

THE PHILIPPINE ECONOMIC PLAN

An Agenda for Growth and Equity

September 2001

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AN AGENDA FOR GROWTH AND EQUITY

Introduction

In its drive to build a modern and prosperous nation, the Government of the Republic of the Philippines has formulated an economic plan, "The Medium-Term Philippine Development Plan 2001-2004." The document embodies the policy direction of the administration of President Gloria Macapagal-Arroyo for the next three years, and ensures that the country's economic reform program will be both disciplined and systematic. These policies are aimed at reducing the incidence of poverty within the decade, and center on fiscal discipline, good governance, market-oriented reform and comprehensive human development including protection for the disadvantaged in society.

The Plan is underpinned by a recognition that a stable macroeconomic environment must be provided in order to stimulate investment and sustain growth. Sustained growth requires the pursuit of well-coordinated fiscal, monetary and exchange rate policies that lead to a sound fiscal and debt position, low rates of inflation, and a healthy external balance.

The administration of President Arroyo recognizes that underlying effective reform must be good and effective governance. Achieving fair, transparent, and effective governance is a prerequisite to improving the Philippine investment climate, providing predictability in regulatory and business matters, and restoring confidence in the public sector.

Concurrent to addressing the country's immediate fiscal and structural challenges, tangible steps are being taken to invest in the Philippines future. This document is an extract of the Medium-Term Philippine Development Plan 2001-2004 and highlights the policies that are essential to strengthening the country's global competitiveness and long run growth fundamentals.

The administration of President Arroyo comprises a team united by a common goal, and the commitment, expertise and experience to make this goal a reality. By implementing the measures outlined in The Philippine Economic Plan, the Philippines is taking the right steps towards achieving sustained and equitable economic growth. As the government works towards this goal, it will restore the confidence of both the international community and indeed its own people in the future of the Philippines.

Key development challenges and initiatives

The Philippines faces several major development challenges in its effort to become a modern nation based on sound economic fundamentals.

Fiscal discipline

Two years of large deficit spending under the previous administration left public finances in a precarious state. The immediate priority for the administration of President Arroyo is to implement a responsible budget deficit reduction program. Budget deficits will not be allowed to persist, and the administration aims for balance in the national budget by 2006.

Much attention will be devoted to raising government revenues through improvements in tax collection and administration. At the same time, the government is committed to a prudent government expenditure program, without compromising necessary expenditures for core priorities, such as education, health, agricultural modernization, and technological progress. The remaining government corporations with functions that duplicate private efforts and/or pose a recurrent fiscal burden will be privatized.

Maintaining the policy and instrument independence of the Bangko Sentral ng Pilipinas ("BSP") remains a key component of the Philippine Economic Plan. As the BSP pursues price stability, the government will strictly observe fiscal discipline to ensure that price stability is not compromised.

Strengthening the banking sector

To strengthen the banking system, the BSP is committed to a regulatory framework aligned with international norms. The BSP will continue to encourage bank consolidation in line with prudent banking standards. The government, along with the BSP, will also pursue legislative reforms aimed at ensuring that international banking standards are maintained to eliminate such practices as money laundering.

Good and effective governance

Good and effective governance is vital to economic growth and poverty alleviation. The elimination of graft and corruption is a major objective of the administration, as is the introduction of simple, fair, transparent and predictable rules that aid in the fight against corruption.

Investing in the future

Key sectors that have the potential to make significant contributions to the nation's drive for job creation and investment attraction will be reviewed and restructured in the push for equitable growth. This includes such sectors as information and communications technology ("ICT"), tourism, and agriculture.

The development of ICT will be hastened with the objective of making the Philippines a knowledge and software development center and an e-service hub of Asia. Interconnectivity is a must. The administration will invest in speeding up the building of physical infrastructure to ensure wider, faster, reliable, and affordable access to ICT resources.

International cooperation

The Philippines has long played a vital role in the economic and political stability of the region and will continue to assert a leadership position. Opening new markets, trade liberalization and providing leadership in ASEAN, APEC and the WTO are cornerstones of the government's commitment to economic integration and regional strength.

Bilateral economic, political and security cooperation with regional neighbors including Japan and China as well as a strengthened alliance with the United States will assume new primacy in the Arroyo administration. Multi-lateral engagement to enhance trade, security, regional stability and macroeconomic integration will also be aggressively pursued in order to maintain a vital framework for the growth of the Philippine economy.

Establishing security and stability

Creating macroeconomic dynamism and a positive investment environment are not enough to ensure that growth will be sustainable. The threat that rebel activities pose to the reform program is unacceptable and such criminal activity will not be tolerated. Security and stability must be ensured, and steps are being taken to address this critical challenge. Those steps include the increased allocation of resources to the military and police force, expanded cooperation with international law enforcement agencies, economic development targeted for areas such as Mindanao, and continuing peace initiatives with the Moro Islamic Liberation Front.

ENSURING SUSTAINED GROWTH AND MACROECONOMIC STABILITY

Overview of policy framework

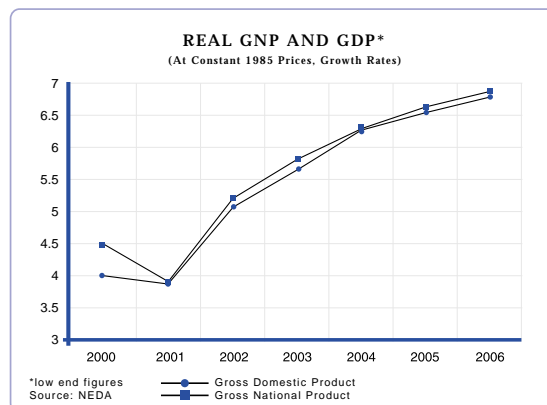
The immediate policies that will be implemented to put the economy back on a sustained growth path are the fiscal deficit reduction program and measures that will address corporate recovery and the non-performing loans ("NPL") held by the banking sector.

Large fiscal deficits are inconsistent with macroeconomic stability, and the administration's first priority is to put the budget deficit of the national government under control. Given the large fiscal deficits in 1998-2000, the government needs to pursue a public sector deficit reduction program covering not only the national government agencies, but also government corporations and local government units.

Achieving stable and equitable growth also hinges on prudent monetary policy. Declining interest rates over the medium term will lead to a reduction in lending rates, which will encourage investment and job generation. The government's fiscal deficit reduction program will ensure that the efforts of the monetary authorities to lower inflation and lending rates are not negated by a persistent budget deficit.

