 B**	**Php 1.35 B**
No. of ARBs trained in Agrarian Reform Communities (ARC) and non-ARCs	475,938 ARBs	397,604 ARBs	380,785 ARBs

For 2017, the DAR is allotted the amount of P2.55 billion for Land Acquisition and Distribution (LAD) to facilitate the redistribution of agricultural lands. The Department targets to prepare claim folder documentation for 77,664 hectares of land. In addition, it also aims to improve land tenure security by targeting the award of Emancipation Patents (EPs) or Certificates of Land Ownership Award (CLOAs) to 75.58% of the total CARPER potential ARBs.

Rural Electrification

Rural electrification is an important factor in rural economic development. Bringing electrical power to rural and remote areas means providing a safe and efficient energy source for residential and public lighting, enabling the pumping of drinking water, irrigation, and refrigeration facilities, the operation of rural industries, and many others.

For household electrification, 89.62 % of the total 22,310,082 targeted households has been provided with electricity in 2015. The region with the highest electrification level is the National Capital Region (NCR) with 98.02 %, followed by Regions 3 and 4A with 96.87 % and 95.40 %, respectively. The Autonomous Region in Muslim Mindanao (ARMM), on the other hand, has the lowest household electrification level, at only 38.51 %.

As of March 2016, electrification had been completed in 32,688 sitios or more than 100 % of the targeted 32,441 sitios.

To address the remaining electrification gaps in the rural areas, the Duterte administration has provided P5.6 billion for electrification, which is seen as a vital key to ensure progress in the countryside.

The government targets to electrify 90 % of households by 2017. To achieve this, it will have to identify and address the biggest gaps, which are in the small villages called *sitios*, located in far-flung areas that are difficult to connect to power grids.

The National Electrification Administration aims to provide electricity to 2,410 *sitios* and 72,300 households with P1.81 billion allocation. Priority will be given to *sitios* where the absolute number of indigent families and the incidence of poverty are high, as identified by the latest official poverty statistics.

The Department of Energy (DOE), for its part, will provide electrification to households in off-grid areas, with its P7.42 million allocation.

Table 15 .FY 2017 Sitio Electrification Program Regional Breakdown

PARTICULARS		FY 2017 NEP	
		No. of Sitios	Amount
Luzon	1	25	15,453,942
	2	92	98,583,126
	CAR	97	103,143,260
	3	71	28,094,347
	4A	153	111,934,771
	4B	249	148,148,093
	5	138	105,772,217
	Sub-total	825	611,129,755
Visayas	6	227	155,068,332
	NIR	113	151,384,783
	7	392	190,212,245
	8	146	109,052,006
	Sub-total	878	605,717,367
Mindanao	9	74	81,977,190
	10	210	125,796,282
	11	91	82,312,252
	12	169	174,152,096
	CARAGA	142	111,988,487
	ARMM	21	24,026,571
	Sub-total	707	600,252,878
TOTAL		2,410	1,817,100,000

Source: National ElectrificationAdministration

In addition, the National Power Corporation will receive P2.8 billion for the construction and rehabilitation of transmission lines to provide the necessary connectivity in identified rural areas.

Tourism for Rural Development

Part of President Duterte's economic agenda is the promotion of rural and value chain development to invigorate agricultural and rural enterprise productivity and rural tourism.

Tourism is an important sector in the Philippine economy. In 2015, the travel and tourism industry accounted for P1.43 trillion or 10.6 % of GDP. The industry's total contribution reflected not only the economic activities of directly related industries, but also the wider effects from investments, supply chain and induced income impacts. As for employment, the Philippine travel and tourism industry provided 4.99 million jobs.

The promotion of rural tourism or Community-Based Tourism (CBT) is a strategy that has been advocated by many countries.[6] The Philippines is naturally endowed with many tourism destinations, most of which are located in the rural areas. Republic Act 9593, also known as the Tourism Act of 2009, recognizes the need to balance tourism development between urban and rural areas in order to spread the benefits of tourism and contribute to poverty alleviation, better access to infrastructure, and to reduction in regional imbalances.

Moving towards an investment-driven strategy, tourism will have a total of P4.0 billion next year to create more jobs and livelihood opportunities for communities in the country's numerous tourist destinations. The amount is separate from the P20.1 billion earmarked for tourism infrastructure development -- airports, seaports, and access roads -- that will enhance the travel experience of local and foreign tourists around the country.

By 2026, international tourist arrivals is forecast to hit 9.19 million, generating receipts of about P579.8 billion.

To increase the competitiveness of the tourism industry in providing a better quality of tourism experience and contribute to poverty alleviation, a tourism skills competitiveness program will be implemented by the Department of Tourism.[7] Capacity building will be provided to tourism enterprises to stimulate greater productivity, efficiency and effective delivery of services by tourism professionals to both local and foreign visitors. With a budget of P100 million, the program aims to train 18,534 persons in the tourism industry.

A Legislative Agenda for Rural Development

Finally, to ensure more support for the rural areas, where the highest poverty incidences are found and where the food producers have the least access to food and assurance of food security, the administration has included the following bills in its Priority Legislative Agenda: (1) Free Irrigation; (2) The Coco Levy Fund; (3) National Land Use Policy; (4) Urban Agriculture; (5) Philippine Native Animal Development Act; and (6) The Right to Food.[8]

[6]Enabling Poor Rural People to Overcome Poverty in the Philippines, accessed at www.ifad.org
[7]In accordance with the National Tourism Development Plan for 2017-2022 and the ASEAN Tourism Strategic Plan for 2017-2025
[8]Lifted from DA's presentation to the Committee on Appropriations of their 2017 proposed budget

IV. Expenditure Priorities

Peace & Order and the Rule of Law

Winning the Peace through Progress, not Force

Unlike the toll on lives and property after a natural disaster, the social and economic costs of criminality and of armed conflict, which includes terrorism and insurgency, may be difficult to quantify immediately. But their impacts are as real, and are just as lasting as calamities wrought by nature.

Armed conflict has far-reaching consequences on lives, properties and livelihood. It results in the displacement of communities, undermining of the productivity of families, and disruption in the education of children. In the Philippines, armed conflict has displaced hundreds of thousands of people. It has also exposed them to "very poor living conditions."[1] In Mindanao alone, more than 400,000 people are reported to have been displaced in 2015.[2]

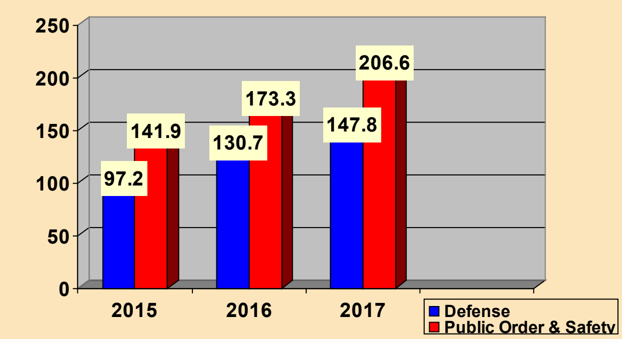
But aside from armed conflict engendered by insurgency, the country also faces another social illness – criminality. Statistics point to an increase in the number of recorded crime incidents over the past years. From 2010 to 2014, for instance, the nationwide crime rate (the number of crime incidents reported per 100,000 population) more than doubled – from 350 to 715.5. The highest crime rate was reported in the Cordillera Administrative Region at 1,191.2; followed by the National Capital Region, 1,178.7; and Northern Mindanao, 1,016.9.[3]

Every administration aspires for progress. For the Duterte administration, however, the progress aimed for must be real and sustainable – and this can only be assured if key elements are in place. Vital among these elements are the promotion and maintenance of peace and order, which necessitate the suppression of armed conflicts and the eradication of criminality.

As President Rodrigo R. Duterte said in his 2017 Budget Message, "Progress cannot be achieved if crime, conflict, and corruption continue to reign."

For 2017, allocations for peace and order and defense have been increased. Public order and safety will receive P206.6 billion, higher by 19.3 % than the previous year's level of P173.2 billion, while defense will get P147.8 billion, 13.1 % higher than its 2016 budget.

Figure 3. Allocations for Public Order and Safety and Defense, 2015 to 2017 (in billion pesos)



Source: 2017 BESF, Table B.8. DBM.

Restoring Order and Security

Beyond statistics, perhaps the best measure of the value that Filipinos place on peace and order in their neighborhoods and communities, and security in their homes, schools and places of work, is how strongly the theme and message of the Duterte campaign resonated among them. For the Duterte administration, this theme -- to fight crimes by eradicating the drug menace at the root of it -- has become a commitment to the Filipino people.

To support this commitment, anchored on real change that begins with adherence to the rule of law, the Duterte administration is giving budget priority to programs focused on public order and safety. About 53 %, or P110.4 billion, of the government's allocation for this priority will go to the Philippine National Police (PNP) to ensure a safe and secure environment for the country and its investors.

[1] Tuaño, Arnold (2005). Strengthening Dialogue and Socio-economic Development Amidst Conflict in the Philippines. Human Development Network Foundation, Inc. Retrieved from http://www.hdn.org.ph/wp-content/uploads/2005_PHDR/2005%20Arnold_Tuano.pdf.
[2] Displacement Dashboard: Mindanao, Philippines Forced Displacement Annual Report 2015. UNHCR, The UN Refugee Agency. Retrieved from http://unhcr.ph/_cms/wp-content/uploads/2015-Mindanao-Philippines-Forced-Displacement-Report_Final-HR3.pdf
[3] Philippine Statistics Authority (2015). Philippine Statistical Yearbook. Retrieved from https://psa.gov.ph/sites/default/files/2015%20PSY%20PDF_0.pdf.

Table 16. Allocations for the PNP and Performance Targets (in billion pesos)

Particulars	2015	2016	Proposed
PNP Budget	P87.8 B (actual)	P88.6 B (adjusted)	P110.4 B
Policemen-to-population ratio Ideal ratio: 1:500	1:558	1:550	1:521
Percentage change in crime rate	Achieved a 24.09% reduction from the previous year	5% reduction in National Index Crime as compared with the previous year	5% reduction in National Index Crime as compared with the previous year
Percentage of crime incidents responded within 15 minutes (in urban areas)	Accomplished 99.40% response calls for police assistance	100% response calls for police assistance	100% response calls for police assistance

Sources: 2017 National Expenditure Program
2017 Budget of Expenditures and Sources of Financing

Over the past few years, the budget of the PNP has been increasing, to maintain its capacity to prevent and suppress crimes, specifically through the acquisition of better equipment, hiring of additional manpower, implementation of crime prevention programs, and provision of quality training for the police force.

From 2013 to 2017, its budget has been augmented by 56 %, from P70.8 billion to P110.4 billion.

With its steadily increasing budget, the PNP was able to construct more police stations; procure additional patrol cars, utility trucks to support troop movements, and search and rescue operations, communications equipment, investigative equipment, and anti-terrorism equipment; and boost its ammunitions, among others.

In January to November 2015, 47 police stations were constructed nationwide: five in Police Regional Office (PRO) 1, one in PRO Cordillera, four in PRO 2, one in PRO 3, one in PRO 4A, four in PRO 4B, three in PRO 5, one in PRO 6, four in PRO 7, nine in PRO 8, two in PRO 9, three in PRO 10, two in PRO 11, two in PRO 12, four in PRO 13, and one in PRO ARMM. About 1,470 patrol jeeps were also procured in 2015. These were distributed to various Municipal Police Stations[4].

The PNP was also able to achieve a 1:1 police-to-pistol ratio in 2013[5], as well as improve the policeman-to-citizen ratio to 1:550 in 2016, from 1:670 in 2010. In 2017, the PNP aims to move closer to the ideal ratio of 1:500, with a budget allocation for an additional 10,000 police officer positions.

Based on the 2015 PNP report, crime incidents have decreased by 5.43 %, from 714,632 in 2014 to 675,813 in 2015.[6] For 2017, the PNP aims to continue the downtrend in the crime rate by bringing it down by five percent (5 %).

With the Duterte administration's unwavering resolve to fight crimes and stamp out illegal drugs, the PNP will be provided the vital support it needs for the task. Aside from the 10,000 additional police officer positions to be created in 2017, the agency will also be able to tap P2.0 billion for its Capability Enhancement Program. Of this total, P1.8 billion will be used to procure logistical requirements such as 5,600 units of communications equipment, 5,183 anti-riot shields, 5,741 anti-riot helmets, 9,528 anti-riot body armors, 10,000 pistols, 11,506 ballistic patrol vests, and 45 explosive detection dogs. The remaining amount will be used to procure 20 brand new utility trucks and 54 personnel carriers.

The Philippine Drug Enforcement Agency (PDEA) will be given P1.2 billion in 2017 in furtherance of the government's war against illegal drugs. This is 20 % more or P200 million higher than its 2016 budget. The funds will be used to supress the supply of dangerous drugs, among others.

Aside from jailing the pushers, the government will strive to break the cycle of drug use by reforming the users. An additional P2.8 billion will be provided to the Department of Health for the construction of four (4) new 500-bed capacity Drug Abuse Treatment and Rehabilitation Centers.

[4] 2015 Annual Report of the Philippine National Police. Retrieved from http://pnp.gov.ph/images/Downloads/PNPAnnualReport2015_opt_opt.pdf

[5] 2015 SONA Technical Report. Office of the President. Retrieved from http://www.gov.ph/2015/07/27/2015-sona-technical-report/#Ensured Public Order and Safety.

[6] 2015 Annual Report of the Philippine National Police. Retrieved from http://pnp.gov.ph/images/Downloads/PNPAnnualReport2015_opt_opt.pdf

Pursuing an Elusive Peace

For decades, past administrations have launched various strategies to promote a just and lasting peace – from harsh military solutions to engaging in peace talks with the Moro Islamic Liberation Front (MILF), the Communist Party of the Philippines-New People's Army, and other leftist camps. However, in spite of the best intentions, as well as resources poured into the attempts, peace has remained elusive.

