PHILIPPINES

Medium-term economic outlook (forecast)

GDP growth (2012-2016 average, percentage changes)	4.9
Current account balance (2012-2016 average, % of GDP)	2.3
Fiscal balance (2012-2016 average, % of GDP)	-2.8

Medium-term plan

Period	2011-16
Theme	In pursuit of inclusive growth

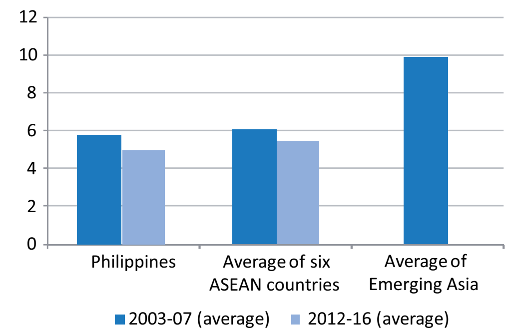
Basic data

Total population	93 million (in 2010)
Population of Manila	11.6 million (in 2007)
GDP per capita at PPP	3 737 (current USD, in 2010)

Sources: OECD Development Centre, MPF-SAEO 2011/12, national sources and IMF.

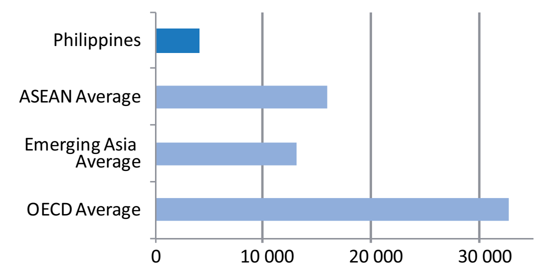
Notes: Six ASEAN countries includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. *Emerging Asia* includes six countries of ASEAN plus China and India.

GDP growth rates (percentage changes)



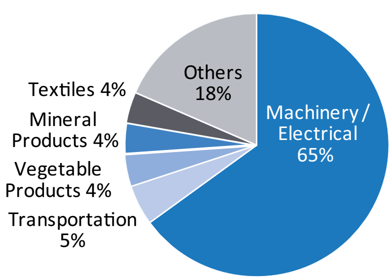
Source: OECD Development Centre, MPF-SAEO 2011/12.

GDP per capita (PPP, current USD)



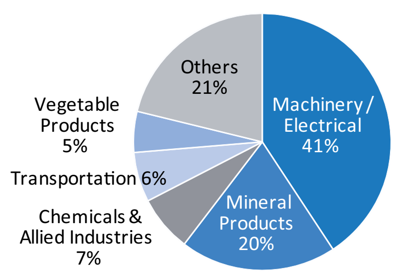
Sources: IMF and national sources.

Composition of exports (in 2010)
(percentage of total exports)



Source: Trademap.

Composition of imports (in 2010)
(percentage of total imports)



Towards inclusive growth – summary of the medium-term development plan

The medium-term development plan (2011-16) of the Philippines aims towards inclusive growth that is rapid, sustained, creates jobs and reduces poverty (Table 3.3.1). Special attention is paid to infrastructure development, including the development of public-private partnerships (PPP) schemes, governance, human development, and strengthening of public finance and of financial institutions. Reducing poverty and inequality[23] are other important priorities. Similarly, enhancing the business environment, especially for small and medium enterprises (SMEs), and improving their productivity are critical for inclusive growth. Finally, the importance of sustainable agriculture and fisheries is also highlighted by the medium-term development plan.

Equitable access to basic social services, such as education, health care and housing as well as stronger social safety nets are stressed in the context of inclusive growth. In addition, the environment and natural resources as well as peace and security are also included in the medium-term development plan. Environmental protection is especially necessary in view of the continuing deterioration in biodiversity and in natural resources.

Table 3.3.1. The Philippine Development Plan (2011-16): key development targets

	Initial status (2010)	Target (2016)
Macroeconomic performance		
GDP growth rate (%)	4.9, per year (2005-10, average)	7-8, per year (2011-16, average)
Fiscal balance (% of GDP)	-3.7	-2.0
Share of investment to GDP (%)	15.6	22
New (net) employment created (million)	0.8, per year (2005-10, average)	1, per year (2011-16, average)
Human capital development		
Net enrolment rate in primary level education (%)	88	100
Net enrolment rate in secondary level education (%)	60	93
Gender parity index (GPI) in primary level education millenium development goal (MDG)	0.98 (2008)	1
Gender parity index (GPI) in secondary level education (MDG)	1.09 (2008)	1
Poverty		
Incidence of poverty (MDG) (%)	26.5 (2009)	16.6 or less (2015)

Source: OECD Development Centre's compilation based on national sources.