Integration with international capital markets will result in greater economic efficiency. At the same time, an open capital market increases the possibility of increased foreign exchange rate volatility. An exchange rate policy must be pursued which increases the economy's resilience against sudden shifts in capital flows, and should be consistent with fiscal and monetary policies.

The health of the banking system is fundamentally important to national economic growth. The administration will pursue policies that strengthen the regulatory framework and minimize systemic risks. Policies that enhance corporate governance are needed to complement banking sector reforms.



Monetary policy

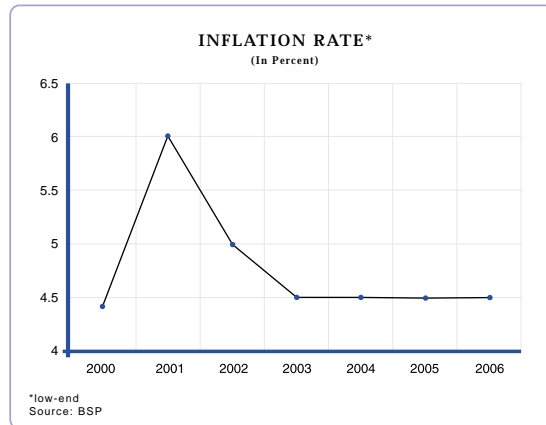
Key targets and strategies to achieve

The BSP is working toward strengthening the monetary system to achieve price stability, which will assist the government in executing its economic recovery program.

Inflation is targeted to decline from 6.0 – 7.0 percent in 2001 to 4.5 – 5.5 percent by 2006. This shall be achieved through the prudent conduct of monetary policy, which includes providing adequate liquidity to achieve the targeted growth and inflation rates over the medium term.

In 2001 the BSP will shift to inflation targeting which will give it greater accountability in meeting the inflation targets consistent with the government's growth targets.

Maintaining inflation within the program will be done through the timely importation of key agricultural commodities when domestic production falls short of domestic demand. At the same time, the reduction in tariff rates in the range of zero to five percent in 2004, which is consistent with the government's international commitments, is expected to dampen inflationary pressures.



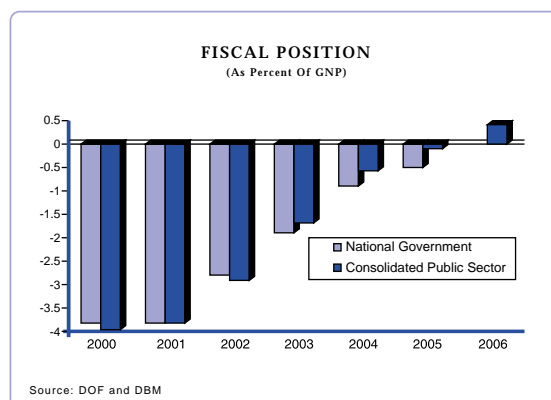
Reducing the fiscal deficit

Key targets

The government shall engage in a deficit reduction strategy over the medium term to keep the debt burden to a manageable level. The consolidated public sector position will improve from a deficit of 3.8 percent of GNP in 2001 to a surplus of 0.4 percent by 2006.

To achieve this target the National Government, which is the largest contributor to the total public sector position, will progressively reduce its deficit from P145 billion in 2001 to achieve a balanced budget by 2006.

The reduction in the deficit will be achieved through tax reforms and expenditure management.



Key strategies

Improving tax collection efficiency

Improvement in tax collection efficiency is an important prerequisite to achieving the fiscal deficit reduction objective.

A three pronged approach will be taken to improvement in tax collection: (1) improvements in tax administration ; (2) steps to restructure the tax system ; and (3) the narrowing of tax break eligibility.

Improving tax administration

At present the Bureau of Internal Revenue ("BIR") is implementing a number of measures aimed at generating more revenue from major types of taxes. These measures include:

- Strengthening of tax audit capabilities;
- Full computerization of BIR procedures;
- Full implementation of the Large Taxpayers Program;
- Enhancement of the use of third party information.

Measures to improve collection from income taxes,VAT and excise taxes also have been identified :

- **Income taxes:** limits on certain deductible expenses for tax purposes will be issued immediately. A more aggressive audit program focusing on corporate income tax compliance will be put in place. Hard-to-tax groups will be targeted through audits of hard-to-tax individuals. BIR will intensify the collection of delinquent accounts and the recovery of contested assets.
- **Value-added tax:** VAT administration has been hampered by questionable claims for VAT credit. To address this, the BIR will conduct a profiling and benchmarking of the input structure by industry or sector. A closer tracking of the carry-over of excess input tax credits in succeeding years will also be undertaken to eliminate fraudulent tax credit applications.
- **Excise taxes:** a review will be conducted concerning the 12 percent adjustment of the per unit rates on alcoholic and tobacco products to ensure that all product classifications are covered by the said adjustment. Other measures that will reduce the leakage in the excise tax system will be put in place such as the use of fused-on stamps for cigarettes and alcoholic products and the conduct of random audits at the place of production.

Restructuring the tax system

Over the medium term, tax reforms will be undertaken to make the tax system simple and easy to administer, more responsive to the implications of internationalization, and less prone to corruption and tax evasion. Among the reforms that the government is studying are:

- Imposition of presumptive taxes on hard-to-tax professionals;
- Revision of the base for computing the minimum corporate income tax;
- Introduction of a price indexation scheme for excise taxes to capture price changes;
- Addressing the administrative complexities of implementing VAT;
- Expansion of excise taxes on automobiles including all motor vehicles.

The organizational structure and processes of the revenue collecting agencies is also being studied, including the feasibility of creating an autonomous revenue agency wherein the Department of Finance retains ultimate responsibility for the government's fiscal and tax policies.

The organization, processes, and systems of BIR will be reviewed with a view to identifying areas where significant tax evasion, leakages, and corruption exist. Organizational reform in the BIR will include enhancing the professional skills of its employees through strict observance of a performance-based merit system and continuing provision of training for upgrading skills and knowledge.

ENSURING SUSTAINED GROWTH AND MACROECONOMIC STABILITY

Narrowing tax break eligibility

Tax breaks have resulted in an erosion of the tax base. There is a need to rationalize tax breaks while enhancing the effectiveness of incentives as a tool for industry development.