Complementing the peace talks, the government has also pursued development programs in conflict-affected areas to address the root cause of the problem – poverty. One of the key programs introduced was the Payapa at Masaganang Pamayanan (PAMANA), which provided development interventions such as community infrastructure, electrification, farm-to-market roads, irrigation, and reforestation, among others. For 2016, about P12.8 billion was allocated for the PAMANA program, with almost 50 % earmarked for road construction.

The government likewise increased the budget for the Autonomous Region in Muslim Mindanao (ARMM), one of the poorest areas in the country, to enhance the delivery of social and economic services – from an allocation of P10.4 billion in 2010 to P29.4 billion in 2016, to fund health, education, social protection, and infrastructure investments.

The pursuit of peace continues under the Duterte administration – but with renewed vigor. This time, anchored on the theory that real peace leads to real progress, and therefore, alongside the fight against criminality, the protection of national integrity and security should also be a top priority of the government. This primarily means providing full support for the institutions tasked to confront and resolve this issue.

Defense. Three years[7] after the country steadfastly fought for its right over the West Philippine Sea, the Permanent Court of Arbitration in the Hague, The Netherlands ruled in favor of the Philippines. The Tribunal concluded that "there was no legal basis for China to claim historic rights to resources within the sea areas falling within the '9-dash line."[8]

Despite this ruling, tensions continue to build in the West Philippine Sea as "Beijing refused to recognize the Hague ruling."[9]

The Philippines, however, is open to bilateral negotiations with China.

To fortify the country's territorial defense, the government has increased the budget for defense in 2017 by 13.1 %. The bulk of the budget for defense will go to the Department of National Defense (DND), which is tasked to protect the country from external threats and terrorism. Of the P134.5 budget of the DND for 2017, P78.8 billion will be used for territorial defense, security and stability services to be provided by the Philippine Army, Philippine Air Force, and Philippine Navy.

The largest unit of the Armed Forces of the Philippines, the Philippine Army, will get the largest share of the

Table 17 Allocations for National Defense, 2015 to 2016 (in billion pesos)

Particulars	2015 (Actual)	2016 (GAA)	2017 (Proposed)
Phil. Army	P48.8 B	P47.6 B	P56.9 B
No. of tactical battalions maintained	187	189	190
Phil. Air Force	P15.2 B	P16.4 B	P18.9 B
No. of supportable aircraft	138	140	154
Phil. Navy	P16.2 B	P16.3 B	P20.6 B
No. of mission-ready fleet marine units	116	124	179
Revised AFP Modernization Program	P13.0 B	P25.0 B	P25.0 B

Source: 2017 BESF Table B.8.a
*2015 allocations based on actual amount
** 2016 allocations based on adjusted figures

[7] The case against China was filed on January 22, 2013.
[8] Esmaquel, P. (2016, July 12). Philippines wins case vs China. Rappler. Retrieved from http://www.rappler.com/science-nature/environment/14547-west-philippine-sea-marine-peace-park-iucn.
[9] Agency France Presse (2016, August 2). Beijing tightens maritime rules after South China Sea case. Rappler. Retrieved from http://www.rappler.com/science-nature/environment/145465-west-philippine-sea-marine-peace-park-iucn.

AFP budget, with P56.9 billion. Part of the funds will be used to maintain 190 tactical battalions and more than 50 military bases in the country.

The Air Force and Naval Forces will receive P18.9 billion and P20.6 billion, respectively, to fortify their capacity to secure the country and the people from threats. For 2017, the Air Force will increase its number of supportable aircrafts to 154, from 140 in 2016, while the Naval Forces will boost the number of its mission-ready fleet marine units, from 124 in 2016 to 179 in 2017.

In addition, P25.0 billion will be allocated for the Revised AFP Modernization Program[10] to continue the upgrading of the AFP's cability. The capability requirement of the AFP includes the acquisition of various kinds of equipment such as aircraft, vessels and communications equipment. Funding for the Revised AFP Modernization Program will still be sourced from the General Appropriations Act.

Under the previous AFP Modernization Program, 55 military upgrade projects have been undertaken by the past administration.[11] These include the procurement of combat utility helicopters, patrol vessels, three units of attack aircraft, and hundreds of grenade launchers and machine guns, among others.

With marching orders to intensify efforts to stamp out terrorism and kidnap-for-ransom groups such as the Abu Sayyaf, the AFP will be in need of this increased budget for modern and adequate equipment to fortify its combat capabilities.

Ensuring the Effective Administration of Justice

Complementing the government's war on crimes, the Department of Justice (DOJ) will receive a budget of P16.0 billion to ensure that Filipino citizens are given access to justice and that their constitutional rights are safeguarded. Of the DOJ's total budget of P16.0 billion, P4.4 billion is set aside for law enforcement services. The amount is 38 % more than the 2016 level, to hasten the investigation and prosecution of criminal complaints by 5,000 – from 320,000 in 2016 to 325,000 in 2017.

The Public Attorney's Office (PAO) is given P2.4 billion to provide free legal services to indigents and other qualified persons. With this budget, PAO aims to serve 4,995,530 clients, and provide 1,924,837 legal advisories.

The government will also boost the Judiciary's 2017 budget by 21 %, from P26.8 billion in 2016 to P32.5 billion in 2017, to fund the operating requirements of 2,117 courts, construction of Halls of Justice and the new Supreme Court Complex in Fort Bonifacio, and the hiring of 635 Court Decongestion Officers, among others.

Development Interventions in Conflict-Affected Areas

Crimes and violence cannot be solved by guns and bullets alone. Thus, the government is providing development interventions, through the provision of socioeconomic services, to address poverty, one of the key causes of insurgency and crimes in conflict-affected areas.

Pamana Program. In 2017, the government will provide a total of P8.1 billion for the PAMANA program. Of this amount, 88 %, or P7.1 billion, will be lodged under the Office of the Presidential Adviser on the Peace Process (OPAPP) to coordinate and manage various PAMANA projects such as solar electrification and infrastructure development, among others.

Aside from the OPAPP, other government agencies also undertaking PAMANA interventions are the DSWD, which will implement 192 projects on livelihood and community development, the National Commission on Indigenous Peoples, the Commission on Higher Education for 3,650 study grants, the DOH for health facilities and equipment, and the Philippine Health Insurance Corporation, for the health insurance premiums of the indigents in PAMANA areas.

Table 18. Projects Under PAMANA (in million pesos)

Particulars	2017 Allocation
Various Projects (OPAPP)	7,074
Community Support (DSWD)	809
Forest protection	83
Support to Indigenous Peoples	8
Health Insurance Premiums (PHIC)	61
Study Grant (CHED)	22
Health Facility & Equipment (DOH)	7
Demilitarization	13
TOTAL	**8,077**

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

[10]The AFP Modernization Act was first enacted in 1995. It was amended by Republic Act 10349, or the Revised AFP Modernization Act, in 2012 to extend the program for another 15 years.

[11]AFP Modernization Projects Completed Under the Aquino Administration (2016). Retrieved from http://dwdd.com.ph/2015/accomplishments-afp-modernization-projects-completed-under-aquino-administration/.

ARMM Programs. Committed to bring about lasting peace and real progress in Mindanao, the government will increase the budget for the ARMM to P41.8 billion in 2017, from 29.4 billion in 2016. Forty-five percent of this will be spent for the ARMM Infrastructure Program, which includes the paving of 270.64 kilometers (km) of provincial roads and 637.88 km of municipal roads; reconstruction, rehabilitation, or expansion of 85 seaports; and implementation of 117 water supply projects, in 552 barangays of the Region.

Infrastructure spending has a multiplier effect that could create direct and indirect job opportunities vital for development.

Aside from infrastructure, the ARMM is also implementing ARMM-HELPS, which stands for Health, Education, Livelihood, Peace and Governance, and Synergy. Among its objectives include: lower maternal deaths, increase access to quality education, provide job opportunities, and strengthen governance, among others.[12] The ARMM-HELPS budget for 2017 has been increased to P1.77 billion from P1.03 billion in 2016 to cover 150 poorest of the poor barangays.

Complementing the regional government's HELPS is the BRIDGE or the Bangsamoro Regional Inclusive Development with Growth Equity. The program aims to enhance local governance by strengthening partnerships among target communities. For 2017, it will be given a budget of P2.13 billion, P2.01 billion more than the 2016 allocation of P120 million.

Peace Kept by Progress, not Force

"Peace cannot be kept by force; it can only be achieved by understanding."[13]

The government understands its people and knows their basic needs – a decent house to live in, a gainful employment, accessible education, affordable healthcare, and social protection for the indigents. Through proper prioritization and judicious management of the budget, the government is continually providing these needs by means of various development interventions being implemented in war-torn and crime-infested areas.

[12]ARMM HELPS Convergence. Retrieved from http://www.armm.gov.ph/programs-and-projects/.
[13] Albert Einstein

IV. Expenditure Priorities

Competitiveness

Competitive, Creative, and Productive

In the increasingly globalized world market, emerging nations, particularly those in Asia, are becoming key drivers of the global economic growth, providing more business opportunities for investors and entrepreneurs, given the fragile growth in highly-developed countries. With a growth rate of 6.8 % in 2012, moving up to 7.8 % in the first quarter of 2013, the Philippines has been one of the fastest growing economies in Asia, offering various opportunities and long-term potential for investors.[1]

But globalization also creates new challenges for such emerging nations. For one, globalization has resulted in stiffer competition among key players, placing greater pressure on domestic industries to improve, innovate and be more competitive in order to survive and thrive in the global market.

Recognizing the important role of investments in the industry and services (I&S) sectors as new growth drivers of a higher quality and more sustainable economic and employment growth, the Duterte administration, as part of its 10-point socioeconomic agenda that aims to reduce poverty through inclusive growth, will focus on enhancing the business environment to boost the competitiveness and innovation of industries.

Towards this end, economic programs will be focused on catalyzing and nurturing the business environment, particularly in the countryside, to ultimately transform rural regions and empower the poor and the vulnerable. With the help of the private sector, efforts will be made for the development and innovation of micro, small, and medium enterprises (MSMEs), human resource development and skills training, promotion of foreign direct investments (FDIs), and overall improvement of the business climate.

Improving Business Competitiveness

The International Finance Corporation's Ease of Doing Business Report shows that the Philippines' level of business competitiveness lags behind other ASEAN countries. From 97th place in 2015, the Philippines dropped six notches to 103rd in 2016 in the Doing Business Survey. In the Starting a Business Category, the country slipped from the 157th to 165th slot, out of 189 nations included in the survey. Among the major factors identified as the causes of this poor performance are corruption and inefficient government operations.

Various strategies have already been introduced and implemented, aimed at improving the country's competitive performance vis-a-vis its ASEAN neighbours. Foremost among these was Executive Order No. 571 issued in 2006, which created the Public-Private Sector Task Force on Philippine Competitiveness, to raise the country's competitiveness ranking from the bottom to the top third by 2010. Later renamed the National Competitiveness Council (NCC) by Executive Order No. 44, the agency continues to fulfill its mandate to promote and strengthen collaboration between the public and the private sectors, in order to improve Philippine competitiveness.

Reducing Criminality to Encourage Business. To attract businesses to provinces, cities, and municipalities, the government will adopt the Davao City Model, which focuses on reducing criminality. Lowering the crime rate will give foreign investors an increased sense of security to do business in the country. The government's strict policy on peace and order will raise the confidence of businessmen to invest in the country.

Increasing Foreign Direct Investments. To draw direct foreign investments, thereby generating more jobs, the government, as stated in its 10-point socioeconomic agenda, will seek to relax Constitutional restrictions on foreign ownership (except as regards land ownership), adjust the cap on foreign ownership of local companies from 40 %, and extend property land-lease restrictions from 25 to 40 years.

The Duterte administration targets to achieve a 7 % increase in the total approved investments of foreign and Filipino nationals, from the P634.2 million baseline

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[1] Euromonitor International. (2015). New Emerging Markets: Nigeria, Indonesia, Mexico, The Philippines, and Turkey. Retrieved from http://www.euromonitor.com/new-emerging-markets-nigeria-indonesia-mexico-the-philippines-and-turkey/report

to P678.6 million in 2017. As 60 % of FDI applications are aimed at manufacturing, the government will focus on improving this sector to resolve over-dependence on services and further expand the economy.[2]

Streamlining Business Permits and Licences. With various initiatives and measures already in place, streamlining and automation of government transactions will be intensified to simplify and speed up services and eliminate corrupt practices, in compliance with the Anti-Red Tape Act of 2007 (Republic Act No. 9485).

Previously, the Departments of Trade and Industry (DTI) and the Interior and Local Government (DILG) had issued Joint Memorandum Circular No. 1, series of 2010, which directed LGUs to set business registration processing time at five to 10 days, with a maximum of five procedures. To complement this, the DILG also released Memorandum Circular 2011-15 (Documentary Requirements for a Business Permit) to further promote the government's streamlining efforts.

In 2012, the DILG, DTI, and the Information and Communications Technology Office (ICTO) launched the BPLS Automation Project, aimed at computerizing the Business Permits and Licensing Services (BPLS) in all cities and municipalities, to make them at par with the business application processing of neighboring Asian countries. In coordination with the Local Government Academy (LGA), LGUs were also trained in streamlining business registration processes using the prescribed standards. As of July 2015, 1,447 out of 1,516 LGUs are compliant with the BPLS standards set in 2010.[3]

In 2016, the DTI, DILG, and DICT issued a revised Joint Memorandum Circular requiring LGUs to submit a unified application form with only two signatories. Under the new joint circular, LGUs are mandated to trim down processing time of business registrations to two days and renewals to one day, with a maximum of three steps or less in terms of procedures for both new applicants and renewals.