Structural policy focus

The Philippines' medium-term policy challenges and responses

- Increase funding for infrastructure development and attract more private participation
- Improve the access to and the quality of basic education and strengthen technical education and vocational training
- Reform the tax system by enhancing tax collection and widening the tax base

POLICY FOCUS

Increase funding for infrastructure development and attract more private participation

An inadequate transport network and unreliable power supplies are major hurdles to economic growth in the Philippines (Figure 3.3.1). Thus, ensuring necessary funding for infrastructure development is a primary issue that needs to be addressed.

There is great room to improve all transport infrastructure – roads, railroads, seaports, and airports[24] – though progress has been made in some areas such as air transport services and shipping in recent years. The percentage of paved roads to total roads was only 77% (in 2010), while the total length of railway routes available for train service decreased from 491 to 479 kilometres between 2004 and 2008. The unreliable power supply due to the slow pace of investments in power generation and maintenance is also a major obstacle to growth. Inadequate transport infrastructure and power shortages are more severe in poor rural areas than in the rest of the country. Accordingly, infrastructure development is important for mitigating urban-rural disparities in the Philippines.

Insufficient funding, misallocation of limited funds, and poor project implementation are major impediments to infrastructure investment in the Philippines. Indeed, the country's infrastructure investment record has been modest and deteriorating. Actual investments in transport infrastructure averaged less than 1% of gross domestic product (GDP) from 1999 to 2008, compared to about 4% for other Asian countries (PEGR, 2010). Besides the low levels of investment, inadequate project preparation, management and implementation as well as a weak institutional setting characterised by the lack of co-ordination between national and local governments have caused inefficiencies and created project delays and have raised costs.

Two policies to improve infrastructure performance need to be considered.

- **Enhance the availability of infrastructure funds through PPP**. Further reform to create better regulatory and institutional frameworks for PPPs is essential. The Philippines already has a "PPP centre" to facilitate co-ordination between the implementing agencies but it has not functioned effectively. Experiences in other ASEAN countries suggest that measures to increase the effectiveness of the PPP centre would be important steps toward improving infrastructure funding in the Philippines (see the Indonesia Country Note).

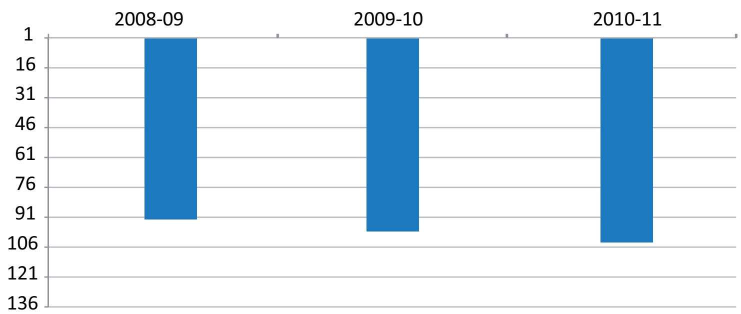
- **Create an "infrastructure fund"**. Experiences in a number of countries suggest that a government-financed dedicated infrastructure fund can help considerably to reduce the shortage of infrastructure funding (Table 3.3.2). The Philippine government has announced plans to create a similar fund, the Philippine Infrastructure Development Fund (PIDF). The planned fund could provide not only a reliable source of funding but also an institutional framework to increase private participation in infrastructure investment.

Table 3.3.2. Government-led infrastructure funds

Name	Date established	Leading agencies	Objectives
India Infrastructure Finance Company Limited	January 2006	Wholly government owned company	To finance and develop infrastructure projects in India. Direct lending to eligible projects; refinancing to banks and other financial institutions for loans with term of five years or more.
Building Australia Fund	January 2009	Department of Finance and Deregulation	To finance capital investment in transport, communications, energy and water infrastructure.
Community Infrastructure Fund UK	July 2004	Joint venture by the Department for Transport and the Department for Communities and Local Government	To support the transport infrastructure costs required to enable faster housing development. The CIF was financed by a capital grant allocation of £200m in 2006-08.