The Investment Priorities Plan ("IPP") will be highly focused and limited only to a few industries. The process of selecting those that are eligible will involve distinguishing between activities that need to be provided incentives, and thus be included in the IPP, from those that need access to infrastructure and/or credit and therefore do not require incentives to start operations.

The medium term thrust is the uniform application of incentives which would obviate the need for the government to choose winners and enable concerned agencies to focus on investment promotion. The move is also consistent with the World Trade Organization Agreement on Subsidies and Countervailing Measures which prohibit certain types of subsidies.

National Government Revenue

In Billion Pesos

	Actual	Projected						
	2000	2001	2002	2003	2004	2005	2006	Average
Total Revenue	514.8	588.2	640.0	740.2	858.6	985.9	1132.6	820.9
Tax Revenue	460.0	519.6	597.0	695.8	816	941.2	1085.5	775.9
Non-Tax Revenues	54.8	48.6	43.0	44.4	42.6	44.7	47.1	45.0

Source: DBCC

Expenditure management

Disbursements are set to fall to 16.4 percent of GNP by 2006 from 18.3 percent in 2001. This will be achieved through:

- An austerity program under which savings shall be generated by all public sector entities equivalent to at least 10 percent of nonpersonal services expenditures.
- The conduct of Sector Efficiency and Effectiveness Reviews ("SEER") to be undertaken by the National Economic and Development Authority ("NEDA") and the Department of Budget and Management ("DBM") in coordination with agencies and departments. The conduct of SEER will enable the identification of low priority programs/activities of agencies which could be deferred, discontinued, or scaled down.
- Institutional reforms in public financial management and public administration.

Other significant public sector reforms

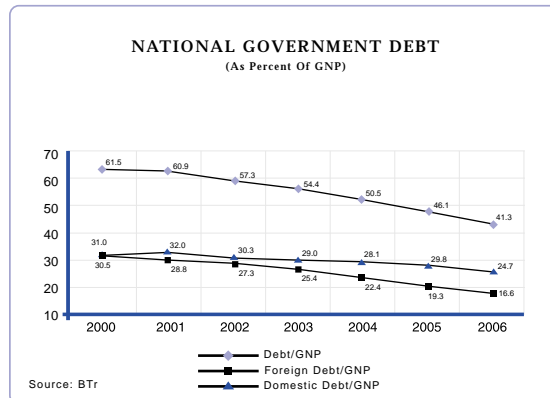
The contribution of government corporations to the public sector borrowing requirements shall be reduced via the following actions:

- The review and approval process for National Government guarantees for government-owned and controlled corporations ("GOCCs") shall be tightened.
- Reforms will be introduced to improve the pricing mechanisms of the GOCCs, especially those in water and electrification.
- Government financial institutions ("GFI") shall pursue programs to enhance profitability, such as expanded market reach, development of new products and services, disposition of nonperforming assets, and further strengthening of their lending policies.
- The administration shall work towards the privatization of the National Power Corporation, Philippine National Oil Company-Energy Development Corporation, and the Philippine National Construction Corporation.

Optimizing public debt management

Over the medium term, the government will source its financing requirements from a balance of domestic and foreign sources with a growing share of funding from official development assistance. It will also pursue an optimal borrowing strategy that balances the cost of borrowing with the objective of lengthening the debt maturity structure to avoid refinancing challenges.

The government will tap hedging instruments such as forward contracts and options to minimize foreign exchange rate risks.



Pursuing sound external policy

The balance of payments ("BOP") is projected to improve from a deficit of US\$1.9 billion in 2001 to a surplus of US\$2.4 billion in 2006. Gross International Reserves are estimated to increase from US\$13.4 billion in 2001 to US\$22.0 billion by 2006.

An increase in capital and financial inflows from both direct and portfolio investments will support the improvement in the BOP. Capital flows are expected to rise with greater macroeconomic stability and better governance. Meanwhile the current account is projected to remain in a surplus, albeit moving towards a smaller balance from 8.8 percent of GNP in 2001 to 2.0 percent in 2006. The anticipated recovery of the world economy in 2002 and the projected inflow of direct investments in the export sector are expected to boost exports over the medium term although the increase in imports arising from greater economic activity will lead to a smaller current account surplus. Given the rise in exports, the debt service ratio in percent of goods, services, and income is projected to decline from 15.5 percent in 2001 to 12.4 percent in 2006.

Policies to strengthen the Philippines external accounts position and reduce its vulnerability to sudden reversals of capital flows will be adopted. Key policies to note include:

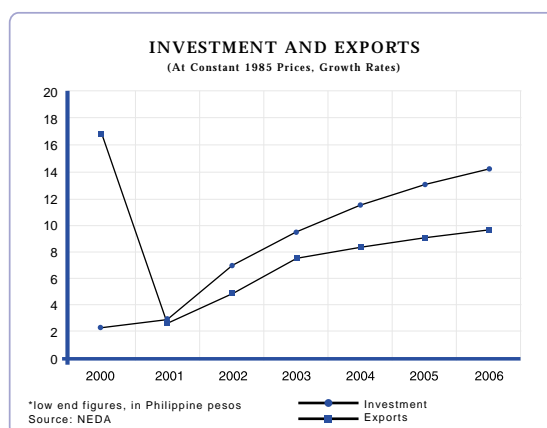
- The exchange rate will continue to be market determined and foreign exchange intervention will be limited to cases where there is a need to smoothen sharp fluctuations in the exchange rate.
- Regulations will be strengthened to curb speculative activity.
- The BSP will continuously review foreign exchange regulations to closely monitor closely foreign exchange transactions without limiting transfer and payments of legitimate transactions.
- The BSP will pursue adequate reserve accumulation in the medium term to increase the economy's resiliency against destabilizing capital flows and to enable it to meet its external, especially short term, obligations.

Balance of Payments Position

In millions of US dollars

Actual	Projected						
2000	2001	2002	2003	2004	2005	2006	Average
-512	-1123	1265	1915	2085	2374	2599	1519

Source: BSP



Reforming the banking sector

An immediate focus of the administration is to institute banking sector reforms that will prepare the domestic banks to compete effectively in a globally integrated banking environment.

Given the importance of the banking sector to real economic activity, the major areas for action are: reducing NPLs to spur bank lending; reducing systemic risks by improving the enforcement capability and regulatory oversight of the monetary authorities; and improving financial intermediation by reducing intermediation costs.