Building on all of these initiatives, the government will aim to adopt the Davao City Model to further speed up the issuance of business licenses and permits. Davao City ranked 5th in the NCC's Cities and Municipalities Competitiveness Index (CMCI), which measures the competitiveness of cities and municipalities in the Philippines. The city ranked 1st in business registration efficiency and presence of investment promotions unit, and 4th in government efficiency.

Industry Development: Strengthening Micro, Small, and Medium Enterprises (MSMEs)

Dubbed the backbone of the economy, the micro, small, and medium enterprises (MSME) sector is a key driver in the country's economic growth, productivity, and innovation.

In 2014, 99.6 % (942,925) of the total 946,988 establishments in the Philippines were considered MSMEs. Of this number, 46.4 % were in the wholesale and retail trade and repair of motor vehicles and motorcycles, 13.5 % in accommodation and food service activities, and 12.5 % in manufacturing.[4]

The MSMEs generated 4,891,836 jobs, which contributed to 62.8 % of total jobs created in 2014. In terms of gross value added (GVA), MSMEs contributed around 35 %, with the largest share of 6.87 % coming from manufacturing.

In order to further raise the GVA contribution of MSMEs from 35 to 40 %, the DTI formulated the MSME Development (MSMED) Plan of 2011-2016, aimed to promote, strengthen, and support MSMEs, as well as address the challenges impeding their growth and development. The plan intends to create a suitable business environment for MSMEs, increase their competitiveness, and establish linkages with large enterprises and value chain networks. As such, the Philippine government will continue to focus support on MSMEs in 2017.

Negosyo Centers. Signed into law in 2014, the Go Negosyo Act (R.A. No. 10644) seeks to promote job generation and inclusive growth through the establishment and development of MSMEs. In support of this, the government, through the Micro, Small, and Medium Enterprise Development (MSMED) Council, established Negosyo Centers in provinces, cities, and municipalities to promote ease of doing business and facilitate access to services for MSMEs.

In 2015, P0.08 billion was allotted to organize 144 Negosyo Centers and assist 96,030 MSMEs. The following year, in 2016, a bigger budget of P0.39 billion

[2] DBS Bank. (2016). Philippines: Duterte's Game Plan. Retrieved from https://www.dbs.com/aics/templatedata/article/generic/data/en/GR/072016/160704_insights_dutertes_game_plan.xml&cid=aio_heroblock_sg_ec_02
[3] Department of Budget and Management. (2015). Technical Notes on the 2016 Proposed Budget
[4] Department of Trade and Industry. (2014). MSME Statistics. Retrieved from http://www.dti.gov.ph/dti/index.php/resources/sme-resources/sme-statistics

Table 19. Budget and Physical Targets for the Establishment and Maintenance of Negosyo Centers, 2015-2017

Particulars	2015 (Accomplishment)	2016 (Target)	2017 (Target)
Establishment and Sustenance of Negosyo Centers (DTI)	P0.08 B	P0.39 B	P0.54 B
No. of Negosyo Centers established	144*	168*	150*
No. of full service Negosyo Centers maintained	---	---	118
No. of MSMEs assisted	96,030	16,800	15,000

* Note: Figures include basic, advanced, and full service Negosyo Centers

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

was provided for the establishment of 168 Negosyo Centers to assist 16,800 MSMEs.

The 2017 Budget will provide an even higher allocation of P0.54 billion to the DTI for the establishment of 150 additional Negosyo Centers and the maintenance of 118 full service centers. The Negosyo Centers target to assist a total of 15,000 MSMEs.

Manufacturing Resurgence Program. The Philippines has seen a rise in the growth of its manufacturing sector in recent years. The manufacturing industry was considered the largest and fastest growing sector in the country[5], as it grew by 10.5 % in 2013 and 8.1 % in 2014, contributing to almost a quarter of the country's Gross Domestic Product (GDP).[6] Manufacturing generates more investments and employment, ignites technological innovation, and promotes stronger linkages especially with the agriculture and service sectors.

To boost the growth and competitiveness of the manufacturing sector, the government created the Manufacturing Industry Upgrading Roadmap (MIUR) that aims to develop "a globally competitive manufacturing industry supported by strong backward and forward linkages within the economy."[7] The MIUR will focus on transforming and strengthening existing industries as well as increase the share of manufacturing to 30 % of total output and 15 % of total employment.

In line with the MIUR, the Manufacturing Resurgence Program (MRP) was implemented to build and strengthen the capacities of new and existing industries. The government allotted P183 billion in 2015 and P289 billion in 2016 for the country's MRP.

For 2017, P16.6 billion will be provided under the budgets of DTI, DOTr, DOLE, DA, DOE, DOST, and other agencies and GOCCs to continue the implementation of the MRP to rebuild the existing capacity of industries, strengthen new ones, and maintain the competitiveness of industries with comparative advantage. The decrease is due to the reclassification of the P257 billion proposed funding for the Transport Infrastructure Program of the Department of Public Works and Highways (DPWH), which was previously lodged under the MRP budget for 2016.

With a higher budget of P4.1 billion provided for the DTI, the government aims to increase the percentage share of manufacturing to GDP from the 23 % baseline to 24 % in 2017.

Shared Service Facilities Program. The development of MSMEs is crucial in achieving sustainable and inclusive growth and generating more jobs. To enhance the competitiveness of MSMEs, the Shared Service Facilities (SSF) Program was launched to provide MSMEs with access to proper equipment, machines, tools, knowledge, skills, and the latest technology under a common system.

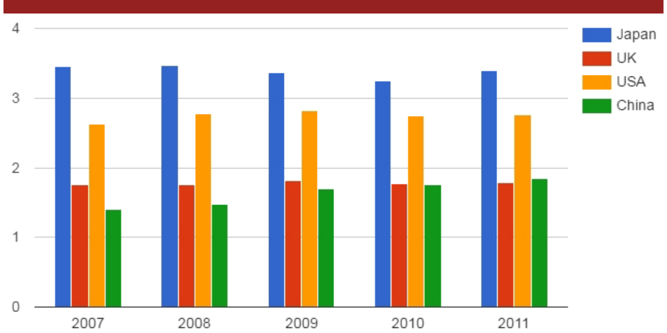
For 2017, the government will provide P70 million to boost the quality and productivity of MSMEs and establish business resource centers. No budget has been allocated for the SSF since 2015 as the program had unutilized funds from 2013 to 2014. The DTI targets to establish 2,000 SSF projects nationwide by the end of 2016, using funds from 2013 to 2014.

[5] Department of Budget and Management. (2015). Technical Notes on the 2016 Proposed Budget
[6] GOV.PH. Securing the Future of Philippine Industries. Retrieved from http://industry.gov.ph/category/manufacturing/
[7] Philippine Institute for Development Studies. (2014). The Philippine Manufacturing Industry Roadmap: Agenda for New Industrial Policy, High Productivity Jobs, and Inclusive Growth. Retrieved from http://dirp3.pids.gov.ph/webportal/CDN/PUBLICATIONS/pidsdps1432.pdf

Science and Technology

Studies on the development and competitiveness of countries, and the factors that impact on them, have established the link between science-technology-based innovation and sustainable growth. Even more recent studies[8] have shown that a science and technology (S&T) oriented strategy is in fact the most important factor in strengthening a country's socioeconomic growth, leading to global competitiveness. Advancements in agriculture, energy, industry, health, and climate change adaptation and mitigation are made possible by technological innovations. The application of scientific and technological interventions in business and industry can help generate more jobs to uplift the poor and disadvantaged members of society, thereby boosting overall economic productivity and efficiency.

Figure 4. Research and Development Expenditures of Selected Countries, as Percent of GDP



Sources: TheGlobalEconomy.com; World Bank

Highly-advanced, developed, and industrialized countries channel more than 1 % of their GDP for research and development (R&D)[9]. In 2011, for instance, the R&D expenditures of Japan, United States, China, and the United Kingdom reached 3.39 %, 2.76 %, 1.84 %, and 1.78 % of GDP, respectively *(see figure)*. And, since R&D expenditure is strongly linked to GDP growth, it comes as no surprise that nations with high investments in R&D enjoy a robust and sustainable economy.

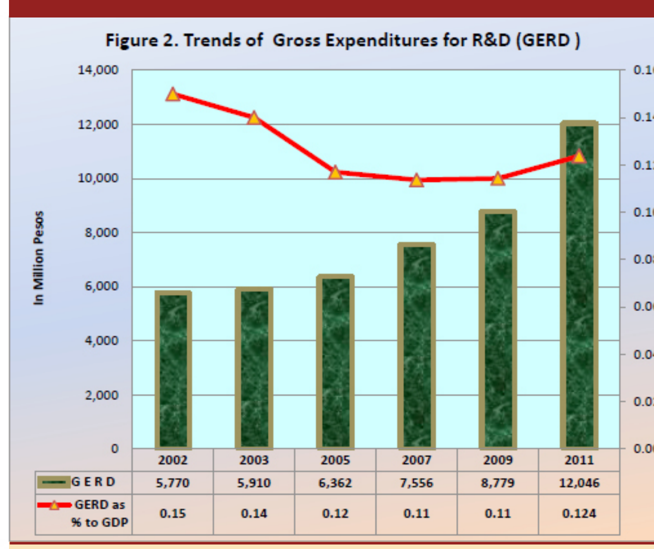
Where the Philippines stands on this is reflected in the 2015-2016 Global Competitiveness Index (GCI) conducted by the World Economic Forum (WEF), which ranked the country 47th among 140 countries, with a score of 4.4 out of 7. In terms of innovation, the country scored 3.5 out of 7, placing it in 48th place in the Innovations Index pillar.[10] These findings point to the need for more focus on R&D in order to raise the Philippines' international competitiveness and innovative capacity.

Investing in R&D

ASEAN member states with fast-growing economies, such as Singapore and Malaysia, have placed significant investments of more than 0.5 % of GDP in R&D from 2000 to 2012. In comparison, the Philippines invested only 0.11 % of GDP (around US$340 million) in R&D in 2007. The UNESCO Science Report 2010 notes that the Philippines had the second lowest GERD (Gross Expenditure for Research and Development) among Southeast Asian nations, ranging from 0.11 % to 0.15 % of GDP.[11]

The Philippines' economic growth has been steadily improving since 2008, rising from 5.0 % in 2015 to 7 % in the second quarter of 2016.[12] Although the country has seen a continuing rise in GDP in the past six years, its R&D expenditures remain much lower than the UNESCO recommended benchmark of 1 % of GDP.

Figure 5. Trend of Gross Expenditures for R&D in the Philippines (in million pesos), 2002-2011



Source: Philippine Institute for Development Studies

[8] World Bank. (n.d.). Strategic Approaches to S&T in Development. Retrieved from http://siteresources.worldbank.org/EDUCATION/Resources/278200-1089743700155/content.pdf

[9] R&D (research and development), as defined in the Frascati Manual published by the Organization for Economic Cooperation and Development (OECD), is "any systematic and creative work undertaken in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this knowledge to devise new applications." (OECD, 2002) This definition has been adopted by the United Nations, European Union, and the United Nations Educational, Scientific and Cultural Organization (UNESCO).

[10] World Economic Forum. (n.d.). Competitiveness Rankings. Retrieved from http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/#indicatorId=GCI.C.12

[11] UNESCO. (2010). UNESCO Science Report 2010: The Current Status of Science Around the World

[12] Philippine Statistics Authority

Table 20. R&D Indicators among ASEAN Economies, 2001-2012

Share of R&D Expenditures to GDP (%)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Brunei Darussalam		0.02	0.02	0.04								
Cambodia		0.05										
Indonesia	0.05								0.08			
Lao PDR		0.04										
Malaysia		0.65		0.60		0.61		0.79	1.01	1.07	1.07	
Myanmar	0.07	0.16										
Philippines		0.14	0.13		0.11		0.11				0.12	
Singapore	2.06	2.10	2.05	2.13	2.19	2.16	2.36	2.64	2.20	2.05	2.23	2.10
Thailand	0.26	0.24	0.26	0.26	0.23	0.25	0.21		0.25			
Vietnam		0.18										

Researchers in R&D (per million population)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Brunei Darussalam		286	277	282								
Cambodia	202								90			
Indonesia		18										
Lao PDR		16										
Malaysia	12	17										
Myanmar		293		499		368		599	1065	1459	1643	
Philippines			71		80		78				156	
Singapore	4161	4381	4706	4882	5292	5425	5769	5742	6150	6307	6494	6438
Thailand	281		281		313		324		332			
Vietnam		113										

Source: Philippine Institute for Development Studies; World Bank

However, the absolute value of the Philippines' GERD shows an overall increasing trend from 2002 to 2011, the highest being at P12.04 billion in 2011. However, its ratio to GDP was at 0.12 % with a slight decrease from 2002 to 2007.

The bulk of the total R&D expenditures comes from private businesses. A total of P7.3 billion or 60.5 % of the total R&D spending was attributed to the private industry, suggesting that private firms in the Philippines are actively engaged in S&T to enhance their productivity and competitiveness in the global market. On the other hand, the Philippine government spent only P2.1 billion for R&D activities (17.3 % of total R&D spending) in 2011. Among higher education institutions (HEIs), public institutions or state universities and colleges (SUCs) contributed more in R&D spending (for academic purposes) than private institutions (17.1 % of total expenditures).