Source OECD compilation based on national sources.

Figure 3.3.1. Infrastructure competitiveness
(ranking)



Note: The Global Competitiveness Report prepared by the World Economic Forum ranks countries based on both quantitative and qualitative information. The most competitive country is ranked first. In the 2008-09, 2009-10 and 2010-11 rankings of infrastructure competitiveness the Philippines ranked 92nd, 94th, and 104th out of 134, 133 and 139 countries, respectively.

Source: Global Competitiveness Report, World Economic Forum.

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POLICY FOCUS

Improve the access to and the quality of basic education and strengthen technical education and vocational training

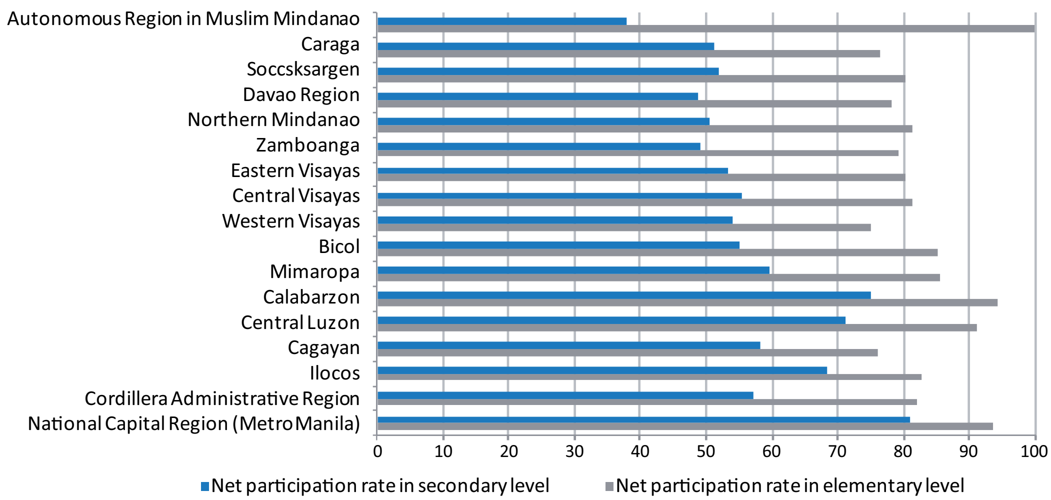
Improving the access to basic education and strengthening technical education and vocational training (TEVT) are important challenges in the Philippines. The latter is critical to reduce the mismatch between workers' skills and those needed by the market.

The education system of the Philippines has yet to provide adequate and equal access to high-quality basic education. Net enrolment rates in primary- and secondary-level education in 2010 were only 88 and 60% respectively; and cohort survival rates were 74% for elementary schools and 79% for secondary level education in 2009. Drop-out rates were also high – at 6% and 8% for elementary and secondary levels, respectively – despite the free provision of education. The gross enrolment rate of 3-4 year-old children in day care services was only 19% while the pre-school net enrolment rate of 5 year olds was 48% in 2010.

Several steps have been taken to improve these figures. The Early Childhood Care and Development (ECCD) Act was enacted in 2000 to increase the access to pre-school education.[25] More recently, the "Kindergarten to 12 Years (K+12) Basic Education Programme" has been instituted to improve the quality of education from kindergarten to the 12 year-old grade level. In addition, the National Competency-Based Teacher Standards (NCBTS) was established to strengthen the assessment of teachers' quality. The government has also instituted the School Improvement Programme to bolster educational capacity and to enhance the independence of school management in exchange for stronger accountability.

Subsidies towards poor households conditional on the school attendance of their children (conditional cash transfers, or CCT) have also been established to improve their enrolment rates. Improved enrolment from poorer households would also be effective in reducing urban-rural disparities, which are quite large in the Philippines (Figure 3.3.2). Other existing programmes, notably "the Alternative Learning Systems" (originally targeted at out-of-school dropouts and illiterates) and the "Alternative Delivery Modes" programmes should also help to reduce rural-urban disparities.