Addressing NPLs

While a stable macroeconomic environment will be important in controlling the rise of NPLs, this must be supported by measures that will ease the burden of current NPLs on the banking system. Considering the costs required to clean up the banking sector's books and in view of the government's fiscal challenges, private sector-led measures to address the bank's NPLs will be pursued.

Reducing systemic risks

A number of measures will be employed to reduce systemic risks:

- The BSP will continue to push for the amendment of the *New Central Bank Act* to expand the supervisory and enforcement powers of the BSP, allowing the BSP to conduct bank examinations at least once a year. The supervisory authority of the BSP has been severely hampered by the bank deposits secrecy law which currently creates an incentive for money laundering and impedes the speedy resolution of bank failures. The monetary authorities will work to restore the power of the BSP to review all deposit accounts under certain cases and to work for the passage of legislation to amend the bank deposits secrecy law while also preserving depositor's right to confidentiality.
- The BSP will continue its efforts to shift to consolidated bank supervision and risk-based examination. To improve monitoring of bank performance, the BSP will upgrade the banking system's settlements and payments system into a real-time gross settlements system covering the equities, fixed income, money and foreign exchange markets.
- To further reduce excessive risk-taking of banks, the PDIC plans to shift to a risk based assessment where insurance assessment shall be based on differentiated rates proportional to the degree of risk that an insured bank takes.
- The BSP and the Securities and Exchange Commission ("SEC") have made concerted efforts to improve the oversight and coordination over private pension funds. BSP shall maintain its supervisory functions over trust departments of banks, which manage employer-funded retirement funds, while the SEC has oversight to monitor and protect those Filipinos holding "pre-need" plans.

Improving financial intermediation

The reserve requirement ratios will be reduced in line with the thrust to bring down the cost of financial intermediation. The reduction in the requirement, however, will be carefully weighted against the broad policy objective of maintaining price stability.

Developing the capital market

The development of the capital market is critical to raising domestic savings that would finance investment growth. The capital market shall be deepened through: (1) the elimination of taxes that serve as a disincentive to the development of the capital market; (2) the development of asset backed securitization; and (3) the expansion of institutional players.

Eliminating taxes to encourage development of the capital market

Key actions include:

- Replacement of the gross receipts tax ("GRT") imposed on banks and other credit institutions, the VAT on pre-need companies, and the premium tax on life insurance companies by a Financial Institutions Tax ("FIT").
- The rationalization of the Documentary Stamp Tax ("DST"). The DST is paid as many times as the instrument is transferred or resold, creating a cascading effect that distorts pricing and makes financial intermediation costly, thus prohibiting secondary trading. Eliminating the DST on secondary trading will greatly encourage the development of a secondary market and eventually increase tax revenues as more capital market instruments are issued and transactions flourish.

Developing asset backed securities

The government shall accelerate the creation of a primary and secondary market for asset-backed securities to provide greater financial liquidity and support the development of a sustainable housing finance mechanism. This requires the passage of the Securitization Act and the removal of some taxes.

Expanding institutional players

New market players will be encouraged to participate in the capital market. Under the proposed Revised Investment Company Act, nationality requirements on owner structures of mutual funds will be relaxed to encourage entry of new players.

Investment companies will be allowed to sell or purchase securities outside of the Philippines while foreign investment companies will also be allowed to sell or purchase securities in the Philippines.

Reforms will be introduced to make the different pension/retirement fund systems more efficient and financially sound. The proposed reforms by the Presidential Retirement Income Commission include the introduction of a mandatory defined contribution program and measures to improve investment management through the use of professional, external fund managers.

Accelerating the privatization program and promotion of the private sector

Over the past decade significant measures to liberalize, privatize and deregulate the economy have been put in place. Through privatization, the crippling energy shortage of the early 1990s was resolved and the deregulation of the telecommunications, transport, petroleum, water and banking sectors has enhanced competition and produced efficiency gains. Trade liberalization has widened the market for Philippine goods and services on the one hand, and enhanced competitiveness of key domestic industries on the other.

In light of these developments the government's privatization policy will continue to promote an orderly, coordinated and efficient privatization of remaining government corporations, assets, activities and idle properties.

The program will include the privatization of government shares in the Philippine National Bank, the National Power Corporation, the Philippine National Construction Corporation, and PNOC-Energy Development Corporation.

A clear government policy on preventing GOCCs from competing with the private sector shall continue to be implemented.

The primacy of private enterprises in undertaking economic activities are reiterated in the government's economic policies. Only when the private sector is unwilling or unable to wholly take the production and delivery of vital goods and services shall the government directly participate in such activities.

INCREASING INTERNATIONAL COMPETITIVENESS

REFORMING THE INDUSTRY AND SERVICE SECTORS

Overview of policy framework

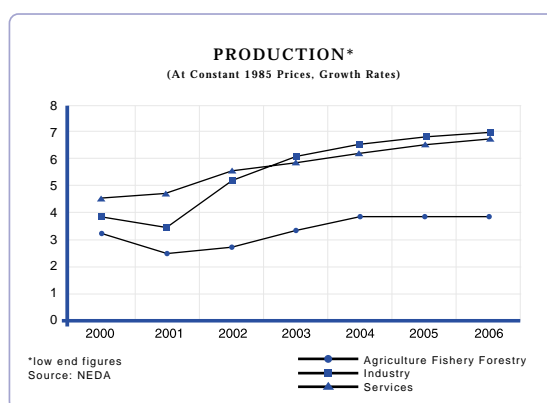
While the industry and services sectors grew modestly in 1999 and 2000, they still face the challenges posed by the changing and highly competitive global economy. Liberalizing and deregulating trade and investments, streamlining government bureaucracy, and providing the necessary infrastructure and regulatory support will serve to improve competition and efficiency in the industrial and service sectors.

An economic philosophy of transparency and free enterprise is being emphasized to nurture the entrepreneurial spirit needed for enhanced global competitiveness. The private sector will be the main driving force of the economy. It will continue to play a strong and leading role in the generation of increasingly productive employment opportunities and in improving consumer access to more varied and better quality goods and services.

Growth targets

Industrial output is expected to grow by an annual average of 5.4 to 5.9 percent from 2001 to 2004 premised on higher manufacturing output, increased private sector-led infrastructure activities, higher demand for utilities, and better prospects for mining operations.

The services sector is expected to grow annually by an average of 5.8 to 6.3 percent during the same period. Transportation and communications as well as trade and finance are expected to lead the services sector expansion during the period.