Table 21. R&D Expenditures by Sector, 2011

Sector	Amount	Share to Total (%)
Government	P2.1 B	17.3
Higher Education	P2.6 B	22
Public	P2.1 B	17.1
Private	P0.6 B	4.7
Private Non-Profit	P0.05 B	0.4
Private Industry	P7.3 B	60.5
TOTAL	**P12.05 B**	**100.0**

Source: Philippine Institute for Development Studies; DOST R&D Survey; NSO ASPBI Survey

Other Factors Hindering S&T Growth

Poor planning, slow procurement processes, and low level of manpower also lead to delayed completion or complete abandonment of S&T projects, resulting in overall low productivity and inefficiency.[13] Per the 2011

[13] Panela, S. (2016). Is Change Really Coming? The Role of Science in the Duterte Administration. AsianScientist. Retrieved from http://www.asianscientist.com/2016/06/features/president-rodrigo-duterte-philippines-science-policy-agenda/

statistics, there were only 201 R&D personnel per million people (international standard is 380 per million people) and 156 researchers per million people in the country. These figures are much lower compared to neighboring Asian countries such as Singapore, Malaysia, Indonesia, Vietnam, and Thailand.

According to the 2011 Survey on Research and Development Expenditures and Human Resources (SRDEHR) conducted by the Department of Science and Technology (DOST), approximately 35 % or 3,598 R&D personnel were based in the National Capital Region (NCR), while only 0.2 % were in the Autonomous Region in Muslim Mindanao (ARMM).

Additionally, 52 % (P6,318 million) of the total R&D expenditures were from the NCR, 24 % (P2,937 million) from Region 4A, and 6 % (P703 million) from Region 3. Only P8.5 million was spent for R&D in the ARMM. The data shows an uneven distribution of R&D activities due to resources being mostly concentrated in urban areas like Metro Manila. Clearly, there is a need to mobilize researchers and scientists to support S&T at the community and rural level.

Recent Developments in S&T

Through collaboration with the DOST and academic, private, and government research institutions, the government has directed S&T projects, programs, and activities to contribute towards rapid and sustained economic growth. The DOST prepared the Harmonized National R&D Agenda hinged on the government's efforts to address poverty and promote inclusive socioeconomic development.

The National R&D Agenda is based on the National Science and Technology Plan (NSTP) 2002-2020, which sets the road map for the Philippines' medium-term strategies towards S&T development. Its 10 priorities are food and agriculture, disaster mitigation and management, environment and natural resources, health, manufacturing, biotechnology, electronics, energy, information and communications technology, and nanotechnology.

Table 22. R&D Expenditures by Region and by Sector, 2011 (in billion pesos)

Region	Total R&D Expenditures	Sector of Performance				
		Government*	Higher Education		Private Non-Profit*	Private Industry**
			Public*	Private*		
All Regions	12.04	2.1	2.1	0.6	0.05	7.3
NCR	6.3	1.3	0.9	0.5	0.03	3.6
CAR	0.08	-	0.04	-	-	0.04
Reg. 1	0.14	0.06	0.07	0.001	-	0.01
Reg. 2	0.03	0.006	0.01	0.009	-	0.00008
Reg. 3	0.7	0.3	0.06	0.01	-	0.4
Reg. 4A	2.9	0.07	0.8	0.000039	-	2.1
Reg. 4B	0.04	-	0.03	0.001	-	0.006
Reg. 5	0.04	0.01	0.009	0.007	-	0.01
Reg. 6	0.07	0.02	0.03	0.001	0.003	0.02
Reg. 7	0.5	0.01	0.004	0.02	-	0.05
Reg. 8	0.2	0.1	0.02	0.00008	-	0.06
Reg. 9	0.03	0.01	0.009	0.00008	-	0.00001
Reg. 10	0.3	0.05	0.04	0.02	0.009	0.2
Reg. 11	0.3	0.06	0.1	0.007	-	0.08
Reg. 12	0.04	0.01	0.007	0.003	0.005	0.01
Caraga	0.05	0.03	0.006	0.003	-	0.009
ARMM	0.009	0.00008	0.00005	-	-	0.007

Source: Philippine Institute for Development Studies; *DOST R&D Survey; **NSO's ASPBI
Note: Numbers may not add up to totals due to rounding especially for the Private Industry Sector.

Leveraging S&T for Real Change

The government acknowledges the essential role of S&T in sustaining economic growth to bring about real change in the lives of Filipinos. Its 10-point socioeconomic agenda includes the promotion of S&T to enhance innovation for sustainable development. As an increase in GDP is an indicator of economic growth, the government aims to raise the GDP target from this year's 6 to 7 % target to 6.5 % to 7.5 % in 2017, by investing more in S&T, particularly in the agriculture services and industry sectors.

As the chief department promoting S&T in the country, the DOST will be given a budget of P20.8 billion in 2017, higher by 14.3 % than last year's P18.2 billion allocation. The S&T budget will be used to build a solid research environment that will sustain efforts to solve critical national issues such as poverty, hunger, and disaster vulnerability. It will focus on the following key areas: food production, renewable energy, climate change adaptation and mitigation, industrialization, and improvement of information and communications technology (ICT) through fast and free internet connection.

Industrialization: Enabling Industrial Innovations. Innovations in manufacturing through R&D improve industrial competitiveness and economic development. This year, the Philippines' innovation index improved from 52nd place in 2014 to 48th in the WEF Global Competitiveness report since larger investments were directed towards R&D and S&T.[14] According to the Board of Investments (BOI), it is highly possible that R&D will be included in the Investments Priorities Plan (IPP) 2017-2019 to encourage the country to develop its own technologies for the benefit of industries.

To enable local industries to innovate, the DOST will allot P815 million for its Small Enterprise Technology Upgrading Program (SETUP), higher than the allocations for 2015 and 2016. This year, the SETUP aims to provide 2,150 firms with S&T assistance using 4,715 technological interventions and generate 17,431 jobs. For 2017, the SETUP will aim to assist 5,443 micro, small and medium enterprises (MSMEs) through 5,112 technology interventions and generate 24,253 jobs.

Table 23. Budget and Physical Targets for DOST-SETUP, 2015-2017

Particulars	2015	2016	2017
Small Enterprise Technology Upgrading Program (DOST)	P0.60 B	P0.78 B	P0.81 B
No. of firms provided with S&T assistance	4,510	2,150	5,443
No. of technology interventions	7,021	4,715	5,112
No. of jobs generated	34,512	17,431	24,253

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

Investing in S&T Human Resources. To address the problem of uneven distribution of R&D resources and enhance the competency of human resources in S&T, the DOST-SEI will allocate P2.88 billion to provide more scholarships and research grants to individuals taking undergraduate, masteral, and doctoral degrees. The targeted 22,723 beneficiaries for 2017 is higher than the total number of 19,758 beneficiaries in 2016 by 15%.

Table 24. Budget and Physical Targets for DOST-SEI, 2015-2017

Particulars	2015	2016	2017
Total DOST-SEI Budget	P2.24 B	P2.25 B	P2.95 B
Of which:			
DOST Scholarship Program	P2.18 B	P2.18 B	P2.88 B
No. of beneficiaries	18,765	19,758	22,723

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

Culture and Creative Arts

Through the years, Filipinos have demonstrated that they can compete with the world's top players in the creative industry. Many Filipino artists, musicians, and designers have received international fame and recognition in various fields. To cite an example, the Philippines has been dubbed the "Milan of Asia" because of its beautiful and exquisitely designed interior furniture products that are of world-class quality.[15]

[14] The 2014-2015 Global Innovation Index ranked the Philippines at 52nd place with a score of 3.5. In 2015-2016, the country's innovation index rose to 48th place although it maintained the same score of 3.5.

[15] Reyes, R. (2015). PHL to shy why it is called 'Milan of Asia' at Salone Fair. BusinessMirror. Retrieved from http://www.businessmirror.com.ph/2015/04/06/phl-to-show-why-it-is-called-milan-of-asia-at-salone-fair/

The Philippines can tap into its large pool of artists and creative talents as potential sources of income to improve economic growth. Statistics of the World Intellectual Property Organization (WIPO) show that 7.4 % of GDP and 14.4 % of national employment are generated from creative industries. And, 1.6 % of people employed in the services sector are engaged in arts, entertainment, and recreation-related work for development.[16]

Despite their major economic contribution, however, creative industries have experienced a slow growth due to the lack of financial and technical support. Addressing this, the government's 10-point socioeconomic agenda includes the promotion of culture and creative arts to develop the full potential of the creative sectors and maximize their socioeconomic benefits.

For 2017, P452 million will be allotted to the National Commission for Culture and the Arts (NCCA), of which P329 million will be used to provide 375 grants, in the form of the following: (1) competitive grants, (2) support for international events and agreements, (3) support for inter-agency programs, and (4) support for institutional programs.

The Philippine High School for the Arts (PHSA) will be provided a total budget of P133 million, an increase of 30.3 % compared to this year's total of P102 million. The PHSA budget will be used to provide creative training for a target of 200 students, an increase from 160 students being trained in 2016.

Meanwhile, the Cultural Center of the Philippines will be given a 50 % budget increase, from P557 million the previous year to P838 million for 2017. Of this, P180 million will fund the construction of the Artists' Center and P260 million will be used for the construction of the New Performing Arts Theatre. The establishment of additional art centers will provide proper stages and venues for the activities of the creative sectors.

Table 25. Budget and Physical Targets for Culture and Creative Arts, 2015-2017

Particulars	2015	2016	2017
National Commission for Culture and the Arts (NCCA)			
Total NCCA Budget	P0.69 B*	P0.87 B*	P0.45 B*
Of which:			
Grants	P0.30 B*	P0.33 B*	P0.33 B*
No. of proposals funded	960	650	375
Cultural Center of the Philippines (CCP)			
Total CCP Budget	P0.21 B	P0.56 B	P0.84 B
Of which:			
Construction of Artists' Center			P0.18 B
Construction of New Performing Arts Theater			P0.26 B
Philippine High School for the Arts (PHSA)			
Total PHSA Budget	P0.13 B	P0.10 B	P0.13 B
Secondary School Services for the Arts	P0.13 B	P0.10 B	P0.13 B
No. of students trained	141	160	200
Design Center of the Philippines (DCP)			
Total DCP Budget	P0.83 B	P0.8 B	P0.96 B
Particulars			**2017 Targets**
% increase in the number of designers trained			15% (69 from 60)
% increase in manufacturers assisted with commercialized products			15% (46 from 40)
% increase in the number of products developed that were commercialized			15% (46 from 40)

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.
* Note: Figures include basic, advanced, and full service Negosyo Centers

[16] Philippine Statistics Authority. (2016). Employed Persons by Sector, Subsector, and Hours Worked, Philippines April 2016. Retrieved from http://psa.gov.ph/sites/default/files/attachments/hsd/pressrelease/TABLE%202%20Employed%20Persons%20by%20Sector%2C%20Subsector%2C%20and%20Hours%20Worked%2C%20Philippines%20April%202016.pdf

In compliance with the Philippine Design Competitiveness Act of 2013 (R.A. 10557), the government will allocate a higher budget of P96.4 million to the Design Center of the Philippines (DCP) for the promotion of design innovation in the country. The DCP aims to increase the global competitiveness of Philippine creative industries contributing to inclusive growth and job generation.

With a 20.6 % increase in its total budget for 2017, the DCP seeks to improve the quality and competitiveness of SME products and services through good design and innovation. The DCP targets to train 69 designers by 2017, an increase from the baseline of 60 designers trained. The budget will also provide assistance to a target of 46 manufacturers and increase the number of products developed and commercialized from 40 (baseline) to 46 in 2017.

By providing a more streamlined financial allocation for culture and the arts, the government aims to empower artists to be more productive members of society and the country.

Building a Smarter and Creative Philippines

By increasing investments in the S&T sector and promoting culture and creative arts, the government aims to raise the country's global competitiveness in terms of scientific knowledge and cutting-edge technological-creative innovations. Thus, the administration's national S&T agenda for 2017 will be vital in creating a Smarter Philippines, with an innovative and fast-growing economy.

IV. Expenditure Priorities

Climate Change & Disaster Management

Building a Climate and Disaster Resilient Philippines

The Philippines, one of the most disaster-prone countries in the world because of its location and topography, is also one of the most vulnerable to the impacts and effects of these natural calamities.

Over the past few years, in addition to the nature-wrought disasters that have been part of its historical experience, the country has had to contend with the effects of climate change, landing 4th in rank in the 2016 Global Climate Risk Index among nations most affected by climate change. In a period of 20 years, from 1995 to 2014, the Philippines experienced a total of 337 weather disturbances that claimed thousands of lives and destroyed millions in property.[1]

Due to climate change, the Philippines finds itself at greater risk from the effects of extreme weather conditions. Typhoons, landslides, droughts, earthquakes, and floods have become more intense, resulting in greater loss and damage. The country suffered economic losses amounting to an average of 0.675% of GDP per year in 1995 to 2014 due to climate-related disasters.[2]

Towards a Climate-Proof and Disaster Resilient Environment

In 2013, the Philippines was struck and devastated by one of the strongest typhoons to make landfall in recorded history. Super Typhoon Yolanda (International name: Haiyan) caused catastrophic damage to the country, particularly in Eastern and Central Visayas. The tropical cyclone claimed 6,300 lives, washed out 4.1 million people's homes, and caused the destruction of an estimated P93 billion in infrastructure and properties.[3]

In any disaster or calamity, the poor are the most vulnerable and the most affected, because their lives, properties, and sources of livelihood can be easily lost or destroyed. To build and protect the poor's capacity to cope with the impact of climate change, the government needs to increase investments in climate change adaptation (CCA) and mitigation, as well as disaster risk reduction and management (DRRM). Aside from funds for disaster response, there should also be a sufficient budget allotted for disaster prevention and mitigation to boost the risk resilience of communities and minimize socioeconomic and environmental losses brought about by climate-related disasters.

Among the major concerns identified in the Philippine Development Plan (PDP) 2011-2016 were CCA and DRRM.[4] To address these concerns, several efforts were initiated to build people's capacities to respond to disasters and climate change. Currently, there are two policies focused on climate change and disaster management in the Philippines: the Climate Change Act of 2009 and the Philippine Disaster Risk Reduction and Management Act of 2010.