Figure 3.3.2. Regional disparities in enrolment rates in 2008-09
(percentage)



Source: CEIC.

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In the Philippines, there is a mismatch between graduates' skills and the requirements of industries that contributes to unemployment and depresses labour force participation. Between 2006 and 2010, the underemployment rate was 20% and the labour force participation rate was also low, at 64% on average. The ratio of part-time workers[26] to total employment stood at 35% in 2010. The extent of skill mismatch is further highlighted by the fact that the percentage of unemployed with a college degree is above 20%. Skill shortages are especially acute in several industries, notably engineering and business process outsourcing activities that require technical skills.

A number of measures to strengthen TEVT and reduce the skill mismatch need to be considered in the Philippines.

- The inadequate quality of TEVT programme needs to be addressed through the direct participation of businesses in skills development programmes.
- TEVT student preferences and employer demands also need to be aligned more closely, for instance through enhanced career guidance, adjusting course offerings to better reflect the availability of workplace training, or targeted grants for enrolment in areas of skills shortages (Box 3.3.1).
- Curricula need to be reformed by not only strengthening technical streams (*e.g.* engineering, ICT) within TEVT, but also by greater emphasis on development of general skills such as literacy and numeracy as well as soft transferable skills such as the ability to work in teams or communication skills that improve employability in general.
- The industries in need of skilled workers should also improve their ability to recruit from high schools by providing scholarships conditional on graduation in a specific technical profession.

Box 3.3.1. Career guidance as a possible way to meet labour market needs: examples from OECD countries

Enhanced career guidance is one way to help meet labour market needs. As students tend to follow courses that will lead to good jobs, student choices can be influenced to acquire skills in short supply by providing quality information about labour market requirements.

Effective career guidance requires a coherent framework and professional personnel experienced in labour market issues. Independent and objective information, as well as resources to enable pro-active one-to-one delivery of guidance at key career decision points, is also important.

Career guidance policies in some OECD countries illustrate some lessons of potential use to ASEAN members.

In **Switzerland**, career guidance counselling is a specialised profession requiring a university diploma. The university degree programme covers five broad areas: individual development (learning and developmental psychology); the individual in society (sociology, law and economics); the individual and the world of work (the education system, education and professional career choice, occupational psychology and the labour market); work methods (diagnostics, career guidance, monitoring, documentation and public relations); and professional ethics, professional identity and professional quality. In addition, the programme includes a 12-month traineeship (Schweizer Bundesrat, 2009 in OECD, 2010).

Switzerland also has an independent professional career guidance service, carried out through the BIZ (Berufsinformationszentren) centres. Although the BIZ centres work closely with schools, and sometimes provide some services at the school rather than at the BIZ site, they are independent institutions providing information and counselling for all levels of education and training.

There are several OECD examples of effective and detailed provision of mostly web-based career information. In the **Czech Republic**, a website provides information on educational options (entry requirements and the qualifications for individual programmes and the jobs the programmes lead to) and labour market outcomes (data on employment, and unemployment rates and salaries by educational attainment and field as well as employment conditions and employee satisfaction in different occupations). In **Mexico**, a similar career guidance tool is available on portable memory media and on line, including tools to help students identify their strengths and interests. In **Sweden**, the career guidance website also contains information on what former students in the different programmes do five years after finishing school – for example the type of their further education, their occupation and the percentage of those outside the workforce.

Workplace experience at an early stage is also useful in making career choices. In **Denmark**, most lower-secondary students have an opportunity to pursue at least two different one-week work placements in companies in order to gain work experience and to help them choose a career path. In **Norway**, nearly all students in lower secondary education, regardless of whether they are intending to enter a vocational programme, have one week of work experience in their 9th grade and some further work placement in grade 10 (OECD, 2002c in OECD, 2010).

Source: OECD (2010b).