Key strategies

Fostering competition through elimination of barriers to entry

Elimination of barriers to the entry of new players will lift competition among players and ensure adequate supply and variety of goods and services. Ongoing trade and investment liberalization, deregulation, and facilitation will stimulate trade, investments, and production.

Competition will continue to be fostered in the telecommunications sector by addressing the problems of interconnection, specifically in relation to the pricing of access charges and ensuring that prices reflect the true cost of service. The government will continue to encourage the entry of new telecommunications technology through the formulation of guidelines on the introduction of new technologies and a regulatory and legal framework for convergence.

The privatization of government ports will continue to be pursued, thus improving port performance. A new executive order will be formulated in consultation with the private sector to liberalize port management policies that will significantly improve efficiency in the transport of goods, cargoes, and passengers. Foreign air carriers will also be encouraged to operate in the Philippines under bilateral agreements and in accordance with existing laws to ensure that adequate and affordable international air services are provided.

Retail trade has consistently been the biggest contributor to the output of the services sector. The enactment of the *Republic Act 8762* or the *Retail Trade Liberalization Act* in March 2000 allowing foreign investors to engage in the retail trade business is advancing the development of the retail trade industry. This is being done through the transfusion of much-needed foreign capital, management systems, and technology transfer, which will enhance the efficiency, competitiveness, and productivity of local retailers.

Promoting a more efficient and responsive banking system

The modernization and restructuring of the banking system will continue to facilitate greater access to credit as well as to various forms of financial products, instruments and services.

The important role of smaller banks will be recognized as they are expected to become niche players, assuming significant roles in intermediating funds for certain segments of the economy, particularly SMEs.

The increased participation of foreign banks will be promoted to provide additional impetus needed to sustain as well as enhance the competitiveness and efficiency of the banking system.

The increased use of electronic banking will be encouraged to reduce information and transaction costs and enable clients to get wired into the source of funds.

Stepping up SME development

It is important to step up the promotion of SMEs and rural enterprises to maximize the contributions from these high potential sectors. This will be done through:

- The implementation of the SME Capital Market by the Philippine Stock Exchange to promote the interests of SMEs and their need for alternative sources of financing.
- The development of innovative ways of securing loans and guarantees so that some SMEs will be able to overcome the constraints posed by collateral requirements.
- The promotion of faster development of SMEs in rural areas through infrastructure development, which will stimulate investment activities and provide access to inputs and expanded markets.

INCREASING INTERNATIONAL COMPETITIVENESS

Developing competitive products and new markets through technical innovation and diversification of Philippine export markets

The opportunities offered by bilateral and regional trading relationships as well as the country's free trade areas will be explored to diversify the Philippine export market and minimize dependence on traditional markets such as the US and Japan.

Technological innovation will facilitate the shift in production from low to high value-added goods and services. To be more competitive, the private sector must develop an aggressive attitude towards technological innovation and adaptation, and to this end the government will encourage cooperation and networking between and among firms to share technological information and expertise.

Improving productivity by strengthening technological capabilities

Science and technology human resources will be strengthened to respond to the demands of industry in upgrading technological competence. Programs that attract students to pursue careers in science and engineering are being given the highest priorities.

Research and development activities will be geared towards making industry technologically competitive. Industry needs and priorities will be major considerations in the pursuit of government-sponsored as well as university backed R&D, and specific collaboration programs will be undertaken to ensure the cooperation of different sectors.

The country's innovation systems will also be improved. Intellectual property rights will be protected in a manner that both stimulates technological innovation and encourages technology diffusion throughout the economy.

Transparency in rules and regulation

A number of measures will be adopted to lower transaction costs. These include:

- Clearer, more consistent and transparent rules and regulations; streamlined procedures for obtaining permits and licenses; online transactions in government dealings; and better monitoring systems.
- The modernization of customs administration, including the simplification of procedures will be pursued to facilitate international trade and collection of taxes.
- The reduction of red tape at national and local levels to encourage investments. In streamlining government processes, assistance will be sought from the private sector in monitoring its performance and in exacting accountability from public officials.

Promoting long-term domestic and foreign investments

Promotion efforts geared to attract long-term domestic and foreign direct investments shall aggressively be undertaken. This will be done in a more focused approach emphasizing sectors, regions, and specific business activities that will enhance the Philippines' competitiveness, improve access to global markets and new technologies, and maximize use of available resources.

The creation of a stable policy environment and enhancement of investor services shall likewise be pursued to encourage and facilitate investment decisions of target investors. Key bottlenecks to investment will be addressed, such as the cost of power.

DEVELOPING THE INFORMATION AND COMMUNICATIONS TECHNOLOGY SECTOR

Overview of policy framework

The knowledge revolution has ushered in an era of new opportunities for wealth-creation, especially among developing nations. The Philippines, with its rich human resources and strategic location, has major potential to benefit from an ICT-driven development strategy. Over the next three-four years ICT shall be a major linchpin in the country's drive for sustained economic growth.

To maximize the benefits of ICT, the policy framework shall focus towards promoting training, improving conditions of access, developing infrastructure and establishing the appropriate legal basis for ICT operation.

Key strategies

Building physical infrastructure: A key element to spur the wider development and use of ICT is the availability, accessibility, affordability, and reliability of the telecommunications and network infrastructure. The government shall promote greater government, private sector, and civil society collaboration in the planning and provision of telecommunication facilities and services, and pass a convergence policy law to foster competition in the provision of ICT-related services.

Enhancing the policy and legal environment: The private sector shall be relied upon to play a leading role in advancing ICT development. The government's role shall be to provide the policy and legal environment to encourage the growth of ICT, and to identify, in co-ordination with the private sector, key ICT projects, while at the same time promoting healthy competition among all players in the development of ICT projects.

Developing human capital: Developing human resources is a vital component of the support infrastructure for ICT. A range of strategies will be employed to improve human resources, including the development of set standards for ICT education, and the promotion of activities in ICT research and development including innovations to nurture local expertise in various fields of ICT.

Promoting ICT as a major productivity and efficiency tool: ICT shall be promoted as a major productivity and efficiency tool to make local businesses more competitive. The selling and buying of products across the Internet shall be encouraged with minimal or no government intervention. The government's only role will be to establish a simple legal environment to ensure competition, prevent fraud, foster transparency, and facilitate the speedy and fair resolution of disputes.

DEVELOPING THE TOURISM SECTOR

Overview of policy framework

Tourism is recognized as a major contributor to the generation of foreign exchange earnings, employment opportunities, investments and revenues, and the growth of the country's output.