The Climate Change Act of 2009. The 1987 Philippine Constitution declares that the State shall provide full protection and advancement of the people's right to a healthful ecology in harmony with nature.[5] Founded on this principle, the Climate Change Act of 2009 aims to mainstream climate change consciousness in government policies and strategies, in accordance with the global community. It also provides for the organization of the Climate Change Commission (CCC), the lead policy-making body on matters related to climate change.

The Philippine Disaster Risk Reduction and Management Act of 2010. Complementing the Climate Change Act, the Philippine Disaster Risk Reduction and Management Act of 2010 (RA 10121) was passed to provide a comprehensive, cross-cutting, and community-based framework for DRRM. The legislation called for the preparation of a National Disaster Risk

[1] GermanWatch. (2015). Global Climate Risk Index 2016. Retrieved from https://germanwatch.org/fr/download/13503.pdf

[2] GermanWatch. (2015). Global Climate Risk Index 2016. Retrieved from https://germanwatch.org/fr/download/13503.pdf

[3] National Disaster Risk Reduction and Management Council. (2013). Final Report re Effects of Typhoon "Yolanda" (HAIYAN). Retrieved from http://www.ndrrmc.gov.ph/attachments/article/1329/FINAL_REPORT_re_Effects_of_Typhoon_YOLANDA_(HAIYAN)_06-09NOV2013.pdf

[4] National Economic Development Authority (NEDA). (n.d.). Conservation, Protection, and Rehabilitation of the Environment and Natural Resources. In Philippine Development Plan 2011 – 2016 (Chapter 10). Retrieved from http://www.neda.gov.ph/wp-content/uploads/2013/09/CHAPTER-10.pdf

[5] GOVPH. (n.d.). The 1987 Constitution of the Republic of the Philippines – Article II. Retrieved from http://www.gov.ph/constitutions/the-1987-constitution-of-the-republic-of-the-philippines/the-1987-constitution-of-the-republic-of-the-philippines-article-ii/

Reduction and Management Plan (NDRRMP) for 2011 to 2028, which shows how DRRM programs and projects will be used to contribute towards sustainable development.

These two landmark legislations are also in fulfilment of the Philippines' commitments to focus economic and financial resources to address climate change, along with other developing countries most vulnerable to extreme weather conditions. With the vision of a climate-resilient future, the government will give priority to ensuring resiliency to the consequences and impacts of climate change by preparing the people for disasters and optimizing climate change mitigation opportunities for sustainable development.

Crafting a Climate-Responsive Budget

The Climate Change Commission is mandated by the Climate Change Act of 2009 to build "a climate-resilient and climate-smart Philippines with highly adaptive communities."[6] To achieve this goal, the CCC has crafted the National Climate Change Action Plan (NCCAP), which serves as the country's policy roadmap on climate change adaptation and mitigation until 2028. It further pursues the formulation of a climate-responsive budget, aligned with the seven priority areas set by the NCCAP, namely food security, water sufficiency, environmental and ecological stability, human security, sustainable energy, climate smart industries and services, and knowledge and capacity development.

To fulfill this directive for a climate-responsive budget and to meet the international standard of climate change expenditures equal to 2 % of GDP, the government has been increasing climate change-related appropriations in the overall budget by an average of 26 % annually since 2009.[7] It has also created a special fund, the People's Survival Fund (PSF), to finance climate change adaptation programs and projects. P1.0 billion is provided annually for the PSF to supplement the annual climate change appropriations of government agencies and LGUs.

The salient features or highlights of a climate-responsive budget formulation include the following:

Climate Change Expenditure Tagging (CCET). Aligned with the climate change response of the government, the Department of Budget and Management (DBM) and the CCC issued Joint Memorandum Circular No. 2014-01, establishing the National Climate Change Expenditure Tagging (CCET).

The purpose of the CCET is to identify, report, and monitor programs, activities, and projects (PAPs) related to climate change, making it easier to track and measure climate change-related expenses, enhance the effectiveness of projects, and ensure transparency.

There is likewise a conscious effort to remind agencies, government-owned and -controlled corporations (GOCCs), and state universities and colleges (SUCs) of the mandate to allocate funds for climate change purposes during the planning and activity programming processes. Programs, activities, and projects are tagged as either climate change adaptation or mitigation strategies.

Seventy-eight percent (78 %) of key agencies supporting the implementation of the NCCAP and 11 out of 12 member departments of the Cabinet Cluster on Climate Change Adaptation and Mitigation participated in the test run of the CCET.[8] According to the Climate Public Expenditure and Institutional Review (CPEIR) released by the World Bank, 53 government agencies have tagged more than 5 % of the total 2015 climate change budget proposals (approximately P136.3 billion).[9]

The proposed climate change expenditures have been consolidated in the 2017 Budget of Expenditures and Sources of Financing (BESF) and uploaded in the DBM website (www.dbm.gov.ph) for transparency and accountability. The climate change expenditures spanning from 2015 to 2017 are listed by department or agency in the 2017 BESF under Table B.9 (Climate Change Expenditures by Department and Special Purpose Fund, FY 2015-2017) and by NCCAP strategic priorities in Table B.10 (Climate Change Expenditures by National Climate Change Action Plan Strategic Priorities, FY 2015-2017). A comparison of how much financial resources are allocated for adaptation and mitigation initiatives for each year is shown.

Climate Change Expenditures by Department Program. There is an overall increase in climate change expenditures across all departments and agencies from 2015 to 2017 *(See Table 1)*. It is worth noting that most

[6] Climate Change Commission. (n.d.). Retrieved from http://climate.gov.ph/index.php/content/?id=11&Itemid=2
[7] World Bank. (2013). Getting a Grip on Climate Change in the Philippines. Retrieved from http://www.worldbank.org/en/country/philippines/publication/getting-a-grip-on-climate-change-in-the-philippines
[8] Department of Budget and Management. (2014). Technical Notes on the 2015 Proposed National Budget
[9] World Bank. (2014). Philippines: Promoting Transparency in Mobilizing Funds for Climate Action. Retrieved from http://www.worldbank.org/en/news/press-release/2014/10/24/philippines-promoting-transparency-in-mobilizing-funds-for-climate-action]

Table 26. Climate Change (CC) Expenditures by Department and Special Purpose Fund, 2015-2017 (in billion pesos)

Department/Special Purpose Fund	2015			2016			2017		
	Adaptation	Mitigation	Total	Adaptation	Mitigation	Total	Adaptation	Mitigation	Total
DEPARTMENTS	115.9	10.6	126.6	156.6	16.8	173.4	191.5	17.2	208.7
Department of Agrarian Reform	-	-	-	0.02	-	0.02	-	-	-
Department of Agriculture	13.04	0.3	13.3	15.6	0.6	16.1	11.2	0.4	11.6
Department of Energy	-	0.6	0.6	-	0.3	0.3	-	0.4	0.4
Department of Environment and Natural Resources	4.9	7.3	12.3	4.1	8.2	12.4	5.9	10.4	16.3
Department of Finance	-	-	-	-	-	-	0.02	-	0.02
Department of Foreign Affairs	0.001	-	0.001	0.003	-	0.003	0.003	-	0.003
Department of Interior and Local Government	0.004	-	0.004	0.08	-	0.08	-	-	-
Department of Labor and Employment	0.4	-	0.4	1.2	-	1.2	1.1	-	1.1
Department of National Defense	0.3	0.002	0.3	1.1	0.002	1.1	0.3	0.002	0.3
Department of Public Works and Highways	93.1	-	93.1	131.7	-	131.7	169.2	-	169.2
Department of Science and Technology	4.1	0.07	4.2	2.7	0.13	2.9	3.4	0.14	3.6
Department of Social Welfare and Development	0.001	-	0.001	0.002	-	0.002	0.0008	-	0.0008
Department of Tourism	-	0.001	0.001	-	0.002	0.002	-	0.0007	0.0007
Department of Trade and Industry	0.02	-	0.02	0.02	-	0.02	-	-	-
Department of Transportation (formerly Department of Transportation and Communications)	-	-	-	-	-	-	0.01	5.8	5.8
Department of Transportation and Communications (renamed to Department of Transportation)	0.005	2.3	2.3	0.007	7.5	7.5	-	-	-
National Economic and Development Authority	0.002	-	0.002	0.007	-	0.007	0.006	-	0.006
Other Executive Offices	0.05	0.009	0.06	0.1	0.006	0.1	0.3	0.009	0.3
SPECIAL PURPOSE FUNDS	1.1	0.02	1.2	1.6	0.02	1.6	0.2	1.6	1.7
Allocations to Local Government Units	1.1	0.02	1.2	1.6	0.02	1.6	0.2	1.6	1.7
TOTAL	**117.1**	**10.6**	**127.8**	**158.2**	**16.8**	**175.0**	**191.7**	**18.7**	**210.4**

Source: Department of Budget and Management. Budget of Expenditures and Sources of Financing FY 2017, Table B.9

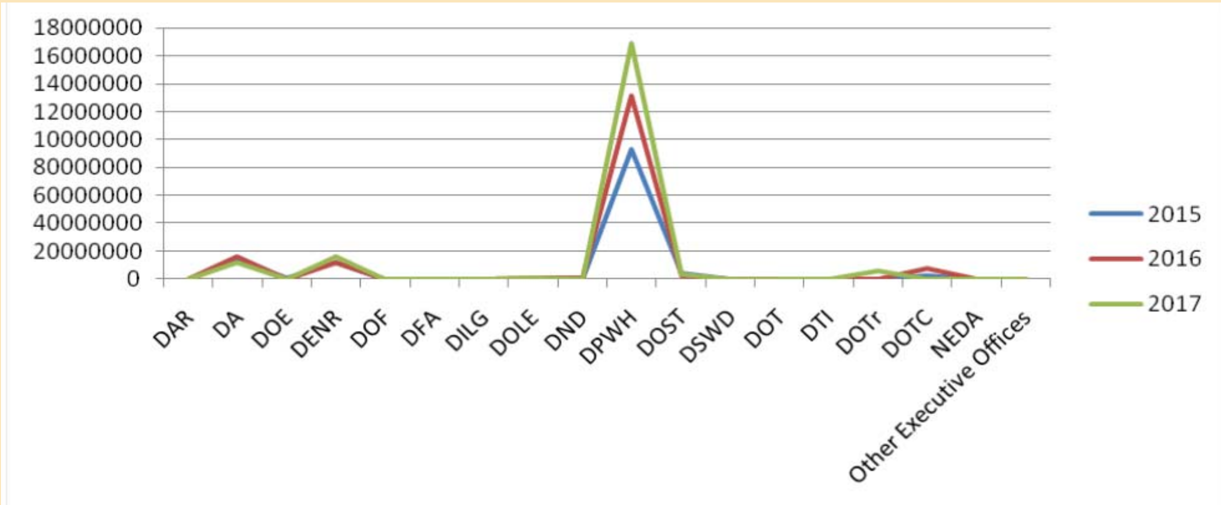
increases are attributed to programs and projects of the Department of Public Works and Highways (DPWH), such as the construction of flood control systems, and the Department of Environment and Natural Resources (DENR), for the National Greening Program. It is also evident that a larger portion of the climate change-related appropriations are directed towards adaptation.

From 2015 to 2016, climate change expenditures increased by 37 %, from P127.8 billion in 2015 to P175 billion in 2016.[10] Of the total budget for 2016, P59.8 billion was allocated to the DPWH for the construction of flood control facilities covering 18 major river basins and 38 principal rivers as part of the Build Back Better program. Other projects to address climate change were the reforestation of 1.5 million hectares of land under the DENR and the construction of farm-to- market roads under the Department of Agriculture (DA).

For 2017, the total allocation for climate change expenditures is P210.4 billion, 20.2 % higher than the previous year.

[10] Department of Budget and Management. (2016). Budget of Expenditures and Sources of Financing FY 2017. Retrieved from http://www.dbm.gov.ph/wp-content/uploads/BESF2017/B9.pdf

Figure 6. Trend of Climate Change Expenditures by Department, 2015-2017 (in thousand pesos)



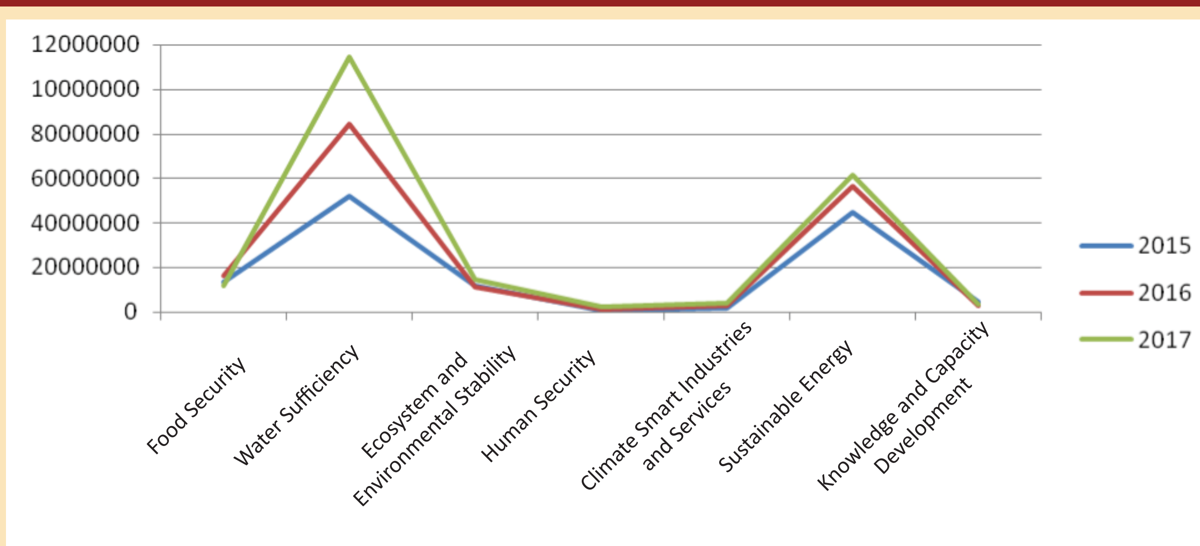
Source: Department of Budget and Management. Budget of Expenditures and Sources of Financing FY 2017. Table B9.