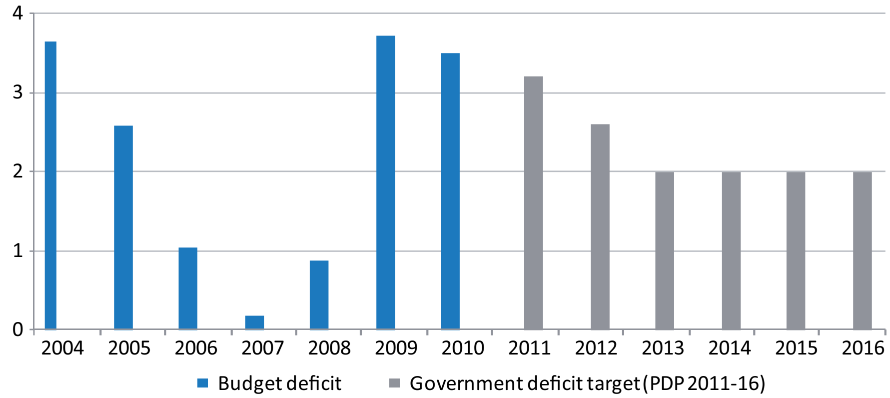
POLICY FOCUS

Reform the tax system by enhancing tax collection and widening the tax base

As highlighted in the medium-term plan and also reflected in the budget proposal for 2012, growth that is more “inclusive” is one of the important issues in the Philippines. Its importance is further indicated by the fact that the social services sector will continue to receive the largest share (31.7%) of the budget.

The fiscal situation of the Philippines had been improving from around 2004 until the global financial crisis in 2008 (Figure 3.3.3). The budget deficit improved from 5% of GDP to 0.2% of GDP between 2002 and 2007. Total revenue and taxes increased from 13.8% and 11.8% of GDP respectively in 2002 to 16.5% and 13.5% of GDP respectively in 2007. However as a result of the financial crisis and the subsequent fiscal stimulus measures,[27] both the budget deficit and revenue have deteriorated. In 2009, the budget deficit increased to 3.7% although it fell back slightly to 3.5% by 2010. Total revenue and taxes also dropped from 16.5% and 13.5% of GDP respectively in 2007 to 13.4% and 12.1% respectively by 2010.

Figure 3.3.3. Budget deficit
(percentage of GDP)



Sources: CEIC and Bureau of the Treasury.

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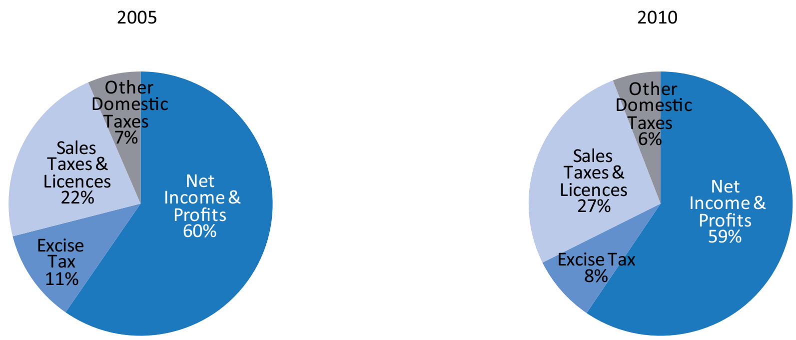
However, the deterioration in revenue cannot be attributed only to the financial crisis. Other structural problems have also contributed, notably the low share of excise taxes on alcohol, tobacco and petroleum[28] and inefficient and unnecessary tax incentives and exemptions along with other factors that narrow the tax base. Although the value added tax (VAT) was increased and the tax base broadened during 2005-06, measures taken subsequently (partly in response to the financial crisis) narrowed the tax base again. In 2010, the primary source of tax revenues was taxes on net income and profits, which accounted for 59% of total revenues, while the second biggest revenue source was sales taxes and licences, which contributed 27% of total domestic tax revenues. The VAT, as the major component of revenues from sales taxes and licences, accounted for 21% of total domestic taxes.

The Philippine Development Plan specifies the rationalisation of redundant fiscal incentives[29] and unnecessary tax exemptions, the introduction of a fiscal responsibility law enforcing fiscal discipline, as well as the improvement of the revenue yield through the adjustment of excise taxes on alcohol, tobacco and petroleum and other measures. Non-tax revenues are also increased by adjusting fees and charges collected so that government services do not make losses, by enhancing privatisation, and by improving the operations of Government Owned and Controlled Corporations (GOCCs) and better enforcement of their financial obligations to the public sector.

Figure 3.3.4. Composition of domestic tax revenues
(percentage of total domestic tax revenues)



Source: Bureau of the Treasury.