Faced with the challenge of capturing a more significant share of the growing international tourism market, programs will be implemented to rebuild the Philippines' image and strengthen its competitiveness in attracting foreign visitors.

This will be done concurrent with the government's initiatives to address current challenges to peace and order in some parts of the country.

Key strategies

- Accelerating the development of infrastructure support for the four main tourist hubs: Manila, Laoag City, Cebu and Davao.
- Liberalization of civil aviation to facilitate travel into, within and out of the country: this will enable the Philippines to take advantage of increased travel to the Asia-Pacific region.
- Development of a diversity of destinations and attractions: natural, cultural, and man-made attractions will be fully developed to fulfill the Philippines potential as a multifaceted tourism destination.
- Encouraging investment in tourism: The government will encourage private sector investment in tourism development activities, such as hotel construction, transport facilities, and other tourism-related ventures.
- Conducting marketing campaigns: a niche and mass marketing campaign will be undertaken to promote the diverse mix of tourism attractions the Philippines has to offer.
- Establishment of tourism database: a tourism database will be created which is designed to measure the contributions of tourism to the economy. This will ensure that tourism will be adequately considered in making broad economic policy decisions.

MODERNIZING THE AGRICULTURAL SECTOR

Overview of policy framework

A healthy rural economy is essential to the evolution of the Philippines into a developed economy. Given its importance to the economy, the rural sector is in need of urgent reform.

Key strategies

Improving the effectiveness of public sector intervention

Key actions include:

- A strategic public investments program will prioritize public goods and services including support for smallholder productivity enhancement programs, provision or strengthening of essential rural infrastructure, and the promotion of agro-based diversification with a focus on high value crops and value-added processing.
- Policy reforms in the grain sector will be made to promote efficiency in grain production and marketing in support of a cost-effective food security program.
- Reduction of tariffs of agricultural inputs will continue and a tariff reform program will be introduced aimed at uniform tariffs for all agricultural commodities.

Mobilizing entrepreneurship

Private investment in agribusiness will be promoted through sound institutional support structures and improvement in the policy and legal environment. This includes the adoption of equitable taxation policies, liberalized entry in public utilities such as land transport and port handling, and the provision of other appropriate incentive packages.

Greater private sector participation in R&D activities will be encouraged including the commercialization and transfer of developed technologies through the institutionalization of an intellectual property rights protection system for plant and animal materials.

Construction of irrigation facilities will be encouraged through other viable schemes such as build-operate-transfer and other mechanisms that will fast-track the development of irrigation systems.

Strategic alliances will be promoted between the private sector and farms, fisherman, and their cooperatives on various productive enterprises.

An aggressive stance will be taken in pushing the Philippine agriculture development agenda in international multilateral and regional agreements and standard-setting bodies.

Encouraging technology-based agriculture

Key actions include:

- National R&D policies and targets will be set in consultation with the private sector.
- Technology generation, promotion, and commercialization programs will be undertaken – especially the linkage among the technology users, private sector, local government units, State Universities and Colleges and the departments of Agriculture, Energy and Natural Resources, and Science and Technology.
- The equipment and facilities of R&D institutions will be upgraded to enhance their capacity to carry out biotechnology research and to assist government regulatory bodies in the risk assessment and management of biotechnology products based on scientific evidence.
- Cost-effective and efficient irrigation and water management technologies will be adopted in coordination with other research institutions.
- A protocol will be established to govern rights, privileges, duties and accountabilities in cooperative RED undertakings between local and foreign international institutions.

PROVIDING GOOD AND EFFECTIVE GOVERNANCE

Overview of policy framework

Good governance rests on a sound moral foundation, a philosophy of transparency, and an ethic of efficient implementation. To do more with less in the delivery of public goods and services requires a performance-based and results-oriented government.

The administration is committed to simple, fair, transparent, and predictable rules to reduce the cost of investing in the Philippines. Institutional reforms will heighten accountability and serve the public interest. In battling graft and corruption, procurement reforms in government are indispensable. Electoral and judicial reforms will be pursued to guarantee political stability. Leadership by example is the government's commitment.

Key strategies

Implementing a coordinated effort to fight corruption

In Asia, the Philippines has the most number of laws (9) and number of agencies (14) that deal with graft and corruption. These laws are well designed, however the problem is that they are not fully enforced. Anti-corruption efforts must be geared towards the creation of a culture of zero tolerance and the formation of an environment with safeguards against corruption.

Formulating a coordinated approach

Preventative rather than punitive measures shall be pursued in the fight against corruption. Advocacy programs on anti-corruption shall be sustained to make the government, private sector and civil society more accountable.

The campaign must adopt a pragmatic approach, strengthening anti-graft bodies, addressing the weaknesses of corruption-prone agencies, and engaging civil society and the private sector in the campaign.

Steps will be taken to reform government so that it can work better and cost less, do away with confusing regulations, ensure greater transparency and increase accountability of government officials. Priority reforms shall be undertaken in the areas where corruption is perceived to be most rampant: revenue collection, procurement, registration and licensing.

A concrete strategy to engage civil society in the fight against corruption will be taken through civil society "watchdogs". The Procurement Watch and the Report Card Survey shall be sustained. The Procurement Watch utilizes civil society organizations as partners of government agencies in enhancing transparency of government procurement. The Report Card Survey involves the periodic measurement of public satisfaction in the delivery and availment of public goods and services.

Other initiatives of civil society in support of anti-corruption will include the Tax Watch for upholding the integrity of tax collection, and the Key Appointments Watch for ensuring transparency and probity in the selection and appointment of government officials.

The *Anti-Money Laundering Act* will seek to criminalize financial transactions, transfers, transmittance, remittance of funds, property, or any monetary instrument representing proceeds from unlawful activities. The government is committed to its active enforcement.

Improving service delivery

Comprehensive and enduring reforms shall be pursued to develop an efficient, effective, focused and performance-oriented bureaucracy.

Two tracks are being pursued in the implementation of the re-engineering program:

1. The administrative track focusing on measures to improve service delivery mechanisms in government. In support of administrative re-engineering, a Public Sector Institutional Strengthening and Streamlining Agenda shall be implemented.