Climate Change Expenditures by NCCAP Priority. Climate change-related expenditures supporting the NCCAP priority areas reflect a general upward trend from 2015 to 2017, as seen in the graph below. The top three biggest appropriations are allotted to water sufficiency and governance with P114.2 billion; sustainable energy, P61.1 billion; and ecosystem and environmental stability with P14.4 billion. The data suggests that the government is investing more in flood control and environmental conservation.

Enhancing Resiliency to Climate Change

Severe environmental degradation and unsustainable development practices intensify the impacts of climate change. The government is taking a proactive approach to climate change and disaster management by strengthening natural ecosystems to improve resiliency. The 2017 budget will be used to fund activities and programs that protect the environment and promote climate change adaptation and mitigation strategies. These activities and programs will be focused on the

Figure 7. Trend of Climate Change Expenditures by NCCAP Priority, 2015-2017 (in thousand pesos)



Source: Department of Budget and Management. Budget of Expenditures and Sources of Financing FY 2017. Table B10.

capacity building of LGUs and the implementation of the priority programs.

Improving the Adaptive Capacity of Communities. The Climate Change Commission (CCC) will receive a total funding of P88.8 million to enhance the resilience of communities by improving their adaptive capacities and raising public awareness on climate change. With the allocated budget, the CCC aims to increase the current number of LGUs that have formulated their local climate change action plan (LCCAP) by 10 % in 2017. It also targets a 5 % increase in the total number of LGUs with climate change-tagged activities, plans, and programs next year.

Being at the frontline for climate change action, LGUs are in turn encouraged to designate a higher budget for their LCCAPs in line with the priority areas of the NCCAP. This is crucial in view of the fact that as of December 2015, only 160 out of 1,700 LGUs (provinces, cities, and municipalities) had crafted their LCCAPs.[11]

The CCC will conduct capacity building for local adaptation planning, implementation, and monitoring in 75 % of total LGUs in 2017. R&D programs will be further intensified to support policy development. A target of 30 research programs and projects will be reviewed for approval.

Table 27. Summary of Climate Change Commission (CCC) Budget (2015-2017) and Physical Targets for 2017

Particulars	2015	2016	2017
Total Budget	P0.07 B	P0.24 B	P0.9 B
Performance Indicators (PIs)			**2017 Targets**
Percentage of LGUs that have formulated their Local Climate Change Action Plan (LCCAP)			10% increase of LGUs that have formulated their LCCAP
Percentage of LGUs that tagged their mitigation activities, plans, and programs in the Annual Investment Plan			5% increase of LGUs that have tagged their mitigation activities, plans, and programs in the Annual Investment Plan
Percentage of LGUs where capacity building interventions were conducted			75%
Number of research programs/projects reviewed for approval			30

Source: Department of Budget and Management. National Expenditure Program

Improving Flood Control and Management. The DPWH will allot P69.8 billion for flood control and management in 2017, an amount 28 % higher than its budget for 2016. Of this total, P65.7 billion will be used for the construction and maintenance of flood mitigation structures and drainage systems throughout the regions. (*See Table 28 for the regional allocation*). The remaining P4.1 billion will be used to build and rehabilitate flood mitigation facilities along major river basins and principal rivers, particularly those in Regions 1, 2, 3, 4A, 5, 10, 11, 12, the Caraga Region, and the CAR (Abra River Basin, Cagayan River Basins, Kabilugan/ Velasco/Bato River Basin, Agno River Basin, Mindanao River Basin, and Pampanga River Basin).

Table 28. Flood Control Budget (Total Budget and Regional Allocation), 2015-2017 (in billion pesos)

Particulars	2015	2016	2017
Total Budget	41.2	54.6	69.8
Construction/Maintenance of Flood Mitigation Structures and Drainage Systems	37.6	50.6	65.7
National Capital Region (NCR)	37.6	27.4	29.2
Region 1	25.3	2.6	4.9
Region 2	0.941	0.7	1.7
Region 3	0.267	0.5	0.8
Region 4	0.256	4.6	7.8
Region 5	2.4	3.0	4.0
Region 6	2.5	1.1	1.4
Region 7	0.599	2.1	3.6
Region 8	0.627	1.8	2.3
Region 9	0.754	1.2	2.3
Region 10	0.370	1.1	1.7
Region 11	0.643	0.4	1.1
Region 12	0.180	1.3	1.1
Caraga	1.0	1.7	1.8
Construction/Rehabilitation of Flood Mitigation Facilities along Major River Basins and Principal Rivers	0.723	0.4	0.9

Source: Department of Budget and Management. National Expenditure Program

[11] Climate Change Commission. (n.d.). Local Climate Change Action Plan. Retrieved from http://climate.gov.ph/images/CORE/CORE_LCCAP_Presentation_DILG-Elmo_Dimaano.pdf

Crafting a Budget for Disaster Risk Preparedness, Response and Resiliency

The Philippine government's disaster response system can be traced back to 1941, when the National Emergency Commission was established during President Manuel L. Quezon's term. In 1954, the National Civil Defense Administration (NCDA) was founded to establish and oversee a disaster control organization composed of all government offices. In 1978, the National Disaster Coordinating Council (NDCC) became the lead organization and policy-making body for disaster management.

Global awareness on the importance of disaster preparedness especially among the most vulnerable regions and countries of the world – among which the Philippines ranks high – led to the enactment of the Philippine Disaster Risk Reduction and Management Act of 2010 (R.A. 10121). Its aim is to increase the resiliency of vulnerable communities against disasters and reduce the destructive effects of disasters on the lives and properties of the people.

R.A. 10121 called for the crafting of a National Disaster Risk Reduction and Management Plan (NDRRMP) for 2011 to 2028, defining how disaster risk reduction programs and projects will be used to contribute towards sustainable development.

Activities outlined in the NDRRMP focus on strengthening the capacities of the national government and the local government units (LGUs) to create disaster-resilient communities. The National Disaster Risk Reduction and Management Council (NDRRMC), through the Office of Civil Defence (OCD), is the official body responsible for overseeing the implementation of the NDRRMP to ensure the people's welfare in times of calamity. National government agencies, LGUs, and GOCCs submit their DRRM fund requests to the NDRRMC for endorsement to and approval by the Office of the President (OP) through the DBM.

The plan details how resources will be allocated to responsible agencies for implementation. LGUs are mandated to set aside 5 % of their revenues for disaster management councils. Seventy percent (70 %) of the local DRRM fund will be used for pre-disaster activities and the rest for the Quick Response Fund (QRF), which can be tapped for relief and recovery projects.[12]

The National Disaster Risk Reduction and Management (DRRM) Fund. On the national level, to address natural disasters, the government has allocated P37.3 billion for the National Disaster Risk Reduction and Management Fund for 2017, higher than the P14.0 billion allocation for 2015, but a little lower than the P38.9 billion set aside for 2016. The decrease is due to the completion of the Yolanda Comprehensive Rehabilitation and Recovery Plan by the end of 2016.

Table 29. National Disaster Risk Reduction and Management Fund (NDRRMF), 2015-2017

Particulars	2015	2016	2017*
National Disaster Risk Reduction and Management Fund	P14.0 B	P38.9 B	P37.3 B
National Disaster Risk Reduction and Management Program (Calamity Fund)	P13.0 B	P19.0 B	P26.3 B
People's Survival Fund	P1.0 B	P1.0 B	P1.0 B
Yolanda Comprehensive Recovery and Rehabilitation Plan	-	P18.9 B	-
Quick Response Funds	P6.7 B	P6.2 B	P10.0 B

Note: QRFs under selected agency budgets

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

Calamity Fund. Of the total NDRRMF for 2017, P26.3 billion will go to the National Disaster Risk Reduction and Management Program, or the Calamity Fund. This reflects an increase over the P19.0 billion allocation in 2016. The Calamity Fund will be used for disaster relief, recovery, and rehabilitation services to communities affected by natural and man-made calamities. It also covers funding for pre-disaster measures and reconstruction of permanent structures.

Quick Response Fund (QRF). For 2017, the Quick Response Fund (QRF) of P10.0 billion will be lodged under the NDRRMF instead of under individual agencies, to regulate its use for disaster relief. The amount, 61.3 percent higher than the 2016 level of P6.2 billion, will be used as a stand-by fund to provide recovery assistance and quickly normalize living conditions in disaster-ravaged areas. Of this total, P5.0 billion will be allocated to the Department of Social Welfare and Development (DSWD), Department of National Defense-Office of Civil

[12] Republic Act No. 10121. Retrieved from http://www.lawphil.net/statutes/repacts/ra2010/ra_10121_2010.html

Defense (DND-OCD), and Department of Health (DOH). The remaining P5.0 billion will be given to the DPWH and DND-Armed Forces of the Philippines (DND-AFP).

People's Survival Fund. P1.0 billion will be used to support approved disaster management and adaptation programs and activities of LGUs, as well as of community organizations. It can also be tapped to cover any deficiency in the implementation of the NDRRMP.

Information for Safety and Preparedness

In the face of the inescapable reality of natural disasters that the Philippines is prone to, the government is committed to ensure the well-being and safety of communities by providing them with the information necessary to sufficiently prepare for, and thus minimize the losses and damages from these. The lead agencies tasked with information gathering and provision are the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA), the Philippine Institute of Volcanology and Seismology (PHIVOLCS), and the DENR - Mines and Geosciences Bureau (DENR-MGB) with its National Geohazard Assessment Program.

PAGASA. The Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA), under the Department of Science and Technology (DOST), is mandated to provide protection from natural disasters through accurate weather-related information and services, and promote the use of scientific knowledge to ensure the people's safety and well-being. In 2016, the agency was given a budget of P1.2 billion to provide 28 disaster-prone provinces with access to weather-related services and information.

Table 30. Physical Targets for the PAGASA Modernization Program, 2015-2017

Particulars	2015	2016	2017
PAGASA Modernization Program (DOST-PAGASA)	---	---	P1.32 B
Of which:			
Planetarium			P0.003 B
Motor Vehicles			P0.01 B
Technical and Scientific Equipment			P1.31 B

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

This budget has been increased to P1.32 billion, primarily to fund its modernization program, especially focused on the improvement of its weather forecasting systems, equipment, and facilities as mandated by Republic Act 10692.

PHIVOLCS. Equally important and responsible for providing information vital for disaster preparedness is the Philippine Institute of Volcanology and Seismology (PHIVOLCS), whose scope includes geotectonic disasters such as earthquakes, volcanic eruptions, and tsunamis.

For 2017, the PHIVOLCS will receive P478.9 million, slightly higher than the budget allocations of P458.8 million for 2016 and P387.1 million for 2015. Of the agency's 2017 budget, P17.4 million will be allotted for the development of tools and information materials for disaster awareness and preparedness. The PHIVOLCS targets to mainstream the use of hazard and risk information and warning on geotectonic-related calamities in the disaster risk reduction plans of 452 cities and municipalities across 82 provinces.

National Geohazard Assessment Program. Communities and LGUs can more effectively prepare and better respond to natural hazards such as earthquakes, landslides, and volcanic eruptions with the help of geological mapping and monitoring. With a budget of P0.91 billion in 2015, 35 cities and municipalities were assessed and 7,029 barangays were taught on the use of geohazard assessment maps. The targets increased as a bigger budget of P0.4 billion was provided in 2016. *(See Table 31)*

Table 31. Budget and Physical Targets for the National Geohazard Assessment Program, 2015-2017

Particulars	2015	2016	2017
National Geohazard Assessment Program (DENR-MGB)	P0.91 B	P0.44 B	P0.27 B
No. of municipalities covered by the vulnerability and risk assessment	35 cities/ mun	200 cities/ mun	200 cities/ mun
No. of barangays covered by Information, Education, and Communication campaign on geohazard and vulnerability assessment maps	7,029 brgys	22,028 brgys	12,979 brgys
No. of 1:10,000 maps updated, printed, and provided to LGUs	26 cities/ mun	20 cities/ mun	20 cities/ mun
No. of cities/ municipalities covered by Sub-Surface Assessment	15 cities/ mun	15 cities/ mun	15 cities/ mun

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

For 2017, the government will provide P0.27 billion to the DENR-Mines and Geosciences Bureau (DENR-MGB) for the implementation of the National Geohazard Assessment Program. The budget will be used to conduct vulnerability and risk assessment in 200 cities and municipalities. It will also provide for the Information, Education, and Communication campaigns on the use of geohazard and vulnerability assessment maps covering all barangays.

Adapting to Climate Change and Mitigating Natural Disasters

Addressing climate change and disaster risk reduction and management issues includes engaging in adaptation and mitigation activities that eliminate, or at least reduce, the impacts and consequences of hazards. These also include proactive measures that could actually prevent the occurrence of disasters.

The budgets for such activities fund the various programs, activities, and projects of various departments and agencies.

Protecting Natural Ecosystems

As one of the primary agencies tasked to uphold the integrity of the environment, the DENR will be provided a budget of P29.4 billion for 2017, an increase of 31.9% from the previous year's P22.3 billion. This allocation is intended for programs that will provide long-term solutions not only to environmental issues, but also to important national concerns such as poverty reduction and the promotion of sustainable economic growth.