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Efforts have been made for many years to improve tax collection but they need to be continued and strengthened (Table 3.3.3). The government plans to enhance tax collection by establishing a tax registry including all taxpayers; maintaining an efficient tax audit programme; strengthening both the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC); formulating a more transparent and consistent tax system; as well as adjusting the regulatory environment to improve monitoring and enforcement. Revenue bodies can enhance tax collection by introducing transparent and performance-oriented management strategies as well as through special taxpayers' compliance enhancing measures (Box 3.3.2). There is also further room in the Philippines to improve the institutional framework for tax collection and to ensure that tax revenues are used effectively.[30]

The performance of tax collection as measured by the "tax effort" (the share of total tax revenue to GDP) has been below expectations so far. Further measures are needed to reach the target of 15.6% by 2016. Monitoring and compliance should be strengthened, as suggested by the fact that the top ten importers are not among the top ten tax payers.

Table 3.3.3. Recent regulatory reforms and programmes to enhance tax collection

	Regulatory reform / Programme
2005	The RATE Program seeks to identify and prosecute high-profile tax evaders with the aid of an extensive information campaign, as well as periodic news reports in the print and broadcast media on the prosecution of prominent individuals or entities found to be engaged in tax fraud schemes
2009	The "Oplan Kandado" Program aims to increase voluntary compliance with the basic requirements of tax administration, particularly in the area of VAT payments (by sanctions – primarily the closure of business establishments – on taxpayers who have been found to be in violation of the applicable provisions of the Tax Code)
2010	Audit Program for the Revenue District Offices (RDOs) prescribes the policies, guidelines and procedures for the audit and investigation of tax returns and seeks to enhance voluntary compliance by encouraging the payment of the correct amount of tax through the exercise of the Bureau's enforcement function
	Stop-Filer Program (if a taxpayer has filed tax returns in the past and then a return is not filed for the next tax period, that taxpayer is identified as a "stop filer") for the identification, handling, closure and monitoring in connection with the roll-out of the Returns Compliance System (RCS) at the newly computerised RDOs
	The "Premyo Sa Resibo" (PSR) Promo, an SMS text-based raffle promo urging consumers to ask for official receipts, was enhanced significantly
	Update of the Zonal Valuations Project seeks to enhance tax collections from the sale, exchange or disposition of real properties through the updating of zonal values across the country, and their publication in the BIR Portal for easy electronic access by the public
	Monitoring of tax exemptions and fiscal incentives provided by Incentives Promoting Agencies (IPAs) such as the Philippine Economic Zone Authority (PEZA) or the Board of Investments (BOI)

Source: Bureau of Internal Revenue.

Box 3.3.2. Enhancing tax collection by managing revenue bodies and enforcing taxpayers' compliance: examples from OECD countries

Revenue bodies can enhance tax collection by introducing transparent and performance-oriented management strategies as well as through special taxpayers' compliance-enhancing measures.

OECD experience shows that the performance-oriented reform of revenue bodies is highly beneficial. Performance-oriented management is a management cycle under which explicit programme performance targets and objectives are specified (and often published in official planning documents); managers have flexibility to achieve the targets and objectives; actual performance is measured and reported (often in agency annual performance reports); and this information feeds into decisions about future programme funding, design, operations and rewards and penalties.

A growing number of revenue bodies have taken steps to shift the focus of their planning and performance evaluation from "outputs" (*e.g.* the numbers of returns filed, inquiries handled, and audits completed) towards "outcomes" (such as taxpayers' compliance, quality of services delivered to taxpayers and tax professionals, and reductions in taxpayers' compliance burdens). The performance-based evaluation framework includes the use of: *i)* direct and indirect measures of taxpayers' compliance across the major risk types; *ii)* measures that reflect the quality of services delivered to taxpayers and tax professionals; *iii)* indicators of taxpayers' compliance burdens; and *iv)* measures reflecting the level of taxpayer satisfaction with, and confidence in, the revenue body. (The tax authorities in **Denmark, New Zealand, Sweden** and the **United Kingdom** and some other countries report their goals and targets concerning tax compliance, indicators of the quality of their services and reductions in taxpayers' compliance burden, cost effectiveness and productivity improvements as well as the satisfaction levels of individuals and businesses towards the revenue body.)