PROVIDING GOOD AND EFFECTIVE GOVERNANCE

2. The legislative track advocating for the passage of the re-engineering bill granting powers to the President to reorganize the Executive Branch. The Presidential Committee on Effective Governance ("PCEG") shall serve as the central body to ensure consistency in effecting the two-track approach. Strategies that will guide the Committee's work include:

- Ensuring strong and visible political commitment through the reform process;
- Keeping department/agency heads publicly engaged in the reform effort;
- Developing a cadre of reform champions across the bureaucracy;
- Reforming the compensation system for government employees;
- Sustaining and embedding gains from reforms.

Adjusting the compensation and benefit package for government employees

The cost of government, under its present structure, is not sustainable in the long term.

The compensation structure for government employees shall be rationalized. The "one size fits all" approach shall be reviewed as it makes it difficult to tailor careers and incentives to specific position clusters.

The granting of performance incentive pay and merit increases shall be attuned to the emerging reforms in measuring agency and individual performance.

Ensuring transparent government expenditure

Although progress has been made towards improving budget management, much remains to be done to make the current system of expenditure efficient, transparent and honest.

Expenditure discipline will continue to be imposed, with economic growth fueled by the private sector instead of government pump priming. Prudent expenditure management includes:

- The implementation of an austerity program for the national government and government-owned corporations;
- Freezing any new hires except for key posts;
- Deferment or cancellation of low priority projects;
- Strengthening of accountability for outcomes and outputs.

These measures will be complemented by a shift to "performance-based budgeting" to make agencies fully accountable for the quality, speed and volume of their products and services.

Off-budget accounts and contingent liabilities will be incorporated in the budget program and the budget law to ensure full disclosure and enhance transparency. This will tighten expenditure prioritization by limiting expenditure estimates within hard resource constraints and force the matching of costs with available resources during the annual budget process.

Implementing government accounting and auditing reforms

The Commission on Audit ("COA"), as the central accounting authority, will revise the existing accounting system to support full compliance with reporting requirements. The government shall also rationalize financial management and accounting policies and procedures in line with best practices and International Public Sector Standards.

The updating of auditing rules and regulations and continuous capability building of government auditors will continue to be a primary concern of the COA to enhance its audit effectiveness.

Instituting government procurement reforms

Conflicting laws, rules and regulations govern the procurement process. Problems of delays, collusion, lack of transparency, and lack of competition have plagued the government procurement of goods, services and infrastructure projects. The Department of Budget and Management, through its procurement service, will aim for the achievement of a real-time Internet-based procurement system which will include online ordering, payments, and accreditation of suppliers. This will enhance transparency in the process, encourage greater competition and bring down the prices of goods and services.

An executive measure on e-procurement will be issued and the passage of the Procurement Reform Bill will be advocated.

Expanding information and communications technology in government to improve transparency and accessibility

ICT shall be used not only to streamline processes but also to promote transparency and reduce opportunities for corruption. Initiatives include:

- The introduction of a Government Purchases Information System for monitoring price information and minimizing price collusion, overpricing and other irregularities in the procurement process;
- The introduction of a National Crime Information System to improve crime prevention by linking the five institutional pillars of the Philippine Criminal Justice System;
- Customs computerization to create a cashless and no-delay system for clearing shipments;
- Tax computerization to enhance tax collection, processing, monitoring and accounting nationwide;
- An Electronic Bid Board System to facilitate the procurement of supplies and materials online.

INVESTING IN THE FUTURE

INFRASTRUCTURE DEVELOPMENT

Overview of policy framework

Infrastructure development is another area in which the government will strengthen its partnership with the private sector.

The private sector is expected to further increase its participation in the financing, construction, operation, maintenance, and rehabilitation of major infrastructure in power, water, and transportation where costs will be partly or totally recovered directly through user charges.

Key strategies

To achieve the overall objectives of the infrastructure sector, the following strategies will be pursued:

1. Private sector participation: private sector involvement – i.e. financing, provision and operation – will be expanded. The strategy will be to fulfill and balance the needs of (a) the government to obtain the required infrastructure through market competition with minimum fiscal burden while ensuring protection of the public interest; and (b) the private sector for a competitive environment that yields reasonable returns and the sharing of risks under fair and transparent terms.

2. Financing: Government financial assistance shall be transparent and target only services that are socially and economically desirable but financially unprofitable.

3. Integrated planning: shall be used to efficiently manage diverse issues in developing infrastructure such as local and regional economic impact, efficiency in infrastructure investments, access of the poor to basic infrastructure services, accessibility requirements of the elderly and the disabled, rural-urban linkages, and environmental considerations.

4. Investment shift: the shift in infrastructure investments from the highly developed megacenters, like Metro Manila, to the designated regional growth centers shall be intensified in line with the policy of national dispersion through regional concentration to stimulate development in the countryside and relieve the impact of rapid rural-to-urban migration on infrastructure services.

5. Transportation

- **Road transportation:** to support economic growth and regional development, the national government will focus on a number of strategic national roads which will all be upgraded to international standards.
- **Rail transportation:** rail transport shall concentrate on long distance transport of large volumes of cargo where they are generally more cost-effective than road transport, as well as mass transport of commuters in major urban areas. New rail projects will be pursued when they are economically viable and when risk can be shared with the private sector.
- **Water transportation:** commercial decision making, planning, and management of port operations shall progressively be decentralized to Port District Offices and Port Management Offices in preparation for the privatization of ports. Maximum private sector participation and investment will be encouraged in the ports subsector.
- **Air transportation:** the development of more international gateways to cater to different regional markets and the upgrading of domestic airports to international standards will be pursued to attract more linkages with foreign carriers.

6. Energy Sector

- **Power sector restructuring:** The passage of the *Electric Power Industry Restructuring Act* provides for a truly competitive market which can achieve the policy objectives of ensuring adequate, reliable, and efficient power. Preparations are underway to ensure effective implementation of the Act, including the creation of:
 - Power Sector Assets and Liabilities Management Corporation: this body will manage the orderly sale, disposition and privatization of the National Power Corporation.
 - National Transmission Company: this company will provide open and non-discriminatory access to its transmission facilities.
 - Wholesale Electricity Spot Market: this market will provide mechanisms for identifying and setting the price of variations from the quantities transacted under the contracts between sellers and purchasers of electricity.
 - Energy Regulatory Commission: this commission will promote market development, ensure customer choice and penalize abuse of market power.
- **Effective implementation of the downstream oil industry deregulation:** full deregulation of the downstream oil industry fosters the entry of new players and growing investments will pave the way to an expanding consumer-oriented industry. Government involvement in the deregulated industry remains focused on ensuring fair competition, security of domestic supply, public health and safety, product and facility standards, and quality and environmental protection.
- **Lower expenditure in energy consumption:** energy conservation programs and energy efficient technologies shall continue to be promoted to reduce energy requirements, defer the implementation of capacity additions, and decrease the cost of energy for consumers.