The Budget Priorities Framework[13] identifies 30 provinces that are highly vulnerable to climate change-related disasters, most of which are located in Regions 2, 4A, 8, and the Caraga Region. To help these areas adapt to the effects of climate change, the DENR will allocate P1.7 billion for Region 2, P1.4 billion for Region 8, P0.9 million for Region 4A, and P.02 billion for the Caraga Region. *(See Table 32)*

The DENR budget will also be used to support programs and projects aimed at protecting natural ecosystems for

Table 32. Regional Allocation of the DENR Budget, 2015-2017 (in billion pesos)

Particulars	2015	2016	2017
Total Budget	P21.4 B	P22.3 B	P29.4 B
National Capital Region (NCR)	P10.5 B	P6.8 B	P9.1 B
Region 1	P0.62 B	P0.59 B	P0.93 B
Cordillera Administrative Region (CAR)	P0.66 B	P1.1 B	P2.1 B
Region 2*	P0.71 B	P0.97 B	P1.7 B
Region 3	P0.87 B	P1.0 B	P1.4 B
Region 4A*	P0.92 B	P1.1 B	P0.91 B
Region 4B	P0.71 B	P1.1 B	P1.7 B
Region 5	P0.76 B	0.93 B	P1.3 B
Region 6	P0.73 B	P1.0 B	P1.3 B
Region 7	P0.71 B	P0.94 B	P1.1 B
Region 8*	P0.69 B	P0.99 B	P1.4 B
Region 9	P0.86 B	P1.2 B	P1.4 B
Region 10	P0.68 B	P1.3 B	P1.5 B
Region 11	P0.74 B	P0.89 B	P1.0 B
Region 12	P0.64 B	P1.2 B	P1.2 B
Region 13	P0.69 B	P1.1 B	P1.3 B
Caraga*	--	P0.004 B	P0.02 B

Source: Department of Budget and Management. National Expenditure Program
*Note: Regions with the most number of disaster-vulnerable provinces identified in the Budget Priorities Framework

[13] National Budget Memorandum No. 126. (2016). Budget Priorities Framework for the Preparation of the FY 2017 Agency Budget Proposals Under Tier 2 of the Two-Tier Budgeting Approach

climate change adaptation and mitigation. Among these are the Ecological Solid Waste Management Program, National Greening Program, Clean Air Regulations, and National Geohazard Assessment Program.

Ecological Solid Waste Management Program. Improper waste disposal harms the environment and contributes to climate change. Investing in technologies and policies promoting proper waste management is crucial to sustain ecological balance and reduce disaster risks.

In 2016, the Metro Manila Development Authority (MMDA) and the DPWH devised efficient waste disposal strategies to reduce flooding. These included minimizing solid wastes in waterways, keeping sanitary landfills safe and well-maintained, and educating communities on solid waste management practices. The DENR's Adopt-an-Estero/Water Body Program also focused on institutionalizing solid waste management practices along esteros, creeks, and rivers.

Table 33. Budget and Physical Targets for the Ecological Solid Waste Management Program, 2015-2017

Particulars	2015	2016	2017
Ecological Solid Waste Management Program (DENR-EMB)	P0.85 B	P0.59 B	P0.91 B
No. of cluster MRFs established/assisted	41	200	160
No. of open and controlled dumpsites closed/ rehabilitated	39	40	75
No. of open and controlled dumpsites, MRFs monitored	757	1,710	1,710

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

For 2017, P907 million will fund the Ecological Solid Waste Management Program through the DENR-Environmental Management Bureau (DENR-EMB). A target of 160 cluster material and recovery facilities (MRFs) will be assisted, 75 open dumpsites will be closed or rehabilitated, and 1,710 dumpsites and MRFs will be monitored.

In addition, the government will provide a bigger budget for the closing and rehabilitation of open and controlled dumpsites. The allocation will be used to increase the compliance of LGUs to the Ecological Solid Waste Management Act and effectively implement the solid waste management program.

National Greening Program (NGP). Maintaining a clean, safe, and healthy environment will protect the public from health-related risks due to pollution, thereby increasing human productivity. An abundant cover of trees provides a safeguard from the ill effects of air pollution and natural calamities. However, the Philippines' forest cover has been reduced from 90 % of the total land area in 1900 to only 20 % in 2010, as per the 2010 Global Forest Resources Assessment by the United Nations Food and Agriculture Organization (UN-FAO).[14]

The deterioration of forests will have negative consequences on the environment, including human and agricultural productivity, climate change, and health.

To address this, the National Greening Program (NGP), through Executive Order 26, was launched in 2011 as a climate change mitigation strategy and as part of the government and the private sector's efforts to restore the country's forests and reduce air pollution. Since its implementation, the NGP has successfully reforested 1.2 million hectares with 766 million seedlings, expanding the Philippines' forested areas from 6.8 million hectares in 2011 to 8 million hectares in 2015.[15] In 2016, P8.0 billion was allotted for the reforestation of 242,686 hectares of land, production of 414 million seedlings, and maintenance of 911,506 hectares planted with various species of trees. The NGP targeted to grow 1.5 billion trees covering 1.5 million hectares of land from 2011 to 2016 to absorb carbon dioxide and greenhouse gases, which largely contribute to global warming.

A World Bank study revealed that the Philippines' greenhouse gas emissions rank in the top 25 % among developing countries and will continue to rise in the coming decades.[16] To reduce greenhouse gas emissions, soil erosion, and flooding, the government will sustain the implementation of the NGP with a budget of P9.3 billion for 2017. The fund will be used to green 300,000 hectares of land and produce 336 million seedlings.

[14] Department of Budget and Management. (2015). Technical Notes on the 2016 Proposed National Budget.
[15] Department of Environment and Natural Resources. (2015). Sustaining the Gains of the NGP. Retrieved from http://ngp.denr.gov.ph/newandevents/news/1559-executive-order-193
[16] World Bank. (2013). Getting a Grip on Climate Change in the Philippines. Retrieved from http://www.worldbank.org/en/country/philippines/publication/getting-a-grip-on-climate-change-in-the-philippines

Table 34. Budget and Physical Targets for the National Greening Program, 2015-2017			
Particulars	**2015 (Accomplishment)**	**2016 (Target)**	**2017 (Target)**
National Greening Program (DENR-OSEC)	P7.9 B	P8.0 B	P9.3 B
Area planted	334,364 has.	242,686 has.	300,000 has.
No. of seedlings produced	314 M	414 M	336 M*
Area maintained	1,001,980 has.	911,506 has.	895,882 has.**

* Note: Due to seedlings having 80% survival rate, the target number of seedlings for production in 2017 is lower than in 2016.
** Total area maintained in 2017 is 2,809,368 hectares.

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

With a bigger budget for NGP in 2017, the government will prioritize forest protection to maintain reforested lands.

An evaluation study reflected that temperatures in NGP sites are significantly lower compared to denuded areas.[17] Aside from its benefits on the environment, the NGP also has a positive impact in economic terms. The reforestation program was able to generate 2.51 million jobs and employ 355,405 people from 2011 to July 2015.[18]

National Renewable Energy Program. One of the objectives of the Renewable Energy Act of 2008 (R.A. 9513) is to encourage the use of renewable energy sources to prevent or lessen harmful emissions that contribute to climate change. According to the Department of Energy (DOE) – Energy Policy and Planning Bureau, the country's greenhouse gas (GHG) emissions from fossil fuels (primarily coal) reached up to 80.9 metric ton carbon dioxide equivalent (MtCO2e) in 2013, an increase of 6.7 % from the previous year's level.[19] In 2015, the Philippines committed to reduce its GHG emissions by 70 % in 2030 to achieve a low carbon development pathway in accordance with the 2012-2030 Philippine Energy Plan (PEP).

Mainstreaming the use of renewable energy resources – such as biomass, wind, geothermal, solar, and ocean energy – is a key strategy in creating a climate-friendly and sustainable energy supply for the country. In support of this, the DOE launched the National Renewable Energy Program (NREP) in 2011, which outlines the country's policy framework on renewable energy development and promotion. The NREP seeks to increase the country's renewable energy capacity from 5,400 megawatts (MW) in 2010 to 15,304 MW by 2030.

With a budget of P3.3 million[20], the government will sustain the implementation of the NREP in order for the country to achieve energy security and environmental stability. It will also provide a separate budget of P57.3 million for the promotion of renewable energy resources in 2017.

Clean Air Regulations Program. As the lead agency enforcing the Philippine Clean Air Act of 1999 (RA 8749), the DENR-EMB conducts air quality monitoring and implements programs to reduce air pollutants in the country for a cleaner and safer environment. Its clean air program is composed of the Bantay Tambutso, Bantay Tsimineya, and Bantay Sunog-Basura programs, which specifically address three sources of air pollution: emissions from motored vehicles, industrial gas emissions, and open burning of garbage.

Table 35. Budget and Physical Targets for the Clean Air Regulations Program, 2015-2017			
Particulars	**2015**	**2016**	**2017**
Clean Air Regulations (DENR-EMB)	P0.14 B	P0.44 B	P0.13 B
No. of Air Quality Monitoring Stations established in major urban cities	7	28	-*
No. of AQM Stations being operated and maintained	47	54	82 (Target)

* Note: Fully provided for as of FY 2016

Source: DBCC Presentation to the House Committee on Appropriations, 22 August 2016.

[17] Philippine Institute of Development Studies. (2016). Impact Assessment of the National Greening Program of the DENR: Scoping or Process Evaluation Phase (Economic Component). Retrieved from http://dirp3.pids.gov.ph/websitecms/CDN/PUBLICATIONS/pidsdps1627.pdf
[18] Department of Environment and Natural Resources. (2015). Sustaining the Gains of the NGP. Retrieved from http://ngp.denr.gov.ph/newandevents/news/1559-executive-order-193
[19] Climate Change Commission. (n.d.). Concept Note for the National Policy Review and Framework Development on Energy. Retrieved from http://renewenergyph.climate.gov.ph/images/renewenergyph/Concept_Note_for_the_NEPR.pdf
[20] Department of Budget and Management. (2016). National Expenditure Program

In 2015, P139 million funded the installation of seven air monitoring stations under the Clean Air Regulations program to determine particle pollutants that cause respiratory diseases. The following year, the government provided P440 million to put up 28 air quality monitoring stations (AQMs) throughout the country. For 2017, P134 million will be spent for the maintenance of 59 existing AQMs. The allocation for 2017 is smaller compared to 2015 and 2016 since the total requirement of 82 AQMs was already provided for in the budgets of the previous years.

Empowering People for Climate Change and Disaster Management

With an increased budget to address climate change adaptation and disaster mitigation and preparedness, and with improved policy execution, the government aims to create a climate change and disaster resilient Philippines, with the cooperation of departments, agencies, LGUs, the private sector, the public, and the international community.

Educating communities on and implementing climate-responsive and disaster-awareness strategies and programs will empower especially the poor and vulnerable, enhance rural livelihood, protect natural ecosystems, and build the adaptive capacities and resilience of communities to the threats of climate change.

V. Governance and Management Reforms

Confronting the Erosion of Faith and Trust in the Government

The Duterte administration campaigned and was elected on the promise of change, anchoring its proposed program of government on reforms that would focus on specific problems that had led to the erosion of the people's faith in the government.

Affirmed by the mandate it received in May, and encouraged by communities rallying to its call, the administration has made *change* its guiding principle and mission. It has committed itself, and the power and resources of the government, to bring about what it has further defined as "real change" -- change that brings progress to the country, progress that is felt by and that improves the lives of the Filipino people.

This commitment lies at the core of its P3.35 trillion proposed Budget for FY 2017 -- a budget that is, in President Duterte's own words, "for the people and by the people." For the administration, this budget, the lifeblood of the government which the people have provided for through their taxes, will give "flesh and bone" to the promise of real change. It will be a crucial tool in restoring public trust in the government as it will support the reform measures to better the lives of the people, especially the poorest and most vulnerable.

The Reforms in Governance

After having earned investment grade credit ratings, the country is now among the world's most credible debtors, and the government's finances are in much better shape. Despite this rosy economic outlook, however, Filipinos in general do not perceive a positive change in their lives. Underspending by various government agencies in the past is partly to blame, as it has resulted in gaps in the delivery of much-needed services, especially to the people who need them most. On top of this, outdated tax rates have added to their burden.

To address this, the Duterte administration has designed fiscal rules, reflecting a **just and disciplined fiscal policy**, that aim to directly benefit the people. Briefly, these will include: (1) streamlining government operations to make service delivery more efficient; (2) increasing government spending on infrastructure and social services; and, (3) adopting an equitable tax regime that will reduce the tax burden.

As vital as a sound fiscal policy is the attainment of **social order and equitable progress**, which the administration asserts cannot be achieved unless crime, conflict and corruption are eradicated.

The 2017 Budget will thus be supportive of the people's collective vision for an orderly, just and stable society through a professional police and military; a justice system that works; and a clean and lean bureaucracy.

Placing the people at the center of public finance means that they will get to receive and experience the benefits and services as intended and funded by the Budget. With the submission of its 2017 Budget, the Duterte administration begins an era of credible Budgets: **what you see is what you get**.

The What-You-See-Is-What-You-Get (WYSIWYG) policy will enable agency heads to immediately implement programs and projects without waiting for the issuance of allotments, as was the procedure in previous years, since the General Appropriations Act (GAA) will already serve as the allotment order. Upon the effectivity of the GAA, agencies can already obligate funds except when: (1) "appropriations that by virtue of law, general or special provisions, and rules and regulations have conditions or requirements before release, (2) lump-sum appropriations in the agency budget and special purpose funds that have no details necessary for release, and (3) those requiring a Special Budget under the general and special provisions"[1] of the GAA.

In support of a credible budget, the definition of savings has also been tightened to ensure compliance with the Supreme Court decisions on the Disbursement Acceleration Program and the Priority Development Assistance Fund[2], as well as to keep spending within the boundaries of the law.

Starting 2017, savings can only be declared as a result of any of these two conditions: (1) completion, final

[1] Section 3 of the General Provisions, 2017 National Expenditure Program.