Transparency of the performance of revenue bodies is as important as its evaluation. Extensive and regular publishing of performance reports together with production and publication of results achieved in comparison with service delivery standards is very important for transparency. Surveys of taxpayers and other stakeholders to gauge their perceptions of service delivery and overall administration on a regular basis can also be useful. Some exemplary cases of transparent reporting of revenue body outcomes can be found in **Australia** (reporting of service delivery performance outcomes), **Canada** and the **United Kingdom** (reporting of indicators of taxpayers' compliance), as well as **Spain** and **Sweden** (reporting of indicators of community perceptions of the quality of services and administration).

Compliance management can be improved through strategies such as the assessment and reporting of the progress being made to address key compliance risks; production and publication of estimates of the aggregate tax gap for the major taxes; and application of random audits to test compliance and for risk profiling purposes in targeted sectors or for the major taxes.

The revenue bodies of **Australia** and **New Zealand** publish a comprehensive summary of their assessment of the major tax compliance risks on a regular basis that serves to deter non-compliance through media interest and publicity. The Australian Taxation Office (ATO) started to produce and publish its assessment of compliance risks in 2002. The risks assessed are structured around key market segments. For instance, some of the risks identified for large taxpayers by the 2010-11 assessment are profit shifting, research and development claims, GST and international cross-border transactions, capital gains and foreign residents. The *Inland Revenue* (IRD) *of New Zealand*, which started to publish its annual assessment report in 2009, identifies risks according to ten key customer groups, including individuals, families, and small and medium enterprises. Then the specific risk treatment approaches are described by the purpose of use (*e.g.* education, campaigns, audit, publicity).

Some of the few revenue bodies that estimate and publish the tax gap on a regular basis are the Internal Revenue Service of **Chile** and Her Majesty's Revenue and Customs (HMRC) in the **United Kingdom**. While in Chile the tax gap reporting has focused mainly on the VAT, which is the major tax revenue source, the HMRC has extended its tax gap estimates to direct taxes as well.

Random audit programmes help to develop and refine audit risk profiling systems and to assist with the development of estimates of aggregate non-compliance, including estimates of the tax gap. The core audit programme of the **Canada** Revenue Agency (CRA) selects a random sample of SMEs to estimate a reliable rate of reporting compliance, which is then published in its annual report. The revenue body of **France** implemented a random audit programme of around 400 VAT taxpayers in 2010 to provide estimates of the overall incidence of non-compliance. The HMRC in the United Kingdom conducts random audit programmes across individuals' self-assessment, SME employers' withholdings and SMEs' corporation tax to derive estimated compliance rates and to revise its risk profiling criteria. Moreover, compliance rates derived from each of these random programmes are published on a regular basis.

Source: OECD (2011a).

NOTES

23. While the poor accounted for 26.5% of the population in 2009, inequality as measured by the Gini-coefficient (0.448 in 2009) is higher than in regional peers such as Indonesia or Viet Nam.
24. The low quality of infrastructure has been a key contributor to the consistently low ranking the Philippines has received on the Global Competitiveness Index of the World Economic Forum. In the *Global Competitiveness Report 2010-2011* of the World Economic Forum, an inadequate supply of infrastructure was indicated as the third most problematic factor for doing business in the country.
25. The Early Childhood Care and Development (ECCD) Act requires all villages to have day care centres and early learning institutions for children.
26. Part-time workers are defined as those who work less than 40 hours per week.
27. According to the Economic Resiliency Plan launched in 2009, the expenditure budget was expanded by PHP 160 billion (Philippine peso) and the corporate tax rate was reduced from 35% to 30%.
28. The share of excise taxes on alcohol, tobacco and petroleum only increased by 1% from 2004 to 2009, reaching 22%.
29. For instance, corporate taxes vary between 5% and 30% depending on geographical location and whether or not the business is located in one of the special economic zones.
30. The measures taken by the government to enhance spending efficiency include: the Zero-Based Budgeting approach introduced in 2010; the Medium-Term Expenditure Framework (MTEF) for multi-year budgeting; the Organisational Performance Indicator Framework (OPIF); the Government Integrated Financial Management Information System (GIFMIS); the Government Rationalization Programme (RP) for improving public service delivery; and the Philippine Government Electronic Procurement System (PhilGEPS) for facilitating the transparency and efficiency of public procurements.