ENSURING PEACE AND STABILITY

Overview of policy framework

Peace, order and security are preconditions to economic growth and equitable development. The uncertainty created by a lack of peace impedes investment and wealth-creation and must not be allowed to persist. The government is committed to working in collaboration with the people of the Philippines to eliminate criminal behavior and to ensure the rule of law prevails.

Ensuring peace and order, to begin with, rests on an ability to curb criminal activities, such as kidnaping, robbery, and drug trafficking. In this regard, it is vital to strengthen the five pillars of the criminal justice system, namely: (1) law enforcement and police; (2) investigation and prosecution; (3) courts and adjudication; (4) corrections and rehabilitation; and (5) community and barangays.

The security problem is rooted in a variety of interrelated factors, including economic, ideological, and political. To address the issue of insurgency, a multi-pronged approach is necessary. A key step will be to raise the standard of living through economic development in those areas in which rebel activity is most prevalent.

Key strategies

Considering the serious challenges posed to economic growth and public safety, the administration is entirely committed to eliminate crime, insurgency, and terrorism. Its Action Agenda is based on strategies that include:

- **Modernizing the military and national police:** the modernization of the Philippine National Police and the Armed Forces of the Philippines will be accelerated. Actions include the acquisition and upgrading of technology and equipment, the construction and improvement of bases and other facilities, and the breaking of perceived links between certain law enforcement elements and criminal groups. Coordination between law enforcement agencies will be improved and links with the community and local authorities strengthened.
- **Pursuing peace agreements:** The government will continue to pursue an agenda of peace initiatives and development with genuine social movements. In regard to banditry and terrorism, the full force of the law will be applied against perpetrators. The state will not negotiate with criminals.
- **Mobilizing the citizenry for peace and order:** aiming for a high sense of community accountability, the government will encourage the establishment of citizens' organizations through the accreditation of anti-crime units of non-government organizations, where concerned groups are properly represented.
- **Improving administration of justice:** continuing reforms are required to reverse public perceptions of a slow and elitist dispensation of justice, and action will be taken to ensure better coordination and convergence of the five pillars of the criminal justice system - the courts, the prosecution, law enforcement, corrections and the community. The immediate priority is to improve the delivery of judicial services, with the Supreme Court pursuing an Action Program on Judicial Reform.
- **Promoting respect for human rights:** the rule of law will be enforced without compromising basic freedoms and due process. A system of monitoring human rights violations will be implemented, and courses on the practice of human rights will be part of training and educational programs in all government agencies.

STRENGTHENING THE EDUCATION SYSTEM

Overview of policy framework

Recognizing that a nation can only be as productive as its people, the government will pursue strategies that further enhance the Philippines' human resource capacity.

The government will promote education within a principle of fiscal prudence and in partnership with the private sector.

Key strategies

In terms of basic education a range of strategies will be pursued to advance the status of education and training of Filipinos. These include:

- Promoting the welfare and development of teachers;
- Initiating progressive curriculum reforms;
- Re-orienting the system of assessment and testing;
- Enhancing external efficiency of schools.

With regard to higher education, strategies include:

- Sustaining the moratorium on the conversion, creation and upgrading of State Colleges and Universities;
- The upgrading of Higher Education Institutions and program standards to strengthen global competitiveness;
- Strengthening the institutional capabilities of public and private Higher Education Institutions and the Commission on Higher Education;
- Rationalizing student financial assistance to ensure the cost burden of higher education is spread across all stakeholders according to their ability and willingness to pay;
- Extending of distance education to ensure that the outreach of higher education is broadened.

PROMOTING FULL EMPLOYMENT

Overview of policy framework

The key employment policy challenge for the administration of President Arroyo is to formulate deliberate strategies under a unified policy framework to promote full, decent and productive employment.

The pursuit of full employment entails not only sound macroeconomic policies but also the harmonization and rationalization of sectoral policies that will pave the way for the smooth functioning of the domestic labor market.

Key strategies

The key to productive job creation lies in raising the investment levels in the economy and ensuring macroeconomic stability through prudent macroeconomic policies. Employment will be generated on both the demand and supply sides.

- On the labor demand side, productivity shall be raised through an economy-wide modernization. Agriculture, industry and services will be modernized through applications of technology, research and development, and human resource development.
- On the labor supply side, investment in education and skill acquisition is key to employment generation. The key strategies will be complemented by more focused sectoral policies and programs, including:
 - Provision of mechanism to protect the rights of overseas Filipino workers (OFWs) to fair and equitable recruitment and employment practices and ensure their welfare under a deregulated condition. Programs to ensure quality employment for OFWs will be developed and a provident fund for OFWs will be put up.
 - Amendment of the Labor Code to keep the legal framework abreast with the changing world of work configured by fast technology changes and highly integrated markets.
 - Promotion of industrial peace interventions such as forging of social accords and establishment of labor-management conflicts.

REVISITING THE PLAN'S CENTRAL INITIATIVES

The administration of President Arroyo understands that the challenges facing the Philippines will not be easily overcome. The Philippine Economic Plan sets an ambitious and aggressive agenda, but also essential and achievable targets. The challenges are many, but so are the opportunities.

Key Initiatives

- Reduction of the fiscal deficit is an immediate priority. Fiscal, monetary, and exchange rate policies will be pursued in a coordinated manner with the aim of producing a sound fiscal position, low inflation, and a healthy external balance.
- Banking sector reform continues to be a major focus as the government moves to ensure a stronger banking sector that is able to compete on the global stage.
- The reform program is designed to further open the door to domestic and foreign investment – the administration recognizes that the private sector is critical to the ability to meet economic development objectives.
- Transparent and fair governance is a vital prerequisite to eliminating corruption and encouraging private sector investment. In this regard the government will lead by example.
- Actions are being taken to enhance the Philippines international competitiveness. Sectors such as information and communications technology (ICT) that enhance competitiveness and improve access to global markets will be targeted.
- Concrete steps are being taken to invest in the Philippines future. In addition to the areas outlined in this document such as education, and the promotion of full employment, other areas of focus will include health, housing, and reducing regional disparities through regional and urban development.

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