[2] In 2013, the Supreme Court struck the "Pork Barrel System as unconstitutional in view of the inherent defects in the rules which it operates." (Supreme Court of the Philippines. Belgica vs. Executive Secretary, 2013)

discontinuance, or abandonment of a program, activity, or project for which the appropriation is authorized; or (2) implementation of measures resulting in improved systems and efficiencies and thus enabled an agency to meet and deliver the required or planned targets, programs, and services approved in the General Appropriations Act at a lesser cost. Unutilized appropriations, including those due to unfilled positions or lapsed compensation will no longer count as those available for the augmentation of other programs or projects.

Public financial management (PFM) reforms will continue to be implemented with greater intensity and political will. Agencies will be capacitated in designing programs and projects that are ready for implementation. Streamlining the release of funds to the agencies will be continued, as well as the processes for spending public funds.

To address underspending, better planning of programs and projects will be given focus. The capacity of the agencies' financial managers will be enhanced to enable them to formulate and design the needed, implementation-ready and impactful programs and projects.

The utilization of funds will be also be accelerated through the fast tracking of program and project implementation. Construction of major public infrastructure projects in Metro Manila, Cebu and Davao will be undertaken 24 hours a day, seven (7) days a week. To address the various issues and difficulties in public procurement, the Implementing Rules and Regulations (IRR) of the Government Procurement Reform Act has been made more practical.

The Duterte administration also aims for a Budget that is transparent and participatory, placing a greater emphasis on the government's accountability to the people. Avenues for the people to demand information and to report abuses and poor performance will be made available.

The tax system will be reformed to make it more equitable, efficient and competitive in the region. Corporate and personal income taxes will be lowered to 25 %, from 30 % and 32 %, respectively. Revenue losses due to income tax cuts will be countered by the expansion in the Value-Added Tax (VAT) base through the removal of exemptions not related to agriculture, health, banking, education, and the financial sector. This will actually result in additional revenues, estimated to amount to P68.6 billion in the first year of implementation. Lastly, fiscal incentives will be rationalized to establish a more balanced environment for competition.

The Governance of Reforms

To ensure that the aforesaid governance reforms are carried out properly and speedily, the Duterte administration will provide for a "Governance of Reforms" by utilizing the best possible management mechanisms for the task. Such include, but are not limited to, the full implementation of a package of Public Financial Management (PFM) initiatives, which include the passage of a Budget Reform Act and a Freedom of Information Act.

While the country obtained favorable ratings from the International Monetary Fund's (IMF's) Fiscal Transparency Evaluation report in 2015, the Public Expenditure and Financial Accountability (PEFA) findings indicate major areas for improvement, specifically the credibility of the Budget, wherein actual spending differed greatly from the appropriations approved by Congress.

The DBM is formulating a Budget Reform Bill which aims to modernize the legal framework for PFM, lock in the beneficial reforms which have been put in place, and cure the lingering issues that the PEFA assessment has highlighted.

It will also clarify the limits of the Executive's budgetary powers and strengthen Congress' power of the purse, consistent with the Supreme Court's landmark rulings on the Priority Development Assistance Fund (PDAF) and the Disbursement Acceleration Program (DAP).

As underscored in the first State of the Nation Address (SONA) of the President, real development can be attained if the people feel safe and secure. Growth can be achieved if there is ease in doing business with government agencies. More so if the people's trust in the government can be restored, foremost through the eradication of crime and corruption.

Waging War Against Crime and Corruption

The war against crime and corruption has been the centerpiece of the President's campaign. To make good on his promise of restoring law and order, he has stepped up his crusade against illegal drugs and the suppression of other crimes. Likewise, he has warned people in government to take his anti-corruption efforts more seriously.

Statistics show that a fourth of reported crimes (61,475 out of 245,106) in the first five months of 2016 were serious crimes such as robbery, murder, and rape. Only about half or 54.48 % percent of the reported crimes were solved by the police.

Table 1. Philippine Crime Situation

Particulars	2015	2016
Crime Volume	675,816	245,106
Index Crimes	201,013	61,475
Average Monthly Crime Rate	56	47
Solved Cases	51.365	54.48%

Source: Philippine National Police

Using the Davao City Model[3] to combat criminality, the administration launched in August 2016 the "911" emergency response, a 24-hour hotline which the citizens can access for emergency calls. It also adopted the Oplan "Tokhang," a Visayan word which means *tok-tok hangyo* (to approach and talk), wherein police officers go to houses of alleged drug pushers and/or users and ask them to surrender. Since its nationwide implementation in June this year, about 722,743 drug users/pushers have surrendered as of mid-September.

To boost its fight against crimininality, particularly on illegal drugs, the government has provided P90.02 billion in 2017 for the Philippine National Police (PNP) for its crime prevention and suppression services. The amount intends to increase by 5 % the number of patrols conducted and decrease further the crime rate by at least 5 %. *(See section on Peace and Order for more details.)*

For crime investigation, the amount of P630 million was budgeted to increase by 5 % the arrest of most wanted/ high value targets and the investigation of 842,311 crimes.

Aside from criminality, fighting corruption is also on top of the Duterte administration's list.

Based on a report by the Global Financial Integrity, the Philippine economy loses an average of P357 billion yearly due to corruption, tax evasion, and crimes . Not only does this affect the government's revenue intake but it also affects the country's business competitiveness.

To combat corruption, the following will be undertaken[5]:

- Lower the income tax and increase the income tax exemption to lessen corruption in the payment of income taxes.
- Streamline the processing of licenses and permits by reducing the number of signatories.
- Sustain the implementation of the Run After Tax Evaders (RATE) and Run After Smugglers (RATS) Program of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC), respectively.
- Promote transparency through the implementation of the Freedom of Information law.

On top of these strategies, the government will also allot P817 million to the Office of the Ombudsman to enable it to resolve 21,350 complaints and grievances, complete 3,195 fact-finding investigations, and prosecute 2,863 cases.

The government will also set aside P265.2 million for the Sandiganbayan to process 3,480 cases and dispose of 418 cases.

Information is Everybody's Business

The right to information is provided for in the 1987 Constitution. It also calls for a policy of full public disclosure of all state transactions involving public interest. The public, however, has not fully enjoyed this constitutional guarantee because of the absence of a Freedom of Information (FOI) law.

To better promote transparency, accountability, and public participation in governance, the Duterte administration issued Executive Order No. 2, s. 2016, to implement the proposed Freedom of Information Law in the Executive Branch. Said issuance empowers the citizenry to hold the government accountable for the resources it has and what it has done with such resources.

Passage by Congress of the long-overdue Freedom of Information Bill to cover the entire government is urgently needed so that the people's right to information will be honored across all branches and levels of government. The law will also provide for the institutionalization of processes for the accessing of government data and information online in open, machine-readable formats. Moreover, it will penalize officials who whimsically refuse requests for information.

Since the Budget is intended to benefit the people, they have the right to know what is in it and where and how it should be spent. Equally important is the ability of the people to hold the government accountable for poor performance in utilizing the Budget.

[3] Davao City is among the world's safest cities based on the survey site Numbeo.com.
[4] Diola, C. (2016). P357 billion lost to corruption, crime yearly. Philipine Star, 4 February 2014. Retrieved from http://www.philstar.com/headlines/2014/02/04/1286575/p357-billion-lost-corruption-crime-yearly
[5] Opias, B. (2016). The Duterte administration's anti-corruption plans. BusinessWorld Economic Forum, 25 July 2016. Retrieved from http://bweconomicforum.com/index.php/2016/07/25/the-duterte-administrations-anti-corruption-plans/.

Openness and transparency are two weapons the citizenry need to protect themselves from the powerful and the corrupt.

The Philippines boasts of having one of the most transparent budgeting systems according to the global Open Budget Survey (OBS). In 2015, the country ranked first in budget transparency in the ASEAN and fourth in Asia. The OBS gives a comparable measure of budget transparency and participation among participating countries.

Rightsizing the Bureaucracy for Efficiency

Another major highlight of the 2017 Budget is its promotion of the rightsizing of the bureaucracy for efficiency in the delivery of services.

The national government currently has 186 departments, agencies, and other offices, from just 176 in year 2000. The government workforce stands at 1.5 million positions, compared to just 1.1 million in 2000. The bureaucracy has expanded according to the number of citizens to be served; in particular, the creation of more teacher, policeman, and other population-based positions was pursued.

However, there is a need to eliminate some redundant, duplicative, and overlapping functions and organizations, and create new ones based on the needs of the times.

The Duterte administration wants a lean, clean, and dynamic government bureaucracy to be able to provide the necessary services the people urgently need. It will propose the *"Rightsizing the National Government Act,"* seeking Congress' authority for the Executive Branch to rightsize the bureaucracy and enable it to conduct a comprehensive review of its functions and organizational structures. The measure seeks to allow the executive to merge or abolish agencies and implement other courses of action to improve the delivery of services. Likewise, the proposed law will provide a reasonable separation package for personnel who may be affected by the effort.

To further improve efficiency in service delivery, more one-stop shops will be set up, especially for frontline government services. One such facility was launched recently in the Philippine Overseas Employment Administration (POEA), where the services needed by Filipinos seeking work in other countries are in one location. Similar express services will be established in other agencies such as the Land Transportation Office and the BoC.

Local government units are likewise encouraged to set up similar mechanisms for various types of services, such as the processing of business permits and licenses, to attract more investors.

Acknowledging the Men in Uniform

In the administration's thrust towards a just, orderly and stable society, it is the soldiers, policemen, and other uniformed personnel who are at the forefront, risking their lives to maintain peace and order and ensure public safety.

In recognition of their sacrifices and heroism, the Duterte administration strives to provide them with adequate remuneration and benefits. Recently, the administration issued Executive Order No. 3[6] which provides for the increase in combat duty pay and combat incentive pay of uniformed personnel of the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP).

Through this issuance, the combat duty pay of the officers and enlisted personnel of the AFP and the uniformed personnel of the PNP has been increased to P3,000 per month, from P500 per month for the AFP and P340 per month for the PNP.

The combat incentive pay has also been raised from P150 per day to P300 per day. The maximum amount that can be claimed in a month has likewise been increased to P3,000 from P1,500. Under EO No. 3, both the "AFP and the uniformed personnel of the PNP who figure in actual combat against members of various insurgent, terrorists, and lawless elements" are entitled to this incentive pay subject to several conditions specified in the said issuance.

Funding for these financial benefits for 2016 will be sourced from the Miscellaneous Personnel Benefits Fund, while succeeding funding will be sourced from the respective budgets of the AFP and the PNP.

For 2017, P39.60 billion has been earmarked for the increases in the base pay and allowances of Military and Uniformed Personnel (MUP).

To implement the all-out-war against prohibited drugs and to keep the momentum in solving other crimes, as well as in addressing internal security threats, the 2017 Budget will provide the PNP with P110.4 billion to hire more policemen, buy more guns and patrol vehicles, and finance other activities.

[6] Issued on September 26, 2016.

The Armed Forces of the Philippines (AFP) will receive P130.6 billion to intensify counter-terrorism efforts and to protect the country's borders from external threats. The Revised AFP Modernization Program will have P25 billion for the upgrading of the capability of the military personnel of the entire AFP.

At the same time, reforms will be introduced in the Pension System to address the problem of pension rates of the MUP which could exceed the compensation of those in the active service this year. Over the years, the pension of retired soldiers and policemen has been ballooning and is burdening the budget.

The administration will push for the passage of a law that will create a pension fund for men in uniform. The proposed Unified Pension Reform Bill aims to rationalize the pension system of the existing and new entrants of the MUP for the attainment of pension costs that are sustainable for the government. One of the reforms contained in the proposed bill is the deletion of the automatic indexation feature to prevent the foreseeable escalation of the annual budget allocated for the pension and retirement benefits of uniformed personnel. A Uniformed Personnel Retirement Fund (UPRF) will be established to be managed by the Government Service Insurance System (GSIS).

Implementing these reforms will have the ancillary effect of significantly lowering the amount of P5.7 trillion required to establish a seed fund under the GSIS. Once the proposed bill is implemented, a reduction in government expenses is reasonably expected, resulting in a more manageable fiscal deficit.

LGUs as Allies in Development

The government recognizes the critical role of local government units (LGUs) in development. As frontline service providers, they can respond better, if not faster, to the needs and concerns of their constituents.

To enable them to effectively deliver the services that the citizens need, the government has set aside P1.0 billion for the Performance-Based Challenge Fund to provide financial subsidy to LGUs under the Local Governance Performance Management Program.

It has also provided P15.79 billion to assist disadvantaged municipalities which have a high magnitude of poor families and which are highly vulnerable to disasters. However, to ensure that the funds will be properly used as well as to foster sound public financial management, this financial assistance will only be given to disadvantaged municipalities which meet the DILG Seal of Good Financial Housekeeping, among others.

This financial assistance to disadvantaged municipalities was formerly known as Bottom-up Budgeting (BuB). But the BuB has to be refocused to concentrate funds on the poorest of the poor municipalities.

In addition, the amount of P18.03 billion is provided for the conditional matching grant to provinces for road repair, rehabilitation, and improvement. The program will rehabilitate and upgrade provincial roads and transfer these road assets permanently to the provincial government, which will maintain them. Provinces will be identified and selected based on the following criteria: (a) Compliance to the Seal of Good Financial Housekeeping; (b) Focus geographical areas under National Budget Memorandum Nos. 125 and 126 dated January 15, 2016 and April 4, 2016, respectively; (c) Special Road Fund completion rate; (d) Percentage share of unpaved roads; and (e) Percentage share of fair-to-good roads.

Starting from 10 pilot provinces in 2007 and formerly known as Konkreto at Ayos na Lansangan at Daan Tungo sa Pangkalahatang Kaunlaran (KALSADA), the program is in recognition of the importance of provincial road networks linking national roads to areas of economic development, allowing access to basic services, and serving as important conduits during conflict, crises and calamities.

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